



London Borough
of Hounslow

Hounslow Pension Fund



Annual Report 2018

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Introduction by Chairman of the Pension Fund Panel, Councillor Rajinder Bath

Welcome to our Annual Report for 2018, and I am pleased to introduce myself as the new Chair of the Hounslow Pension Fund Panel for the next four-year administration. I know I am taking over the stewardship of a strongly performing fund, and I am keen to ensure that our performance continues to be healthy.

I am pleased to report that our Pension Fund has continued to thrive. At the end of March 2018 our net assets were £960m, having gone over £1bn at the end of 2017. This is particularly encouraging given the turbulent financial period we are going through, with continuing volatility on the world markets.

In last year's Report we referred to the strategic review of our asset allocation that we were implementing. This was to ensure that our fund remains sustainable and able to meet our liabilities and pensions 'promise' to our members. We mentioned that we were seeking to further increase our resilience by looking at securing an income stream to ensure we can meet our pensioner payments, without having to touch our capital assets. To achieve this we carried out a detailed procurement exercise last year. The result was that, whilst we are still invested in our current managers, we moved some of our funds to our new income manager, Fidelity, to sustain our cashflow, and increase our resilience. During 2017/18 we transferred further assets to Fidelity, to diversify our asset base. We also transferred £100m to a new active equity manager on the London CIV (Collective Investment Vehicle).

You may remember that in last year's report we addressed the Government's proposals for all 89 local government pension funds to pool their assets. We are in the London Collective Investment Vehicle (CIV) with the other London boroughs and the City of London. We have already benefitted from lower fees on our BlackRock global equities, through the purchasing power of the CIV.

For our work with our new income manager, Fidelity, we were very pleased to be recognised in the Local Authority Pension Fund Awards last year, and

were awarded the Highly-Commended Category for a Secure Income Strategy.

We also reviewed our administration arrangements last year, and carried out a procurement exercise. The result of this is that we are moving our administration service from Capita to West Yorkshire Pension Fund on the 1st August 2018. You will be receiving communications on this in the summer of 2018, along with details of our new website. This will continue to have details on the benefits available from the Local Government Pension Scheme and also enable members to do self-service for some functions.

Our Annual General Meeting this year is being held on 14 November 2018, here at the Civic Centre. Our new administrator, West Yorkshire Pension Fund, will be there and you will be able to ask them questions about your benefits. I look forward to meeting as many of you as will be able to attend.

Councillor Rajinder Bath
Chairman of the Pension Fund Panel

Management of the scheme

PENSION FUND TRUSTEES AND ADVISERS	
Trustees:	Pension Fund Panel of the London Borough of Hounslow
Adviser:	Allenbridge Epic
Fund Managers:	Aberdeen Asset Management (UK) Ltd
	BlackRock Investment Management (UK) Ltd
	CBRE Global Investors
	Fidelity
	Columbia Threadneedle Investments
	Longview Partners (London LGPS CIV)
Banker:	National Westminster Bank Plc
Custodian of assets:	The Northern Trust Company
Actuary:	Barnett Waddingham LLP
External auditors:	KPMG
Legal adviser:	HB Public Law
ADMINISTRATION	
Investment:	Director of Finance & Corporate Services, London Borough of Hounslow
Pension benefits:	Capita Employee Benefits

Statement of Investment Principles

The Government requires that all pension schemes issue a Statement of Investment Principles giving information on the various factors that the Pension Scheme takes into account when making its investments. This Statement also covers our approach to social, environmental and ethical issues. We also provide a Funding Strategy Statement. This Statement is a summary of our approach to our funding liabilities. Both statements are available on our new website, www.hounslowpensions.co.uk.

Investment Management of the Pension Fund

The management of the Pension Fund is primarily split between three fund managers, BlackRock, Aberdeen and most recently Fidelity. All fund managers have discretion in making investment decisions whilst working within Council guidelines. We also have two external property managers, Columbia Threadneedle and CBRE and internally managed private equity portfolios. The performance of our managers is closely monitored by Council officers and is also subject to review by Councillors on the Pension Fund Panel.

Management of the scheme

ROLE OF THE PENSION FUND PANEL

The Panel have responsibility for the management of the investments of the pension fund. They are appointed by the Borough Council. The responsibilities include:

- To consider, on the advice of the Director of Finance & Corporate Services and Council's Fund Managers, the Council's general policy with regard to Pension Fund Investments.
- To make arrangements for the management of the Fund in line with the Statement of Investment Principles.
- To monitor the performance of the Fund and its Managers.
- To exercise the Council's voting rights at AGM's and EGM's of companies in which the Fund has holdings, after considering the advice of the Director of Finance & Corporate Services and appropriate Manager(s).
- To overview and agree pension administration matters

Further details on how our fund is managed are available in our Governance Compliance Statement.

Pension Fund Panel from May 2018



Cllr. Rajinder Bath (Lab) - Chair



Cllr. Jagdish Sharma (Lab)



Cllr. John Todd (Con)



Cllr. Sukhbir Dhaliwal (Lab)



Cllr. Shivraj Grewal (Lab)



Cllr. Sohan Sumra (Lab)

Observer members

Vacant (Staff representative)

David Wylson (Pensioner representative)

Pension Fund Panel to May 2018

Cllr. Mukesh Malhotra (Lab) - Chair

Cllr. Shantanu Rajawat (Lab)

Cllr. Guy Lambert (Lab)

Cllr. Surinder Purewal (Lab)

Cllr. John Todd (Con)

Management of the scheme

ROLE OF THE PENSION BOARD

As part of the national public sector pension reform the Public Service Pensions Act 2013 Hounslow's Pension Board was established in March 2015, with both employer and scheme member representatives. The intention of Pension Boards is to ensure that pension funds are well managed at the local level.

The Pension Board will be responsible for assisting Hounslow Council, the pension scheme manager, to:

- secure compliance with the Local Government Pension Scheme Regulations and any requirements imposed by The Pension Regulator; and
- to ensure the effective governance and administration of the Scheme.

The Pension Board is an oversight body. It does not replace existing governance arrangements or the role of our Pension Fund Panel.

Pension Board Members to May 2018



Cllr. Sam Hearn (Con) - Chair & employer representative



Neil Mason - Vice chair & member representative



Steve Williams
Employer representative



William Cassell
Member representative

Actuarial Valuation as at 31 March 2016

Introduction

The last full triennial valuation of the London Borough of Hounslow Pension Fund was carried out as at 31 March 2016 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 31 March 2017.

- **2016 Valuation Results**

The 2016 valuation certified an average primary contribution rate of 13.9% of pensionable pay to be paid by each employing body participating in the London Borough of Hounslow Pension Fund. In addition to this, each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Rates and Adjustment Certificate in the triennial valuation report.

Contribution Rates

The contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet the annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due and an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

Asset Value and Funding Level

The smoothed market value of the Fund's assets as at 31 March 2016 for valuation purposes was £772m which represented 84% of the Fund's accrued liabilities at that date, allowing for future increases in pay and pensions in payment.

Assumptions

The assumptions used to value the benefits at 31 March 2016 are summarised below:

Assumption	31/03/2016
Discount rate	5.4% per annum
Salary increases	In line with CPI until 31 March 2020, 3.9% p.a. thereafter
Pension increases (CPI)	2.4% per annum

Updated position since the 2016 valuation

Since 31 March 2016, investment returns have been higher than assumed at the 2016 triennial valuation. The value placed on the liabilities will, however, have also increased due to the accrual of new benefits as well as a decrease in the real discount rate underlying the valuation funding model.

Overall, we estimate that the funding position as at 31 March 2018 has improved compared with the position as at 31 March 2016 although the primary rate has also increased due to changes in market conditions.

Reports by Fund Managers: BlackRock

	12 months to 31/03/2018 % p.a.	3 years to 31/03/2018 % p.a.	5 years to 31/03/2018 % p.a.
Main portfolio	2.51	7.14	8.18
Benchmark	1.75	7.52	8.44
Market Advantage portfolio	4.67	3.87	4.24
Benchmark	3.90	3.98	4.00

Investment Strategy

The Scheme's asset allocation over the year is shown in the table below: -

Asset Allocation			
	31.03.17	31.03.18	Benchmark
UK Corporate Bonds	17.06%	19.36%	16%
UK Index Linked	3.03%	0%	6%
UK Equities	41.64%	43.82%	45%
Overseas Equities	37.41%	36.35%	33%
Cash	0.86%	0.47%	0%
Total Scheme	100%	100%	100%
VALUE	£391,534,182	£374,944,672	
MARKET ADVANTAGE PORTFOLIO	£24,045,046	£25,167,568	-

Notes:
The current benchmark was effective from March 2018. Columns may be subject to minor rounding differences.
The Market Advantage Portfolio is a non-discretionary pooled investment which was made on 5 August 2013

Positioning and Outlook for 2017/18

At 31 March 2018, asset allocation on a net basis was overweight global equities and credit with an underweight position in UK equities and index linked gilts relative to the benchmark.

Looking forward, economic data continues to signal a broad-based global expansion. The strong economic momentum of the last year and the recently announced U.S. tax reform lead us to upgrade our five-year real GDP growth expectations for both the U.S. and eurozone by 0.25%, to 2.25% and 1.5% respectively.

Despite the current economic cycle being long in terms of years, particularly in the US, our analysis of cycles suggests economies have further to run. However the overall impact of the U.S. tax reform on the economic cycle is yet unclear and will depend on the extent of its boost to US potential output and the demand spill overs to other economies.

Given the strong economic backdrop and low macroeconomic volatility, we do not see the recent market volatility as an indication of a shift to a high volatility regime. Key risks to global growth in the year ahead include the Chinese economy slowing by more than expected due to policy tightening, geopolitical risk and tightening financial conditions.

Reports by Fund Managers: Aberdeen

Performance as at 31 March 2018

Period ending 31/03/2018	Scheme % pa	Benchmark % pa	Difference % pa
1 year	1.81	2.06	-0.25
3 years	6.39	7.90	-1.51
5 years	6.26	8.70	-2.44

Market Review

Shares in UK companies were almost flat over the 12-month review period and were outpaced by those trading on most other developed equity markets. At the sector level, utilities and telecoms performed particularly badly, but basic materials and oil & gas did particularly well. Progress made in the first half of the period was tempered by indications that the Bank of England (BoE) would raise UK interest rates before the end of 2017. Sterling rebounded strongly in September, hitting a one-year high against the US dollar and curbing the share-price gains of the UK's largest companies, many of which derive the bulk of their earnings from their overseas operations.

US equity markets were up over the 12 months. At the sector level, the best performers were technology and financials. In contrast, telecoms and consumer staples lost ground over the year. The equity market rally stalled in late summer on concerns that the Trump administration might be unable to push its economic stimulus plans through Congress. In the autumn, however, strong corporate earnings allowed the market to resume its upward trajectory. In late 2017, major US equity indices hit fresh all-time highs on optimism that the Trump administration would succeed in pushing through tax reforms, including a substantial reduction in corporation tax. Further highs were reached once the cuts were signed into law in December. In February, however, a sell-off in shares was triggered by fears that a variety of strong economic reports would encourage central banks like the US Federal Reserve (the Fed) to raise interest rates from their current very low levels more quickly than had previously been thought. European equities made a small positive return over the reporting period, but

they were outpaced by some other developed equity markets. Spain and Belgium were among the worst performers at the country level, while Greece and Turkey were among the best. In terms of sectors, utilities companies did well, but telecoms lagged behind. Japanese equities made gains over the 12 months, outstripping those on many other developed markets. Companies in the electric appliances and raw materials sectors performed particularly well, but share in electric power & gas companies were up only slightly. Emerging market equities outperformed their developed market counterparts over the 12 months. At the country level, Peru, China and Brazil performed particularly well, while Qatar and Mexico faltered. Returns over the period were boosted by improving commodity prices and political developments that were perceived to be favourable for emerging markets.

Outlook

President Trump's decision to impose tariffs on some steel and aluminium imports, and on selected Chinese goods, has increased the downside risk of a global surge in protectionist measures. However, our baseline forecast continues to incorporate only limited trade policy restrictions, which are small enough not to have a significant macro-economic impact. In fact, the latest global trade figures show world trade volumes growing at their fastest pace since the rebound from the financial crisis. Admittedly, forward looking activity indicators such as the "flash" purchasing managers' indices (PMI) in the US, Europe and Japan, have fallen slightly, but they remain at levels consistent with decent growth. And the sell-off in equity markets is yet to reach a point that would significantly alter the economic outlook.

Reports by Fund Managers: Fidelity

Introduction

Fidelity Multi Asset Income Fund ('MAI') aims to deliver a stable and sustainable income from a range of asset classes. It takes exposure to a global range of securities (equities, fixed income, real estate, and non-standard asset classes, including infrastructure and loans) through investment in Fidelity funds as well as third-party managers and passive instruments where appropriate.

The portfolio is well diversified, with a wide opportunity set and a high level of flexibility to allocate across asset classes and regions. By responding to changing market conditions and adapting the mix of asset classes, the investment team aims to achieve a stable income, as well as capital preservation and a low level of volatility.

The performance objective of the fund is to achieve a sustainable income of 4-6% per annum.

Investment Performance

Performance to March 2018	Capital Return	Income Return	Total Return
1 year (%)	-4.5%	4.0%	-0.5%
Since inception (03/11/2016)	-1.4%	3.8%	2.4%

The fund has continued to deliver on its objectives of offering an attractive, natural income within a low-volatility framework. It generated negative total returns over the year, with the largest negative contributions coming from equity and selected infrastructure holdings. Sterling strength against the US dollar weighed on returns from the US dollar denominated holdings. In contrast, holdings in hybrid bonds, loans, investment grade and government bonds supported returns. The fund has been defensively positioned for a number of months now, which helped to limit drawdown in the last quarter of the review period, when markets were volatile.

Investment Strategy

The fund aims to provide a stable and predictable income stream, while maintaining relatively low levels of volatility and preserving capital. It invests in three different asset groups: Income (including asset classes such as investment grade bonds and cash), Growth (including higher-risk assets such as equities) and Hybrid (including assets with income and growth characteristics, such as high yield bonds). Within these three asset groups, the fund also invests in non-traditional asset classes, such as loans, infrastructure and property.

Positioning and Outlook

Although we believe that equity markets are likely to remain supported for now, we are preparing for further volatility by adding to defensive assets.

Among asset groups, we continue to prefer Hybrid and Growth assets over Income assets, but we have been gradually adding to the latter over recent months. We have added holdings in US government bonds and US corporate bonds at the safer end of the investment grade spectrum. Our move to prioritise defensive assets, including the decision to take profits on some of our Asian investment grade exposure and rotate into US investment grade bonds, has already been rewarded. Barring a meaningful reacceleration in growth, we are likely to continue to trim areas like US high yield bonds and equities. While we have been using a barbell approach for the past year, counterbalancing higher risk assets with lower risk ones, we are likely to continue moving to the defensive side of this spectrum over the coming months.

Pension Fund Accounts

For the year ending 31 March 2018

This section gives a summary of the Pension Scheme's income and expenditure during the financial year ending 31 March 2018. Both Scheme members and employers contribute to the Pension Fund, from which pensions and other benefits are paid.

Member contributions and the level of pension entitlements are clearly set out in Government regulations. The Pension Scheme is a "defined" benefits scheme, where currently no matter what happens to the economy and financial markets your pension benefits are guaranteed and do not depend on the performance of the Pension Fund's investments. The Council's actuaries carry out a comprehensive valuation of the Pension Fund every three years and from this the employer's contribution is assessed. The Council ensures through employer contributions that the Pension Fund remains solvent and, therefore, the higher the investment returns the lower the contributions.

Fund account for the year ended 31 March 2017

	2016/17	2017/18	Notes
	£m	£m	
Dealings with members, employers and others directly involved in the fund			
Contributions			6
From Employers	25.9	27.8	
From Employees	8.2	8.4	
Individual Transfers in from Other Pension Funds	1.9	1.4	
	36.0	37.6	
Benefits			7
Pensions	(28.7)	(29.8)	
Commutation, Lump Sum Retirement and Death-Benefits	(7.2)	(6.3)	
Payments to and on Account of Leavers			
Individual Transfers out to Other Pension Funds	(1.6)	(4.8)	
Refunds to Members Leaving Service	(0.2)	(0.1)	
	(37.7)	(41.0)	
Net Additions/(Withdrawals) from Dealings with Members	(1.7)	(3.4)	
Management Expenses	(2.9)	(2.8)	8
Returns on Investments			9
Investment Income	23.1	22.5	
Taxes on Income (Irrecoverable Withholding Tax)	(0.1)	(0.3)	
	23.9	22.2	
Profit and Loss on Disposal of Investments and Change in the Market Value of Investments	147.4	(3.2)	14
Net Returns on Investments	170.4	19.0	
Net (Increase)/Decrease in the Net Assets available for Benefits During the Year	165.8	12.8	
Opening Net Assets of the Scheme	779.2	945.0	
Closing Net Assets of the scheme	945.0	957.8	

Pension Fund Accounts

For the year ending 31 March 2018

Net assets statement as at 31 March 2018

	31 Mar 17	31 Mar 18	Note
	£m	£m	
Investment Assets			16
Equities	440.4	372.0	
Pooled investment Vehicles	485.1	567.1	
Property	0.0	0.0	
Private Equity	5.4	5.0	
Derivative Contracts:			
Forward Currency Contracts	0.0	0.0	
Cash (Money Market Fund)	4.9	3.1	
Other Investment Balances:			
Income Due	3.2	2.6	
Amounts Receivable for Sale of Investments	5.3	5.6	
Cash Deposits	8.4	4.8	
	952.7	960.2	
Investment Liabilities			
Derivative Contracts:			
Forward Currency Contracts	0.0	0.0	16
Amounts Payable for Purchase of Investments	(10.6)	(5.9)	14
Net Value of Investments Assets	942.1	954.3	
Current Assets	4.7	4.1	20
Current Liabilities	(1.8)	(0.6)	21
Net Assets of the Fund Available to Fund Benefits at the Period End	945.0	957.8	

Notes to the Pension Fund Accounts 2017/18

Note 1: Description of the London Borough of Hounslow Pension Fund

a) General

The Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by the London Borough of Hounslow. The following description of the Fund is a summary only. The Fund is a contributory defined benefits scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of the London Borough of Hounslow and the admitted and scheduled bodies in the Fund. The Fund is overseen by the Pension Fund Panel, with the responsibility for deciding on the most appropriate investment policy for the Fund.

For more detail, reference should be made to the London Borough of Hounslow Annual Report 2016/17 and the underlying statutory powers underpinning the Scheme, namely, the Public Service Pensions Act 2013 and The Local Government Pensions Scheme (LGPS) Regulations 2013 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2009 (as amended).

Pension Fund Accounts

For the year ending 31 March 2018

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 the scheme. There are 52 employers within the London Borough of Hounslow Pension Fund. Organisations participating in the London Borough of Hounslow Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

The following table summarises the membership of the Fund as at 31 March 2018:

	31 Mar 17	31 Mar 18
	No.	No.
Contributors	7,132	7,115
Pensioners	6,025	6,426
Deferred Pensioners	8,018	8,234
Total	21,175	21,775

c) Benefits

Prior to 1 April 2014, pensions benefits under the LGPS were based on final pensions pay and length of pensionable service. From 1 April 2014, benefits payable in respect of service are now based on career average revalued earnings and the number of years of eligible service. Pensions are increased annually in line with the Consumer Price Index.

d) Funding

Benefits are funded by contributions from employees, the Council, the admitted and scheduled bodies, and the Fund's investment income. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2018. Employee contributions are matched by Employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was as at 31 March 2016. Currently, employer contribution rates range from 12% to 28.5% of pensionable pay.

e) Investment Principles

The LGPS (Management and Investment of Funds) Regulations 2009 requires administering authorities to prepare and review from time to time, a written statement recording the investment policy of the Pension Fund. The Pension Fund Panel approved a Statement of Investment Principles in 2016 and this is available on the Council's website at the link below. The Statement shows the Authority's compliance with the Myners principles of investment management.

<https://www.hounslowpensions.co.uk>

The Pension Fund Panel has delegated the management of the Fund's investments to external investment managers (see Note 10), appointed in accordance with regulations, whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

Pension Fund Accounts

For the year ending 31 March 2018

Note 2—Basis of preparation of financial statements

The Statement of Accounts summarise the Fund's transactions for the financial year 2017/18 and its position at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The accounts have been prepared on an accruals basis, apart from transfer values which have been accounted for on a cash basis.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension fund benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the Net Asset Statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The authority has opted to disclose this information in Note 19.

Note 3—Summary of significant accounting policies

Fund Account – Revenue Recognition

a) Contribution Income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are due under the schedule of contributions set by the actuary or on receipt if earlier than the due date.

Employer's augmentation and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid is classed as a current financial asset.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged. Bulk transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment Income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset. Investment income is reported gross of withholding tax.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

Pension Fund Accounts

For the year ending 31 March 2018

Fund Account – Expense Items

d) Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

e) Taxation

The Fund is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. This is as a result of being a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises. As the Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities including expenditure on investment expenses.

f) Management Expenses

In the interest of greater transparency, the Council discloses its pension fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs*. The profit and loss on disposal of investments and changes in the market value of investments reflect the fees which had been deducted at source.

Administrative Expenses

All administrative expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Oversight and Governance Costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Investment Management Expenses

All investment management expenses are accounted for on an accruals basis.

The Pension Fund Committee has appointed external investment managers to manage the investments of the Fund. Fees of the investment managers and custodian are agreed in the respective mandates governing their appointments. Their fees are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. Additionally, the fund has negotiated with BlackRock Fund managers that an element of their fee be performance related.

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of the mandate as at the end of the year is used for inclusion in the fund account. In 2017/18, £0.3m of fees is based on such estimates (2016/17: £0.3m). The costs of the Council's in-house management team are charged direct to the fund and a proportion of the Council's costs representing management time spent by officers on investment management is also charged to the fund.

Net Assets Statement

g) Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. Quoted securities and pooled investment vehicles have been valued at the bid price and fixed interest securities are recorded at net market value based on their current yields at the balance sheet date. Quoted securities are valued by the Fund's custodian and pooled investment vehicles at the published bid prices or those quoted by their managers. Investments in private equity funds are valued based on the fund's share of the net assets in the private equity fund using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.

Pension Fund Accounts

For the year ending 31 March 2018

h) Foreign Currency Transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. Spot market exchange rates at the end of the financial year are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

i) Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes. Derivatives are valued at fair value on the following bases: assets at bid price and liabilities at offer price. Changes in the fair value are included in the change in market value in the Fund Account.

The Value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin. The value of forward foreign exchange contracts is based on market forward exchange rates at year-end and determined as the gain or loss that would arise if the contract were matched at year-end with an equal and opposite contract.

j) Cash and Cash Equivalent

Cash comprises cash in hand and deposits with financial institutions which are repayable on demand without penalty and includes amounts held by the fund's external managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

k) Financial Liabilities

The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

l) Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 (post retirement benefits) and relevant actuarial standards. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

m) Additional Voluntary Contributions

The London Borough of Hounslow provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The Fund has appointed Standard Life as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, but are disclosed as a note only (Note 20).

Pension Fund Accounts

For the year ending 31 March 2018

Note 4 – Critical Judgements in applying accounting policies

The Council has had to make certain critical judgements about complex transactions or those involving uncertainty about future events.

Pension Fund Liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 19 below. These estimates are sensitive to changes in the underlying assumptions underpinning the valuations.

Note 5 – Assumptions made about the future and other major sources of uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

Items in the net assets statement at 31 March 2017 for which 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
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 rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is 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 the pension liability. An increase in assumed earnings would increase the value of liabilities and an increase in assumed life expectancy would increase the liability
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. 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 £5.4m. There is a risk that this investment may be understated or overstated in the accounts.

Pension Fund Accounts

For the year ending 31 March 2018

Note 6 – Contributions Receivable

Employee contributions are calculated on a sliding scale based on a percentage of their gross pay. The Council, scheduled and admitted bodies are required to make contributions determined by the Fund's actuary to maintain the solvency of the Fund. The following table shows a breakdown of the total amount of employers' and employees' contributions

By Authority		
	31 Mar 17	31 Mar 18
Administering Authority	27.8	27.6
Scheduled Bodies	4.6	5.3
Admitted Bodies	1.7	3.3
Total	34.1	36.2
By Type		
	31 Mar 17	31 Mar 18
Employees' Normal Contributions	8.2	8.4
Employer's Contributions:		
Normal Contributions	17.3	17.3
Deficit Recovery Contributions	8.4	9.4
Augmentation Contributions	0.2	1.1
Total	34.1	36.2

Note 7—Benefits payable

The table below shows a breakdown of the total amount of benefits payable by category.

By Authority		
	31 Mar 17	31 Mar 18
Administering Authority	32.6	33.1
Scheduled Bodies	1.2	1.1
Admitted Bodies	2.1	1.9
Total	35.9	36.1
By Type		
	31 Mar 17	31 Mar 18
Pensions	28.7	29.8
Commutation and lump sum retirement benefits	6.7	5.6
Lump sum death benefits	0.5	0.7
Total	35.9	36.1

Pension Fund Accounts

For the year ending 31 March 2018

Note 8 – Management expenses

The following table shows a breakdown of the management expenses incurred during the year.

	31 Mar 17	31 Mar 18
Administration Expenses	0.7	0.6
Oversight and Governance	0.2	0.2
Investment Management Expenses	2.0	1.5
Total	2.9	2.3

Investment management expenses include £0.1m relating to custodian fees of custodian fees (£0.1m for 2016/17) and £0.7m in respect of transaction costs (£0.8m in 2016/17) whilst the remainder relates to management fees. Since the performance related fee arrangement started, no performance related fees have been paid to the Fund's investment managers.

Included in the administration expenses above are audit fees for the pension fund of £21k (£21k for 2016/17).

Note 9—Investment income

The table below shows a breakdown of the investment income for the year:

	2016/17	2017/18
	£m	£m
Equity Dividends	13.5	13.6
Pooled Investments - unit trusts and other managed funds	9.6	8.9
Interest on cash deposits	0.0	0.0
	23.1	22.5

Note 10—Investment management arrangements

As at 31 March 2018, the investment portfolio was mainly managed by five external managers:

- Aberdeen Asset Management Plc
- BlackRock Investment Ltd
- Fidelity International Ltd
- Columbia Threadneedle Investments Ltd
- CBRE Global Investors Ltd
- Longview Partners Ltd (London LGPS CIV)

All managers have discretion to buy and sell investments within the constraints set by the Pension Fund Panel and their respective Investment Management Agreements. Each manager has been appointed with clear strategic benchmarks which place maximum accountability for performance against that benchmark on the investment manager.

The Pension Fund Panel appointed Northern Trust as its global custodian, with effect from February 2007. They are responsible for the safe custody and settlement of all investment transactions and collection of income. The bank account for the Fund is held with Natwest Bank.

Pension Fund Accounts

For the year ending 31 March 2018

The market value and proportion of investments managed by each fund manager at 31 March 2018 was as follows:

Fund Manager	Mandate	31-Mar-17		31-Mar-18	
		Market Value		Market Value	
		£m	%	£m	%
Aberdeen	Global Balanced	370.5	39.3	300.0	31.4
BlackRock	Global Balanced	415.7	44.1	399.9	41.9
Fidelity	Income Fund	104.2	11.1	148.9	15.6
Longview	Global Equities	0.0	0.0	50.2	5.3
Threadneedle	Property	28.3	3.0	31.3	3.3
CBRE	Property	17.3	1.8	18.3	1.9
LAMIT	Property	0.5	0.1	0.5	0.1
Private Equity	Various	5.4	0.6	5.0	0.5
Other	Internal	0.2	0.0	0.2	0.0
		942.1	100.0	954.3	100.0

Note 11—Equities

	31 Mar 17	31 Mar 18
	£m	£m
UK Investments (listed)	285.4	270.1
Overseas Investments (listed):		
North America	64.0	37.0
Japan	16.7	11.0
Europe	34.0	27.6
Other	40.3	26.3
	440.4	372.0

The top 10 equity holdings of the London Borough of Hounslow Pension Fund worldwide as at 31 March 2018 were:

	Bid value	% of Total Fund	% of Equities
	£m	%	%
British American Tobacco Plc	19.5	2.0	5.2
Relx Plc	16.6	1.7	4.5
Rentokil Initial Plc	11.2	1.2	3.0
Compass Group Plc	11.0	1.2	3.0
Rio Tinto Ltd	11.0	1.2	3.0
Royal Dutch Shell 'B' Shares	10.8	1.1	2.9
CRH Plc	9.8	1.0	2.6
Ferguson Plc	9.3	1.0	2.5
Rightmove Plc	9.0	0.9	2.4
3i Group Plc	8.4	0.9	2.3
	116.6	12.2	31.3

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For the year ending 31 March 2018

Note 12—Pooled investments

	31 Mar 17	31 Mar 18
	£m	£m
Pooled Investments		
Bond Fund	109.3	86.9
Overseas Equity Fund	146.3	186.2
Income Fund	103.8	149.0
Index Linked	33.2	47.0
Mid Cap & Smaller Companies	11.9	11.8
Property	46.1	50.1
Absolute Return	34.5	35.9
	485.1	567.1

The top 10 pooled investment holdings of the London Borough of Hounslow Pension Fund worldwide as at 31 March 2018 were:

	Market value	% of Total Fund	% of Pooled Investments
	£m	%	%
Fidelity Investments Multi Asset Income Fund	149.0	15.6	26.3
Blackrock Pensions Aquila Life World (ex UK) Fund	120.8	12.7	21.3
Longview Partners (London CIV)	50.2	5.3	8.9
Blackrock All Stocks Corporate Bond	50.0	5.2	8.8
Columbia Threadneedle Property Fund	31.3	3.3	5.5
Aberdeen Fund Managers Corporate Bond	28.8	3.0	5.1
BlackRock Aquila Life Market Advantage Fund	25.2	2.6	4.4
Aberdeen Fund Managers Sterling Index Linked Bond	24.5	2.6	4.3
BlackRock Index Linked A Bond Fund	22.5	2.4	4.0
CBRE UK Property Fund	18.3	1.9	3.2
	520.6	54.6	91.8

Note 13—Private Equity

	31 Mar 17	31 Mar 18
	£m	£m
Private equity	5.4	5.0
	5.4	5.0

The top 10 private equity holdings of the London Borough of Hounslow Pension Fund worldwide as at 31 March 2018 were:

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	Valuation	% of	% of
		Total Fund	Private Equity
	£m	%	%
Environmental Technologies Fund	1.5	0.2	30.0
Advent IV	1.2	0.1	24.0
Schroder Private Equity Fund of Funds IV	0.7	0.1	14.0
The Chandos Fund (YFM)	0.7	0.1	14.0
Schroder Private Equity Fund of Funds III	0.3	0.0	6.0
The Capital Fund (YFM)	0.2	0.0	4.0
Hg Capital 5th Fund	0.2	0.0	4.0
Schroder Private Equity Fund of Funds II	0.1	0.0	2.0
Schroder Private Equity Fund of Funds	0.1	0.0	2.0
Schroder Private Equity Fund of Funds	0.0	0.0	0.0
	5.0	0.5	100.0

Note 14 – Reconciliation of movement in investments

	Market Value as at 31 March 2017	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Market Value as at 31 March 2018
	£m	£m	£m	£m	£m
Fixed Interest Securities	0.0				
Equities	440.4	200.4	(263.7)	(5.1)	372.0
Pooled Investments	439.4	316.4	(237.9)	(2.3)	515.2
Pooled Property Investments	46.1			4.0	50.1
Private Equity	5.4		(0.6)	0.2	5.0
Cash Funds	4.9				4.9
	935.8	516.9	(501.9)	(3.2)	947.2
Derivative Contracts:					
Forward currency contracts	(0.1)				
Total	935.7		(548.0)	148.9	947.2
Other Investment Balances:					
Cash deposits	8.4				4.8
Amount receivable for sales of investments	5.3				5.6
Investment income due	3.3				2.6
Spot FX contracts					
Amounts payable for purchases of investments	(10.6)				(5.9)
Net Investment Assets	942.5	575.8	(548.0)	146.5	954.3

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For the year ending 31 March 2018

Note 15 – Analysis of derivatives

Objectives and policies for holding derivatives

The Pension Fund Panel has authorised the use of derivatives for efficient portfolio management purposes and to reduce certain investment risks, in particular, foreign exchange risk. All uses of derivatives are out-sourced to the Fund's external asset managers which must adhere to the detailed requirements set out in their investment management agreements.

Forward foreign currency

The Fund uses forward foreign exchange contracts to reduce the foreign currency exposure from overseas bond holdings that are within the portfolio.

Note 16a— Classification of financial instruments

The table below shows the classification of the Fund's financial instruments.

	31-Mar-17			31-Mar-18		
	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
	£m	£m	£m	£m	£m	£m
Financial assets						
Equities	440.4			372.0		
Pooled investments	485.1			567.1		
Private equity	5.4			5.0		
Cash (Money Market Fund)	4.9			3.1	4.8	
Derivative contracts	0.0					
Short term deposits		8.4				
Other investment balances	8.5			2.6		
Debtors		0.3		6.3		
Cash at bank		4.4		3.4		
Total Financial assets	944.3	13.1	0.0	959.5	4.8	0.0
Financial liabilities						
Derivative contracts	0.0					
Other investment balances						
Outstanding settlements	(10.6)					
Creditors			(1.8)			(6.5)
Total Financial liabilities	(10.6)	0.0	(1.8)	0.0	0.0	(6.5)
Net Assets	933.7	13.1	(1.8)	957.8	4.8	(6.5)

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Note 16b—Net gains and losses on financial instruments

The following table summarises the net gains and losses on financial instruments classified by type of instrument .

	31 March 2017	31 March 2018
	£m	£m
Financial assets		
Fair value through profit and loss	148.9	(3.2)
Loans and receivables	0.0	0.0
Total Financial assets	148.9	(3.2)
Financial liabilities		
Fair value through profit and loss	0.0	0.0
Financial liabilities measured at amortised cost	(2.4)	0.0
Total Financial liabilities	(2.4)	0.0
Total	146.5	(3.2)

Note 16c—Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1 – these are financial instruments where fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities (quoted equities, quoted fixed securities, quoted index linked securities and unit trusts). Listed investments are shown at bid prices.

Level 2 – these are financial instruments where 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 and where these techniques use inputs that are significantly based on observable market data.

Level 3 – these are financial instruments where at least one input that could have a significant impact on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, neither of which the Fund currently invests in. The following table provides an analysis of the financial assets and liabilities of the Fund grouped into the level at which fair value is observable.

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For the year ending 31 March 2018

	31-Mar-17				31-Mar-19			
	Quoted Market price	Using observable inputs	With significant unobservable inputs	Total	Quoted Market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
	£m	£m	£m	£m	£m	£m	£m	£m
Financial assets								
At fair value through profit and loss	450.9	467.8	16.8		556.9	377.5	9.7	944.1
Loans and receivables	4.3	17.5	0.1		9.0	11.2		20.2
Total Financial assets	455.2	485.3	16.9	957.4	565.9	388.7	9.7	964.3
Financial liabilities								
At fair value through profit and loss		(10.6)		(10.6)		(5.9)		(5.9)
At amortised cost	(1.8)			(1.8)	(0.6)			(0.6)
Total Financial liabilities	(1.8)	(10.6)	0.0	(12.4)	(0.6)	(5.9)	0.0	(6.5)
Total	453.4	474.7	16.9	945.0	565.3	382.8	9.7	957.8

Note 17—Nature and extent of risks arising from financial instruments

Risk and Risk Management

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). The aim, therefore, 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, 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. The Council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Panel. Risk management policies are established to identify and analyse the risks faced by the Fund and these are regularly reviewed to reflect changes in Fund activities and market conditions. The objective of the Fund's risk management strategy is to identify, manage and control its risk exposure within acceptable parameters, whilst optimising the return on risk. class, geographical and industry sectors and individual securities. Regular monitoring of market conditions and benchmark analysis is undertaken by the Pension Fund Panel to mitigate market risk.

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b) Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and asset mix.

Generally, excess volatility in market risk is managed through diversification of the portfolio in terms of asset class, geographical and industry sectors and individual securities. Regular monitoring of market conditions and benchmark analysis is undertaken by the Pension Fund Panel to mitigate market risk.

Price Risk

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 instrument 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. Possible losses from shares sold short are unlimited. The Fund's investment managers mitigate price risk through diversification and the selection of securities and other financial instruments. This is regularly monitored by the Council to ensure it is within the limits specified in the Fund investment strategy.

Following analysis of historical data and expected movement of return on investment during the financial year, the Council, in consultation with the Fund's performance measurement provider, the PIRC Limited, has determined that the following movements in market price risk are reasonably possible for the 2016/17 reporting period:

Asset type	Value as at 31 March 2018	Percentage Change	Value on increase	Value on decrease
	£m	%	£m	£m
UK Equities	270.1	10.3	297.9	242.3
Overseas Equities	288.1	10.4	318.1	258.1
Total Bonds	133.9	6.9	143.1	124.7
Income Fund	149.0	4.1	155.1	142.9
Cash	10.2	0.5	10.3	10.1
Property Units	50.1	8.7	54.5	45.7
Alternatives	52.9	4.1	55.1	50.7
Total Investment Assets	954.3		1,034.1	874.5

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Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate with changes in market interest rates. The Council and its investment advisors routinely monitor the Fund's interest rate risk in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against relevant benchmarks. Fixed interest securities, cash and cash equivalents are exposed to interest rate risk.

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling (the functional currency). The Fund aims to mitigate this risk through the use of derivatives (See Note 15). A strengthening/weakening of the pound sterling against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits.

Following analysis of historical data in consultation with the PIRC Limited, the Council considers the following likely volatility associated with foreign exchange rate movements:

Currency exposure - asset type	Value as at 31 March 2018	Percentage Change	Value on increase	Value on decrease
	£m	%	£m	£m
Overseas Equities	288.1	9.2	314.6	264.5
Alternatives	1.2	9.0	1.3	1.1
Total Investment Assets	289.3		315.9	265.6

a) 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.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

BlackRock Investment Management Ltd use their Money Market Fund to manage invested cash and held £3.1m in this fund at 31 March 2018. Money market funds have AAA ratings from leading ratings agencies. This fund is the £3.1m Cash Fund figure in the Net Assets Statement.

The remainder of invested cash is held in short term bank deposits. Aberdeen Asset Management Ltd held £2.1m in a call account with Standard Chartered at 31 March 2018. A further 2.7m invested cash is held with the Fund's Custodian, Northern Trust. As at 31 March 2018 both Standard Chartered and Northern Trust had a credit rating of AA-. These funds account for the £4.8m cash deposits the Net Assets Statement.

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Note 18 – Funding arrangements

The LGPS Regulations require that a full actuarial valuation of the Fund is carried out every three years. The purpose of this is to establish that the London Borough of Hounslow is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last triennial valuation was carried out by Barnett Waddingham, the Fund's Actuary as at 31 March 2016 in accordance with the Funding Strategy statement of the Fund and Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008. This was effective from 1 April 2017. The report and Funding Strategy Statement are both available on the Council's website at www.hounslowpensions.co.uk

The common rate of contribution for the London Borough of Hounslow, for the 3 year period from 1 April 2017 to 31 March 2020, is 11.7% of payroll. The common rate of contributions is the rate that, in addition to contributions paid by members, is sufficient to meet 100% of the liabilities arising in respect of service after the valuation.

Adjustments to contributions by individual employers are required to make good the deficiency resulting from the change in funding requirement, i.e. £145.5 million as at the date of the actuarial valuation. The Authority has agreed to keep the employer's contribution stable to meet the 100% funding requirement over a period of 17 years.

The actuarial valuation, carried out using the projected unit method, is based on economic and statistical assumptions, the main ones being:

Future Assumed Returns at 2016	% per annum	Real (relative to CPI) % per annum
Equities	7.4	5.0
Gilts	2.4	0.0
Cash	1.8	(0.6)
Property	5.9	3.5
Corporate Bonds	3.3	0.9
Absolute Return Fund	5.3	2.9
Expense Allowance	-0.2	0.0
Estimated discount rate based on long-term investment strategy	6.1	3.7
Prudence allowance	-0.7	(0.7)
Final discount rate assumption	5.4	3.0

Financial Assumptions	2016	2013
Discount rate	5.4% per annum	6.0% per annum
Retail Price Inflation (RPI)	3.3% per annum	3.5% per annum
Consumer Price Inflation (CPI)	2.4% per annum	2.7% per annum
Pension and Deferred Pension Increases	2.4% per annum	2.7% per annum
Short - Term Pay Increases	In line with the CPI assumption for the 4 years to 31 March 2020	3% for period 1 April 2013 to 31 March 2015
Long - Term Pay Increases	3.9% per annum	4.5% per annum

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The actuarial value of the fund's assets and liabilities are set out in the table below.

	2016	2013
Actuarial value of liabilities	£916m	£805.5m
Actuarial value of assets	£772m	£684.2m
Deficit	£144m	£124.3m
Funding Level	84%	85%

The next actuarial revaluation of the Fund will be as at 31 March 2019 and will be published in 2020.

Note 19 – Actuarial present value of promised retirement benefits

The table below shows the total net liability of the Fund as at 31 March 2018. The figures have been prepared by Barnett Waddingham, the Fund's Actuary, only for the purposes of providing the information required by IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pension's legislation.

In calculating the required numbers, the Actuary adopted methods and assumptions that are consistent with IAS19.

	2016/17	2017/8
	£m	£m
Present Value of Promised Retirement Benefits	(1,561.3)	(1,572.9)
Fair Value of Scheme Assets (bid value)	922.5	960.9
Net Liability	(638.8)	(612.0)

Assumptions

To assess the value of the Fund's liabilities at 31 March 2018, the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2017 have been rolled forward, using financial assumptions that comply with IAS 19.

Demographic Assumptions

The demographic assumptions used are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2016. The post retirement mortality tables adopted are the SIPA tables with a multiplier of 115%, for males and 95% for females. These base tables are then projected using the CMI 2015 Model, allowing for a long-term rate of improvement of 1.5% p.a.

The assumed life expectations from age 65 are:

Life Expectancy from Age 65		31-Mar-17	31-Mar-18
Retiring today	Males	21.4	21.5
	Females	25.0	25.2
Retiring in 20 years	Males	23.5	23.7
	Females	27.4	27.5

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Financial Assumptions

The main financial assumptions are:

	31-Mar-17	31-Mar-18
RPI increases	3.6	3.3
CPI increases	2.7	2.3
Salary increases	4.2	3.8
Pension increases	2.7	2.3
Discount rate	2.8	2.5

Note 20 – Current assets

	2016/17	2017/18
	£m	£m
Debtors:		
Amount due from the London Borough of Hounslow	0.0	0.2
Contributions due - employers	0.2	0.3
Contributions due - employees	0.1	0.2
Cash balances	4.4	3.4
Total	4.7	4.1

Debtors

Debtors represent those sums of money owed to the Pension Fund for contributions due from scheduled and admitted bodies for 2017/18, for which payment had not been received as at 31 March 2018.

Note 21 – Current liabilities

	2016/17	2017/18
	£m	£m
Creditors:		
London Borough of Hounslow	1.2	0.0
Investment Management Fees	0.3	0.3
PAYE tax due to HMRC	0.3	0.3
Total	1.8	0.6

Creditors

Creditors represent those sums of money owed by the Pension Fund for fund management services received during 2017/18, for which payment had not been made as at 31 March 2018 and the amounts due to HMRC, in respect of tax and NI contributions, as well as the Council's General Account for March 2018.

Investment Commitments

The Council is committed to making further investments in private equity funds. The total value of commitments outstanding at 31 March 2018 was £0.2m (£0.2m at 31 March 2017).

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For the year ending 31 March 2018

Note 22 – Additional voluntary contributions

The Pension Fund's Additional Voluntary Contributions (AVC) provider is currently Standard Life. Additional voluntary contributions of £43k were paid directly to Standard Life during the year (2016/17: £76k). Employees can contribute to the fund and Hounslow acts only as an agent, the contract being between the employee and Standard Life. The value of these separately invested additional voluntary contributions at 31 March 2018 was £504k (2016/17: £468k). A further £111k is held within Equitable Life, the former provider of AVCs to fund members. The value of these in 16/17 was £123k.

In accordance with Regulation 4(2)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009, the contributions paid and the assets of these investments are not included in the Fund's accounts.

The AVC providers secure benefits on a money purchase basis for those members electing to pay AVCs. Members of the AVC schemes each receive an annual statement confirming the amounts held in their account and the movements in the year. The Fund relies on individual contributors to check that deductions are accurately reflected in the statements provided by the AVC provider.

Note 23—Related party transactions

The Fund is administered by the London Borough of Hounslow and the Council is a related party to the Fund. During 2017/18, some Pension Fund payments and receipts were made through the Council's General Account as a result of the day-to-day administration of the Fund. At 31 March 2018 £0.2m was owed to the General Account by the Pension Fund (At 31 March 2017 £1.2m was owed to the General Account by the Pension Fund).

The Pension Fund incurred administrative expenses of £0.5m in 2017/18 (£0.5m 2016/17) for Council officers' time spent in administering the Fund.

No other material transactions with related parties of the Fund during 2017/18 were identified.

The Pension Administration Strategy

From 1 April 2014, the London Borough of Hounslow launched its Pension Administration Strategy.

Scheme Employers – Schedule Bodies
Berkeley Academy
Brentford School for Girls
Chiswick School
Cranford Community College
Floreat School
Gumley House Catholic School
Heston Community School
Isleworth & Syon School for Boys
Kingsley Academy
Lampton School
Logic Studio
Nishkam School West London
Norwood Green Junior School
Oakhill Academy
Oriel Academy
Reach Academy
Rivers Academy
Space Studio
Springwast Academy
St Mark's Catholic School
The Green School for Girls
West Thames College
Westbrook Primary School
Scheme Employers – Admitted Bodies
Caterservice
Chartwells
City West
Cucina
Edwards & Ward
EVO
Fusion
HAY
Hounslow Highways - Ringway
Hounslow Music Service
Lampton FM 360
Lampton Recycle 360
NVIRO
Serco
Wilson Jones Catering
WLGMP - Spectra

The LGPS 2013 Regulations allow for an Administering Authority to prepare a written statement of policies in relation to Scheme Employers; (“its pension administration strategy”).

The London Borough of Hounslow adopted its Pension Administration Strategy effective from 1 April 2014. This enables the London Borough of Hounslow to set out the quality and performance standards expected from the London Borough of Hounslow as the Administering Authority and Scheme Employer, as well as all other Scheme Employers in the London Borough of Hounslow Pension Fund.

The introduction of the Pensions Administration Strategy (PAS) has been a valuable tool in all aspects of employer communication and as a source of reference and information. Prospective employers have referred to the documents to gain an understanding of the process in becoming an admitted body in the Pension Fund. New and existing employers are able to quickly and easily refer to sections of the document to assist them in their transition and ongoing membership in the Fund. Finally as employer contracts are coming to an end and where there are no longer any contributing members at an employer the PAS is increasingly being used as a point of reference for cessations of employer membership.

The PAS was reviewed in 2017 and approved by the Pension Fund Panel in its October meeting. The PAS was amended in line with changes that have occurred since the last review including updates to contact details, email addresses and telephone numbers. The PAS has also been reviewed for references to relevant legislation and includes Pension Board in the Governance structure.

Pension Fund Administration

Capita Employee Benefits

Capita Employee Benefits has been the administrator of the Hounslow Pension Fund since 2009. They are on hand to answer your queries, whether you are a contributing member, deferred member or pensioner in the scheme. They process your final pension or deferred benefits when you leave the pension scheme. They will also deal with any transfers to and from the scheme. If you are an active or deferred member they will provide pension estimates and administer any additional pension contributions or additional voluntary contributions you choose to make. Contact Capita if you require any information about the Hounslow Pension Scheme.

Service Level Performance 2017/18

The amount of casework received during 2017/18 was xx% higher/lower than that of 2016/17, with the main areas of increase being Member Correspondence, Retirements and New Entrants.

Description	Number of cases	SLA Working Days	Percentage achieved against SLA
Employee Estimate	726	10	87.19%
Others - Contractual	1,121	Variable	94.29%
Member Correspondence	4,714	10	96.31%
Retirement	599	10	92.82%
Deferred/Refund	879	10	91.81%
Employer Estimates	73	5	78.08%
Payment of Pension & Lump Sum	823	5	91.86%
Death	334	Variable	83.53%
IFA and Transfers In	95	10	91.58%
New Entrants	338	10	96.45%
Total	9,702		93.77%

It is pleasing to report a percentage increase in compliance against contractual Service Level Agreements (SLA), with the overall service level attainment percentage, across all work-types.

Year	SLA Performance
2016/17	97.49%
2015/16	94.50%
2014/15	91.45%

Contact details for Capita Employee Benefits

The London Borough of Hounslow Pension Fund
Capita Employee Benefits
PO BOX 195
DL1 9FS

Telephone: 01325 746026
Email: hounslow.pensions@capita.co.uk
www.hounslowpensions.co.uk

New Administration Provider

From 1 August 2018 the administration for the pension fund will be the West Yorkshire Pension Fund. The new administrator contact details will be available at www.hounslow.gov.uk from that date.