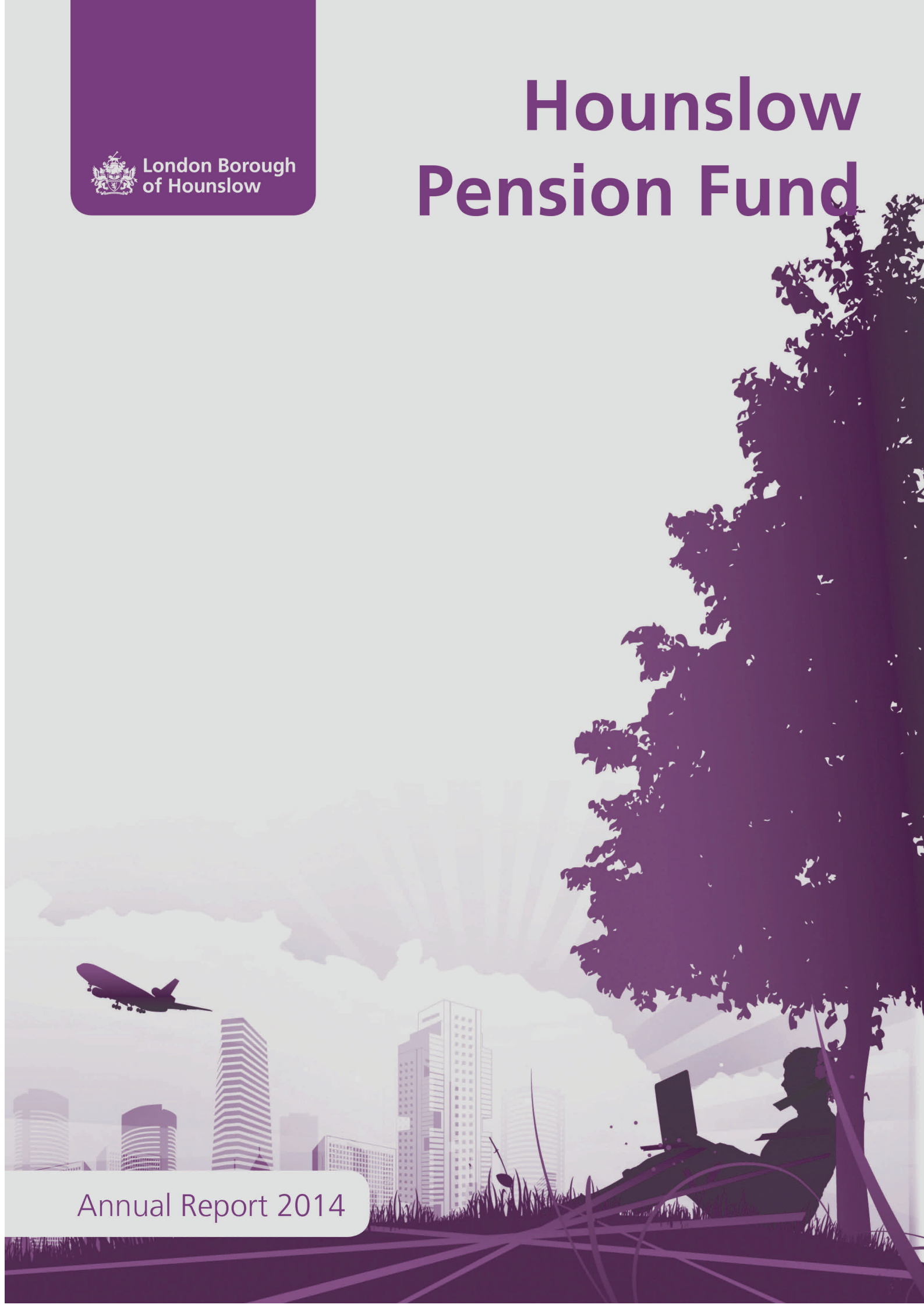




London Borough
of Hounslow

Hounslow Pension Fund

Annual Report 2014



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Introduction by chairman of the pension fund panel, Cllr Mukesh Malhotra and assistant director strategic finance, Clive Palfreyman

Welcome to our annual report. I am particularly pleased to report that our pension fund has continued to grow and do well despite the volatility within the markets over the last few years. At the end of March 2014 our assets £721m, at that time the largest they have ever been. The pension fund is a long term asset, and over 10 years we are in the top 6th percentile of all local authority pension funds.



I took over as Chairman of the Pension fund Panel in May 2014 and would like to thank the previous Chairman, Cllr John Chatt, for his successful stewardship over the last four years.

April 2014 saw the introduction of the new Local Government pension scheme for our members, and I am very pleased to see it went very smoothly for Hounslow. The details for benefits for our members are on our Hounslow Pensions web page, and there is a specific link to them on page 21. We will also be discussing the new scheme at our Annual General Meeting in November. The changes should enable local government pension schemes to survive and be sustainable and I would highly recommend that you take the opportunity to see how the changes will impact on yourselves.

In last year's report the panel referred to the strategic review of our asset allocation that it had implemented. This was to ensure that our fund remains sustainable and able to meet our liabilities and pensions 'promise' to our members. We have continued to work on the review and have now implemented the restructure. So in the last year we have invested some money into diversified growth funds run by Aberdeen and by BlackRock, our fund managers. These seek to maintain returns, whilst reducing volatility. We have also invested in two pooled property funds. As part of this restructure we moved our property portfolio into Threadneedle Property Trust. We have undertaken this restructure to diversify our investment asset base to increase our resilience, without reducing our performance or taking on additional risk. Again we will be covering these issues in more depth at our Annual General Meeting.

Our Annual General Meeting this year is being held on Monday 10 November 2014, here at the Civic Centre, and all are welcome. I hope to see you there.

**Councillor Mukesh Malhotra,
Chairman of the Pension fund Panel**

This report sets out key information about how our pension fund is managed. It summarises financial and management performance and is in accordance with regulatory guidance as required by the Local Government pension scheme (LGPS) regulations.



Councillor Malhotra refers to our Pension fund being valued at over £700m at the end of March 2014. Despite the challenging economic times we still continue to perform extremely well. Over 10 years both BlackRock and Aberdeen have delivered well ahead of their benchmarks.

Capita Employee Benefits, our administrator, is continuing to process our pension payments and deal with transfers to and from the scheme, and any queries you have relating to your pension. Section 21 of our Report highlights their good performance.

We will continue to keep members of the pension fund informed on how we continue to review our investment strategy and on the likely changes to pension fund reform.

Further information on our pension fund and on benefits is available on our website. Visit www.hounslow.gov.uk/pension

Clive Palfreyman, Assistant Director Strategic Finance

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

Black Rock Investment Management (UK) Ltd

CBRE Global Investors

Threadneedle Investments

Banker: National Westminster Bank Plc

Custodian of assets:

The Northern Trust Company

Actuary: Barnett Waddingham Llp

External auditors: KPMG

Legal adviser: Assistant Director Corporate Governance, London Borough of Hounslow

ADMINISTRATION

Investment:

Assistant Director Strategic Finance, London Borough of Hounslow

ROLE OF THE PENSION FUND PANEL

The pension fund Panel meets at least four times a year. The panel have responsibility for the management of the investments of the pension fund. They are appointed by the Borough Council. The responsibilities of the panel include:

- To consider, on the advice of the assistant director of strategic finance 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 assistant director of strategic finance and appropriate manager(s).

- To overview and agree pension administration matters e.g. approval of the administration strategy and delivery of the benefits service.

Further details on how our fund is managed are in the **governance compliance statement** available at www.hounslow.gov.uk/pension

YOUR PENSION FUND PANEL



The chairman of the panel is Cllr Mukesh Malhotra.

Other members at 18 September 2014 are:



Cllr Surinder Purewall (Lab)



Cllr Shantanu Rajawat (Lab)



Cllr John Todd (Con)



To be confirmed

Observer members are:

Boe Williams (Employer Representative)

Mike Smith (Staff Representative)

David Wylson (Pensioner Representative)

Investment management of the pension fund

The management of the pension fund is primarily split between two fund managers, BlackRock, and Aberdeen. Both fund managers have discretion in making investment decisions whilst working within council guidelines. We also have two external property managers, 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. Our fund has had excellent performance in the last few years.

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 also covers our approach to social, environmental and ethical issues. The full statement is available at www.hounslow.gov.uk/pension

We also provide a **Funding Strategy Statement** (also available on the website at www.hounslow.gov.uk/pension). This is a summary of our approach to our funding liabilities.

Performance

Investment performance of the pension fund assets compared to the benchmark of local authority pension scheme performance (WM Local Authority Average):

In the three years to March 2014 we were the 32nd best performing fund out of 81.

In the five years to March 2014 we were the 32nd best performing fund out of 79.

In the ten years to March 2014 we were the 4th best performing fund out of 74.

| | Hounslow | Benchmark | LA Average |
|----------------------------------|----------|-----------|------------|
| 1 year to 31 March 2014 | 4.8% | 6.2% | 6.4% |
| 3 years to 31 March 2014 | 7.9% | 7.4% | 7.5% |
| 5 years to 31 March 2014 | 13.1% | 12.7% | 12.7% |
| 10 years to 31 March 2014 | 9.2% | 7.7% | 7.8% |

Actuarial valuation as at 31 March 2013

INTRODUCTION

The last full triennial valuation of the London Borough of Hounslow pension fund was carried out by Barnett Waddingham LLP as at 31 March 2013, in accordance with the Local Government pension scheme (Administration) Regulations 2008 (“the Regulations”) as amended.

2013 VALUATION

The 2013 valuation certified a common contribution rate of 19.4% 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.

The results for the fund were as follows

- The funding level was determined to be 85%, i.e. the value of the accumulated assets represented 85% of the value of the accrued liabilities of fund as at the valuation date.
- The common contribution rate was set at 19.4% of payroll assuming the funding level was to be restored over a 17 year period.
- In addition, adjustments were made, where appropriate, to individual employers’ contribution rates as set out in the rates and adjustments certificate.

The funding level of the fund has increased from 81% at the 2010 triennial valuation.

VALUATION METHOD

The contribution rates were calculated using the projected unit method or the attained age method. Employers remaining open to new entrants being valued on the projected unit method, whereas the employers who did not allow new entrants to join were valued using the attained age method.

CONTRIBUTION RATES

The contributions rates, in addition to those paid by the members of the fund, are set to be sufficient to meet

- 100% of the liabilities in respect of each employer that have built up within the fund in respect of service to the valuation date, allowing for future pay increases and increases to pension in payment when these fall due

- plus an amount to reflect each participating employer’s notional share of value of the fund’s assets compared with 100% of their liabilities in the fund.

ASSET VALUE AND KEY FINANCIAL ASSUMPTIONS

The value of the fund’s assets as at 31 March 2013 for valuation purposes was taken as £684.2m.

The liabilities were valued allowing for expected future investment returns and increases to benefits as determined by market levels at the valuation date as follows:

| | |
|---|--|
| Rate of return on investments | 6.0% per annum |
| Rate of increase in pay | 2.5% per annum until 31 March 2015 and 4.5% per annum thereafter |
| Rate of increase to pensions in payment | 2.7% per annum |

The next actuarial valuation is as at 31 March 2016. The preliminary results will be available in late 2016 and the resulting contribution rates required by the employers will take effect from 1 April 2017.

We will continue to monitor the financial position of the fund.

Alison Hamilton FFA, Partner
11 August 2014

Reports by fund managers: Aberdeen

| Performance to March 2014 | Hounslow | Benchmark return | Difference |
|---------------------------|----------|------------------|------------|
| 1 year (%) | 2.7% | 5.9% | -3.2% |
| 3 years (% pa) | 8.2% | 7.5% | +0.7% |
| 5 years (% pa) | 14.9% | 13.0% | +1.9% |
| 10 years (% pa) | 9.3% | 8.0% | +1.3% |

Until 2013 the Aberdeen benchmark for the last 5 years was the local authority average return. Aberdeen's target is to exceed benchmark by 1% p.a. over three years.

Aberdeen switched to their own bespoke benchmark, from April 2013, to reflect their actual investments. This is similar to the switch for BlackRock referred to on the next page.

Investment strategy

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

| | 31.03.14 (%) | 31.03.13 (%) | Benchmark (%) |
|-------------------------------------|---------------------|---------------------|---------------|
| Global fixed interest | 13.1 | 20.1 | 18.0 |
| UK index linked | 6.1 | 5.9 | 6.0 |
| UK equities | 39.6 | 36.0 | 35.0 |
| Overseas equities | 39.1 | 37.4 | 41.0 |
| Cash | 2.0 | 0.6 | 0.0 |
| TOTAL PORTFOLIO | 100 | 100 | 100.0 |
| VALUE | £297,593,500 | £289,668,056 | |
| DIVERSIFIED GROWTH PORTFOLIO | £8,401,7603 | - | - |

Notes:

The current benchmark was effective from 1 April 2013. Columns may be subject to minor rounding differences. The Diversified Growth Portfolio is a non-discretionary pooled investment which was made in August 2013.

Aberdeen's approach through the past year has continued to be more cautious, with an even greater focus on quality. There have been concerns that

companies will find it more difficult to continue to increase profits, despite tentative signs of a recovery in the UK at least, so

Aberdeen has preferred companies with proven management with a strong and well financed business, or with operations in markets and sectors that demonstrate some sustainable growth pattern or trading advantage. Examples of these are Rolls Royce, the aero engine firm; Unilever, the consumer products business.

British American Tobacco; Johnson & Johnson and Royal Dutch Shell. Aberdeen remain suspicious of western banks and consumer discretionary companies, given the pressures on consumers. They have been broadly neutral between equities and bonds; but note the yields on government bonds are at historic low levels.

Positioning and Outlook for 2014/15

Looking forward, anaemic nominal GDP growth and an absence of meaningful top line revenue growth is a concern, especially at a time when debt to GDP levels in the US are moving back to their 2007 peaks despite the best efforts of quantitative easing. While QE has not succeeded in inflating away the debt burden, its influence in suppressing the short end of the yield curve has encouraged an increase in corporate bond issuance, some of which is making its way back into financial engineering in the form of financing share buybacks. The lack of top line growth at the corporate level and the lack of internal investment leads Aberdeen to question the sustainability of above average operating margins, as well as the valuation basis of equities globally.

While it is a very uncertain environment from a relative performance perspective, the team's focus will remain on managing capital on behalf of clients in a conservative fashion by concentrating on investing in well managed businesses and being disciplined on the valuations that that pay for these businesses.

BlackRock

| Performance to March 2014 | Hounslow | Benchmark return | Difference |
|---------------------------|----------|------------------|------------|
| 1 year (%) | 6.4% | 5.8% | +0.6% |
| 3 years (% pa) | 7.7% | 7.8% | -0.1% |
| 5 years (% pa) | 13.0% | 13.1% | -0.1% |
| 10 years (% pa) | 9.6% | 8.0% | +1.6% |

The Blackrock benchmark for the five years to December 2012 was the local authority average return. They switched to their own bespoke benchmark during the final quarter of 2013. Their bespoke benchmark specifically reflects their allocations to UK equities, global equities, and bonds. This is reflected above. Their target is to exceed benchmark by 1.25% p.a. over three years. They have outperformed against benchmark over the last year but not met their target over the last three years.

Investment Strategy

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

| | 31.03.14 (%) | 31.03.13 (%) | Benchmark (%) |
|-----------------------------------|---------------------|---------------------|---------------|
| UK fixed interest | 18.5 | 16.5 | 18.0 |
| UK index linked | 3.1 | 5.0 | 6.0 |
| UK equities | 32.9 | 31.1 | 32.0 |
| Overseas equities | 45.3 | 45.2 | 44.0 |
| Cash | 0.3 | 2.2 | 0.0 |
| TOTAL PORTFOLIO | 100 | 100 | 100.0 |
| VALUE | £347,447,965 | £354,942,257 | |
| MARKET ADVANTAGE PORTFOLIO | £20,633,333 | - | - |

Notes:

The current benchmark was effective from 31 December 2012. Columns may be subject to minor rounding differences.

The Market Advantage Portfolio is a non-discretionary pooled investment which was made in August 2013.

Positioning and Outlook for 2014/15

At 31 March 2014, asset allocation was marginally biased towards growth assets with a moderate overweight position in both global and UK equities as well as UK fixed interest, and a correspondingly underweight exposure to UK index-linked gilts, relative to the benchmark.

We remain in a post-crisis market environment of debt reduction, during which growth is low and fragile, cycles are short and volatile, and markets are driven by policy. Reasons for low growth include: too much debt globally; high asset valuations and corporate profit margins at a peak. In addition, the record amount of conventional and unconventional monetary policies being pursued could potentially create further volatility or diminish future returns (e.g. quantitative easing). Rates are already at zero and government finances are precarious. Similarly, policy stimulus withdrawal, once required, will prove very hard to do at the right pace without risking a renewed recession or an inflation spike. History and logic both suggest that this type of environment is likely to persist for many years.

Given current valuations, we expect global equities to deliver positive real returns, and we expect equities to beat bonds over a multi-year period. Our portfolios continue to focus on quality businesses with the ability to grow. We continue to believe that relatively higher growth rates in emerging markets will be counteracted by much slower growth in the highly-indebted developed markets.

Whilst we expect global growth to remain positive we anticipate that periods of uncertainty will cause volatility to rise across asset classes during the year ahead.

Pension fund accounts

FUND ACCOUNT FOR THE YEAR ENDING 31 MARCH 2014

This section gives a summary of the pension scheme's income and expenditure during the financial year ending 31 March 2014. 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF HOUNSLOW

We have examined the pension fund financial statements for the year ended 31 March 2014 on pages 11 to 19.

Respective responsibilities of the chief financial officer and auditor

As explained more fully in the statement of the chief financial officer's responsibilities the chief financial officer is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the pension fund Annual Report with the pension fund financial statements included in the annual published statement of accounts of London Borough of Hounslow, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

In addition, we read the information given in the pension fund Annual Report to identify material inconsistencies with the pension fund financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

We conducted our work in accordance with guidance issued by the Audit Commission. Our report on the administering authority's annual published statement of accounts describes the basis of our opinion on those financial statements.

Auditor's report continued...

Opinion

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included in the annual published statement of accounts of London Borough of Hounslow for the year ended 31 March 2014 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Matters on which we are required to report by exception

The Code of Audit Practice for Local Government Bodies 2010 requires us to report to you if:

- the information given in the pension fund Annual Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters relating to the pension fund have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit.

We have nothing to report in respect of these matters

Tony Crawley
for and on behalf of KPMG LLP, Appointed Auditor

Chartered Accountants

15 Canada Square, London, E14 5GL

30 September 2014

Pension fund Accounts

FUND ACCOUNT FOR THE YEAR ENDING 31 MARCH 2014

| | 2013/14 £m | 2012/13 £m | Notes |
|---|---------------|---------------|-------|
| Income | | | |
| Contributions: | | | 23 |
| <i>Employees</i> | 7.9 | 7.4 | |
| <i>Employers</i> | 25.2 | 23.6 | 2 |
| <i>Augmentation Payments</i> | 0.0 | 10.0 | 3 |
| Transfers from other schemes (individuals) | 3.9 | 3.5 | |
| Transfers from other schemes (group transfers) | 0.0 | 0.0 | 4 |
| Total Income | 37.0 | 44.5 | |
| Expenditure | | | |
| Benefits payable: | | | 23 |
| <i>Pensions</i> | (25.8) | (24.5) | |
| <i>Lump sums</i> | (5.6) | (6.4) | |
| <i>Death benefits</i> | (0.5) | (0.7) | |
| <i>Refunds</i> | 0.0 | 0.0 | |
| Transfers to other schemes (individuals) | (3.1) | (1.6) | |
| Administrative Expenses | (1.2) | (1.0) | 5 |
| Total Expenditure | (36.2) | (34.2) | |
| Net additions / (withdrawals) from dealings with members | | | |
| | 0.8 | 10.3 | |
| Returns on Investments | | | |
| Investment Income | 19.3 | 17.8 | 6 |
| Change in market value of realised and unrealised investments | 12.9 | 66.4 | |
| Irrecoverable withholding tax | (0.2) | (0.2) | |
| Investment management expenses | (1.8) | (1.5) | |
| Property expenses | (0.3) | (0.2) | |
| Net returns on investments | 29.9 | 82.3 | |
| Net increase (decrease) in the fund during the year | | | |
| | 30.7 | 92.6 | |
| Opening net assets of the scheme at 1 April | 690.3 | 597.7 | |
| Closing net assets of the scheme at 31 March | 721.0 | 690.3 | |

Accounts

NET ASSETS STATEMENT AS AT 31 MARCH 2014

| | 31 Mar 14 £m | 31 Mar 13 £m | Notes |
|---|-----------------|-----------------|-------|
| Investments | | | |
| Equity investments | 493.1 | 481.7 | 7 |
| Pooled investments | 210.2 | 162.3 | 8 |
| Property | 0.0 | 17.2 | 9 |
| Private equity | 9.1 | 10.6 | 10 |
| Short term deposits | 7.3 | 7.3 | 11 |
| Outstanding settlements | (0.7) | (3.7) | |
| Investment income receivable | 3.9 | 3.2 | |
| Total Investments | 722.9 | 678.6 | |
| Current Assets and Current Liabilities | | | |
| Debtors | 0.3 | 9.9 | 14 |
| Cash at bank | 0.2 | 2.5 | |
| Creditors | (2.4) | (0.7) | 15 |
| Net Current Assets | (1.9) | 11.7 | |
| Net Assets | 721.0 | 690.3 | |

NOTES TO THE PENSION FUND ACCOUNTS 2013/14 NOTE 1: ACCOUNTING POLICIES

Accounting standards

The authority's accounting policies have been drawn up in line with recommended accounting principles as specified under International Finance Reporting Standards (IFRS) and the Code of Practice on Local Authority Accounting and in accordance with the provisions of Chapter 2 of the Pensions SORP and on a going concern basis, except as disclosed below. There have been no material differences in the pension fund accounts as a result of the transition to IFRS.

Basis of preparation

Except where otherwise stated, the accounts have been prepared on the accruals basis.

Investments are shown in the accounts at market value, which has been determined as follows:

- Listed securities and securities on the Unlisted Securities Market (USM) are shown by reference to bid price at the close of business on 31 March 2014.
- Other unlisted securities are valued having regard to the latest dealings, professional valuations, asset values and other appropriate financial information.
- Unit trust investments are stated at the latest bid prices quoted by their respective managers prior to 31 March 2014.
- Investments held in foreign currencies have been valued on the relevant basis and translated into sterling at the rate ruling on 31 March 2014.
- There are no freehold or leasehold properties as at 31 March 2014 — these properties

were disposed of in January 2014.

- Investments were realisable at 31 March 2014, other than property and private equity.

Contributions represent those amounts receivable from the various employing authorities in respect of their own contributions and those of their pensionable employees. The Actuary on the basis of periodic valuations of the fund's assets and liabilities determines the employers' contributions. Employees' contributions have been included at rates required by the Local Government pension scheme (Amendment) Regulations 2008.

Actuarial valuations

The accounts summarise the transactions and net assets of the fund. They do not take account of liabilities to pay pensions and other benefits in the future.

The authority's actuary carries out valuations of the fund's assets and liabilities at three yearly intervals. The last valuation was carried out by Barnett Waddingham as at 31 March 2013 and was effective from 1 April 2014.

The common rate of contribution for all scheduled bodies from 1 April 2014 is 12.9% 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. £124.3 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 17-year period. In previous years it has been the policy to spread the funding from employers' contributions for any pension strain arising from early retirements in line with the deficit recovery period. But from 2014/15 the policy has changed to require the full funding of these liabilities in the year in which the pension strain arises. This has been agreed with the actuary.

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

| | 2013 | 2010 |
|--------------------------------|---------|---------|
| Actuarial value of liabilities | £808.5m | £628.8m |
| Actuarial value of assets | £684.2m | £508.6m |
| Deficit | £124.3m | £120.2m |
| Funding level | 85% | 81% |

The contribution rates have been calculated using the projected unit actuarial method and the main actuarial assumptions were as follows:

| | |
|---|---------|
| Rate of pay increases | 4.5% pa |
| Rate of increase of pensions in payment | 2.7% pa |
| The investment return of the fund | 6.0% pa |

Valuation of liabilities

The authority's actuary, Barnett Waddingham has valued the liabilities of the fund on an IAS26 basis as at 31 March 2014. The value of the liabilities at 31 March 2014 is £1,115.3m (31 March 2013 £1,036.8m) compared with a fair value of scheme assets of £709.3m (31 March 2013 £689.3m). Therefore on this basis the deficit at 31 March 2014 is £406.0m (31 March 2013 £347.5m).

Benefits, refunds of contributions and transfer values

Benefits payable and refunds of contributions have been brought into the accounts on the basis of all valid claims paid during the year. Transfer values are those sums paid by, or received from, other pension schemes and relate to periods of previous pensionable employment. Transfer values have not been accrued but have been included in the accounts on the basis of the date when payments were made and receipts received.

Investment income

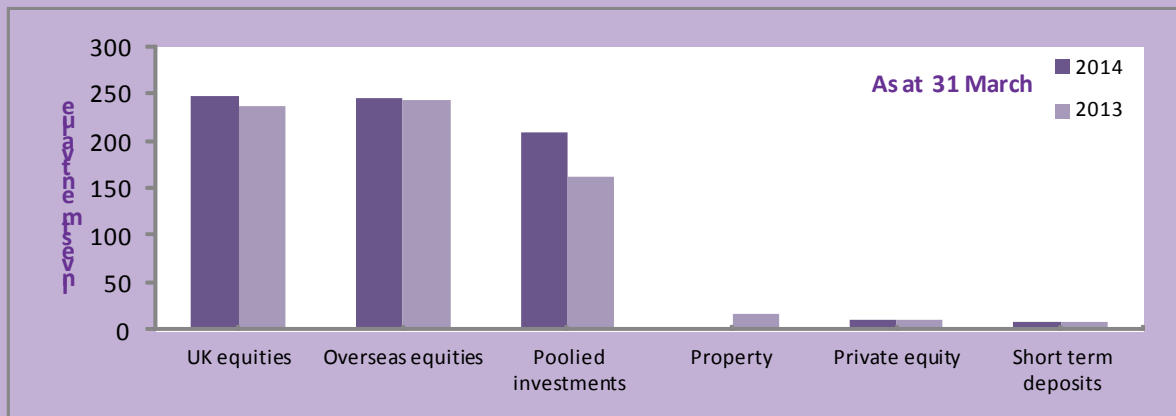
Rents, dividends and interest on Government stocks, loans and deposits have been accounted for on an accruals basis. Foreign income has been translated into sterling at the date of the transaction.

Investment management and administration

The authority is permitted to charge administration costs of the scheme to the fund. A proportion of relevant Council officers' salaries, including related on-costs, have been charged to the fund on the basis of actual time spent on scheme administration and investment related business. The fees of the fund's general investment managers have been accounted for on the basis contained within their respective management agreements.

NOTE 2: EMPLOYERS' CONTRIBUTION

Employers contributions comprise two elements, normal contributions, which are the contributions required to fund future service liabilities and deficit funding, which is the additional contributions required to fund the deficiency as calculated at the last actuarial valuation. Normal contributions are calculated at 12.9% of payroll, and deficit funding will vary for different employers within the fund. At the last actuarial valuation the authority agreed to fund the deficiency over a 17-year period.



NOTE 3: AUGMENTATION

The Council made an additional 'one-off' employer's contribution to the pension fund of £10m as of 31 March 2013.

NOTE 4: TRANSFERS IN/OUT

There were no group transfers in or out in 2013/14.

NOTE 5: ADMINISTRATION

Administration costs include actuary fees of £52k in 2013/14 (£24k in 2012/13).

| | 2013/14 £m | 2012/13 £m |
|---------------------------|---------------|---------------|
| Scheme Administration | 1.2 | 1.0 |
| Actuary Fees | 0.0 | 0.0 |
| Annual Meeting and Report | 0.0 | 0.0 |
| Total costs | 1.2 | 1.0 |

NOTE 6: INVESTMENT INCOME

| | 2013/14 £m | 2012/13 £m |
|-------------------------------|---------------|---------------|
| Equity investments | 14.0 | 11.9 |
| Fixed interest securities | 0.1 | 1.0 |
| Pooled investments | 3.8 | 3.2 |
| Property | 0.8 | 1.6 |
| Short term deposits | 0.6 | 0.1 |
| Broker commissions recaptured | 0.0 | 0.0 |
| | 19.3 | 17.8 |

NOTE 7: EQUITY INVESTMENT

| As at 31 March | 2014 £m | 2013 £m |
|--------------------------------------|--------------|--------------|
| UK Investments (listed) | 248.3 | 238.0 |
| Overseas Investments (listed) | | |
| North America | 121.4 | 136.4 |
| Japan | 13.8 | 11.4 |
| Europe | 68.2 | 59.6 |
| Other | 41.4 | 36.3 |
| | 493.1 | 481.7 |

The top 10 equity holdings of the London Borough of Hounslow pension fund worldwide as at 31 March 2014 were:

| | Bid Value £m | % Total Fund | % of Equities |
|--------------------------|-----------------|--------------|---------------|
| British American Tobacco | 12.3 | 1.7 | 2.5 |
| Roche Holdings | 11.8 | 1.6 | 2.4 |
| Royal Dutch Shell | 10.2 | 1.4 | 2.1 |
| Astra Zeneca | 9.5 | 1.3 | 1.9 |
| Compass Group | 8.8 | 1.2 | 1.8 |
| Standard Chartered | 8.4 | 1.2 | 1.7 |
| HSBC Holdings | 7.8 | 1.1 | 1.6 |
| Imperial Tobacco | 7.6 | 1.1 | 1.5 |
| BG Group | 7.5 | 1.0 | 1.5 |
| Time Warner | 6.9 | 1.0 | 1.4 |
| | 90.8 | 12.6 | 18.4 |

NOTE 8: POOLED INVESTMENTS

| As at 31 March | 2014 £m | 2013 £m |
|------------------------------------|--------------|--------------|
| UK Pooled Investments | | |
| Cash Fund | 6.2 | 9.0 |
| Bond Fund | 103.0 | 107.4 |
| Index Linked | 28.7 | 34.5 |
| Mid Cap Companies | 7.7 | 1.5 |
| Property | 35.6 | 0.4 |
| Absolute return | 29.0 | 0.0 |
| Overseas Pooled Investments | | |
| Fixed Interest | 0.0 | 9.5 |
| Equity | 0.0 | 0.0 |
| | 210.2 | 162.3 |



The top 10 pooled investment holdings of the London Borough of Hounslow pension fund worldwide as at 31 March 2014 were:

| | Market Value £m | % of Total Fund | % of Pooled Investments |
|--|--------------------|-----------------|-------------------------|
| Merrill Lynch Fund All Stocks Corporate Bond | 64.2 | 8.9 | 30.9 |
| Aberdeen Global Bond Fund | 21.4 | 3.0 | 10.3 |
| Threadneedle Property Fund | 20.6 | 2.9 | 9.9 |
| BlackRock Aquila Life Market Advantage Fund | 20.5 | 2.8 | 9.9 |
| Aberdeen Global Indexed Linked Bond Fund | 18.0 | 2.5 | 8.7 |
| CBRE UK Property Fund | 14.6 | 2.0 | 7.0 |
| Aberdeen Global Funds II Sterling Long-dated Bond Z2 | 13.8 | 1.9 | 6.6 |
| BlackRock—Index Linked A | 10.6 | 1.5 | 5.1 |
| Aberdeen Diversified Growth Fund | 8.4 | 1.2 | 4.0 |
| Aberdeen Global Funds II Sterling Long-dated Bond Z2 | 3.8 | 0.5 | 1.8 |
| | 195.9 | 27.2 | 94.2 |

NOTE 9: PROPERTY

| As at 31 March | 2014 £m | 2013 £m |
|-----------------------------------|---------|---------|
| UK Property Investments: Freehold | 0.0 | 17.2 |
| | 0.0 | 17.2 |

During 2013/14 the management of the property portfolio was restructured and all direct property holdings were disposed of and replaced with units in property pooled funds.

NOTE 10: PRIVATE EQUITY

| As at 31 March | 2014 £m | 2013 £m |
|----------------|------------|-------------|
| Private equity | 9.1 | 10.6 |
| | 9.1 | 10.6 |

The top 10 private equity holdings of the London Borough of Hounslow pension fund as at 31 March 2014 were:

| | Valuation £m | % of total fund | % of private equity |
|---|-----------------|-----------------|---------------------|
| Environmental Technologies Fund | 3.3 | 0.5 | 36.3 |
| Hg Capital 5th Fund | 1.1 | 0.2 | 12.1 |
| Schroder Private Equity Fund of Funds IV | 0.8 | 0.1 | 8.8 |
| Schroder Private Equity Fund of Funds III | 0.8 | 0.1 | 8.8 |
| Advent IV | 0.7 | 0.1 | 7.7 |
| The Chandos Fund (YFM) | 0.6 | 0.1 | 6.6 |
| Northern Investors | 0.6 | 0.1 | 6.6 |
| Schroder Private Equity Fund of Funds II | 0.5 | 0.1 | 5.5 |
| The Capital Fund (YFM) | 0.3 | 0.0 | 3.3 |
| Schroder Private Equity Fund of Funds | 0.2 | 0.0 | 2.2 |
| | 8.9 | 1.3 | 97.9 |

NOTE 11: SHORT TERM DEPOSITS

| As at 31 March | 2014 £m | 2013 £m |
|----------------|------------|------------|
| Bank Deposits | 7.3 | 7.3 |
| | 7.3 | 7.3 |



NOTE 12: FINANCIAL INSTRUMENTS

Categories of financial instruments

The following categories of financial instruments are carried in the balance sheet:

| £m as at 31 March | 2014 | 2013 |
|---|--------------|--------------|
| Fair value through profit and loss | | |
| Fixed interest securities | 0.0 | 0.0 |
| Equities | 493.1 | 481.7 |
| Pooled investments | 210.2 | 162.3 |
| Private equity | 9.1 | 10.6 |
| Loans and receivables | | |
| Short term deposits | 7.3 | 7.3 |
| Outstanding settlements | 0.0 | 0.0 |
| Investment income receivable | 3.9 | 3.2 |
| Debtors | 0.3 | 9.9 |
| Cash at bank | 0.2 | 2.5 |
| Total financial assets | 724.1 | 677.5 |
| Financial liabilities | | |
| Outstanding settlements | (0.7) | (3.7) |
| Creditors | (2.4) | (0.7) |
| Total financial liabilities | (3.1) | (4.4) |
| Net Assets | 721 | 673.1 |

Net gains and losses

The following table summarises the carrying values of the financial assets and financial liabilities by class of

| Fair value through profit | 2013/14 | 2012/13 |
|---|---------|---------|
| Change in market value of realised and unrealised | 12.9 | 66.4 |

instrument compared with their fair values.

Fair values of assets and liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of

| £m | 2013/14 | | 2012/13 | |
|--|-----------------|--------------|-----------------|--------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Financial assets | | | | |
| Fair value through profit and loss | 712.4 | 712.4 | 654.6 | 654.6 |
| Loans and receivables | 11.7 | 11.7 | 22.9 | 22.9 |
| Total financial assets | 724.1 | 724.1 | 677.5 | 677.5 |
| Financial liabilities | | | | |
| Financial liabilities and amortised cost | (3.1) | (3.1) | (4.4) | (4.4) |
| Total financial liabilities | (3.1) | (3.1) | (4.4) | (4.4) |

instrument compared with their fair values.

NOTE 13: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Fund's primary long-term risk is that the fund's assets will fall short of its liabilities to pay benefits to members. 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 portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) 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.

A) Market risk

Market risk is the risk of loss from fluctuations in equity prices, interest and foreign exchange rates. 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 the asset mix.

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's performance measurement provider, the WM Company, the council has determined the following movements in market price risk are reasonably possible for the 2014/15 reporting period (table 1).

Table 1

| Asset type | Value as at 31 March 2014 £m | Percentage Change % | Value on increase £m | Value on decrease £m |
|--------------------------------|------------------------------|---------------------|----------------------|----------------------|
| UK Equities | 256.0 | 12.3 | 287.6 | 224.4 |
| Overseas Equities | 244.9 | 12.0 | 274.2 | 215.5 |
| Total Bonds | 103.1 | 5.2 | 108.4 | 97.8 |
| ILG | 28.7 | 8.6 | 31.1 | 26.2 |
| Cash | 16.6 | 0.0 | 16.6 | 16.6 |
| Property | 35.6 | 3.2 | 36.7 | 34.4 |
| Alternatives | 38.1 | 4.7 | 39.9 | 36.3 |
| Total Investment Assets | 723.0 | | 794.5 | 651.2 |

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£UK).

Following analysis of historical data in consultation with the WM Company, the council considers the following likely volatility associated with foreign exchange rate movements (table 2)

Table 2

| Currency exposure – asset type | Value as at 31 March 2014 £m | Percentage Change % | Value on increase £m | Value on decrease £m |
|--------------------------------|------------------------------|---------------------|----------------------|----------------------|
| Overseas Equities | 244.9 | 5.3 | 257.9 | 231.8 |
| Alternatives | 2.3 | 6.3 | 2.4 | 2.1 |
| Total Investment Assets | 247.2 | | 260.3 | 233.9 |

B) 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 £3.8m in this fund at 31 March 2014, and the council have placed invested cash in the Fidelity Money Market Fund and held £2.4m in this fund at 31 March 2014. Both of these money market funds have AAA ratings from leading ratings agencies. These funds make up the £6.2m cash fund figure in Note 8 to the accounts.

The remainder of invested cash is held in short term bank deposits. Aberdeen Asset Managers Ltd held £4.7m in a call account with Standard Chartered at 31 March 2014. The balance of £2.6m invested cash is held with the fund's custodian Northern Trust. As at 31 March 2014 both Standard Chartered and Northern Trust had a credit rating of AA-. These funds make up the £7.3m bank deposits in Note 11 to the accounts.

NOTE 14: DEBTORS

Debtors represent those sums of money owed to the pension fund for contributions due from admitted bodies for 2013/14 but for which payment had not been received by 31 March 2014 and money owed to the pension fund from the council's general account. The reason for the high balance in 2013 was due to the late decision to fund the pension fund by £10m from the council's general fund balances.

NOTE 15: CREDITORS

Creditors represent those sums of money owed by the pension fund for fund management services received during 2013/14 but for which payment had not been made by 31 March 2014 and money owed to the council's general account from the pension fund.

NOTE 16: INVESTMENT COMMITMENTS

The council is committed to making further investments in private equity funds. The total value of commitments outstanding at 31 March 2014 was £2.2m (£2.7m at 31 March 2013).

NOTE 17: TAXATION

UK Tax – the fund is an exempt approved fund and is therefore not liable to UK income tax on interest, property income or to capital gains tax. However, from 2 July 1997 the Government withdrew the ability for pension funds to reclaim tax credits on UK dividends. The impact of this change is reflected in the actuarial valuation.

As a local authority is the administering authority for the fund, VAT input tax is recoverable on all fund activities including expenditure on investment and property expenses.

Overseas Tax – income earned from investments in stocks and securities in the United States is exempt from tax. Similar arrangements exist with Australia and Hong Kong, whereby investment income is transmitted to Britain, gross of foreign income tax. Taxation agreements exist between Britain and certain EC and other European countries whereby a proportion of the tax deducted locally from investment earnings may be reclaimed. The proportion reclaimable and the time

NOTE 18: MEMBERSHIP OF FUND

The following summarises the membership of the pension fund as at 31 March 2014:

| As at 31 March | 2014 | 2013 |
|---------------------|---------------|---------------|
| Contributors | 6,519 | 6,317 |
| Pensioners | 5,800 | 5,642 |
| Deferred Pensioners | 6,923 | 6,471 |
| Total | 19,242 | 18,430 |

NOTE 19: MOVEMENT IN FUNDS MANAGED

A comparison of the movement in investments and amount of funds managed by each fund manager at the market value is as follows:

| | Aberdeen £m | BlackRock £m | LBH £m | Total £m |
|---|----------------|-----------------|-------------|--------------|
| Closing Balance at 31 March 2013 | 289.9 | 355.3 | 33.4 | 678.6 |
| Purchases | 60.4 | 357.2 | 35.5 | 453.1 |
| Sales | (47.8) | (353.9) | (22.6) | (424.3) |
| Corporate Actions | (0.6) | (0.3) | 0.0 | (0.9) |
| Movement in short term deposits | 4.9 | (1.7) | 0.3 | 3.5 |
| Change in market value | (0.3) | 12.3 | 0.9 | 12.9 |
| Closing Balance at 31 March 2014 | 306.5 | 368.9 | 47.5 | 722.9 |
| Proportion of fund | 42% | 51% | 7% | |

NOTE 20: ADDITIONAL VOLUNTARY CONTRIBUTIONS

The current provider for additional voluntary contributions is Standard Life. Employees can contribute to the fund and Hounslow acts only as an agent, the contract is between the employee and Standard Life. The amount of contributions received in the year is £16k. The value of these separately invested additional voluntary contributions at 31 March 2014 was £357k.

There are also separately invested additional voluntary contributions with the previous provider, Equitable Life. The value of these contributions at 31 March 2014 was £146k.

These amounts are not included in the pension fund accounts in accordance with regulation 4(2)(b) of the Local Government pension scheme (Management and Investment of Funds) Regulations 2009.

NOTE 23: SCHEDULED AND ADMITTED BODIES

The scheduled bodies to the fund are:

- West Thames College
- Hounslow Homes
- Lampton School
- Cranford Community College
- Rivers Academy
- Feltham Community College
- Chiswick School
- Gumley House Catholic School
- Isleworth & Syon School
- St Mark's Catholic School
- Reach Academy
- Heston Community School
- Brentford School for Girls
- Kingsley Academy
- Norwood Green Junior School
- Westbrook Primary School
- The Green School for Girls
- Oriel Primary School
- Nishkam School

There were also 19 Admitted Bodies making contributions of £1.7m (£1.1m 2012/13). There were also 15 bodies with no active membership.

The total contributions receivable and benefits payable are as follows:

| | Contributions Receivable £m | | Benefits Payable £m | |
|----------------------------|--------------------------------|-------------|------------------------|-------------|
| | 2013/14 | 2012/13 | 2013/14 | 2012/13 |
| London Borough of Hounslow | 23.3 | 23.6 | 23.6 | 24.6 |
| Scheduled Bodies | 8.1 | 3.2 | 5.8 | 2.0 |
| Admitted Bodies | 1.7 | 1.8 | 1.1 | 1.4 |
| Total | 33.1 | 31.8 | 30.5 | 28.0 |

NOTE 24: STATEMENT OF INVESTMENT PRINCIPLES

The Statement of Investment Principles for the pension fund is available www.hounslow.gov.uk/pensions and is available on request from the assistant director of corporate resources – strategic finance.

NOTE 21: DIRECT TRANSACTION COSTS

The amounts of direct transaction costs suffered by each fund manager were as follows:

| | 2013/14 £m | 2012/13 £m |
|-------------------------------------|---------------|---------------|
| Aberdeen Asset Managers Ltd | 0.2 | 0.1 |
| Blackrock Investment Management Ltd | 0.7 | 0.7 |
| | 0.9 | 0.8 |

NOTE 22: EXTERNAL AUDIT COSTS

The pension fund has incurred costs of £21k in 2013/14 (£21k in 2012/13) in relation to the audit of the Statement of Accounts provided by KPMG, the fund's external auditors.

NOTE 25: RELATED PARTY TRANSACTIONS

The council was a related party to the fund. During 2013/14, 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 2014 £1.5m was owed by the pension fund to the general account (At 31 March 2013 £9.5m was owed by the general account to the pension fund). The reason for the high balance at 31 March 2013 was due to the late decision to fund the pension fund by £10m from the council's general fund balances.

The pension fund incurred administrative expenses of £0.7m in 2013/14 (£0.4m 2012/13) for council officers' time spent in administering the fund.

The pension administration strategy

From 1 April 2014, the London Borough of Hounslow launched its pension administration strategy.

| Scheme Employer as at the 2010 valuation |
|--|
| London Borough of Hounslow |
| Hounslow Racial Equality Council* |
| West Thames College |
| Hounslow Homes |
| Fusion* |
| Cultural Community Services |
| Carillion Integrated Services* |
| Scope* |
| Jewson* |
| SITA* |
| New employers since the 2010 valuation |
| Heston Community School |
| Brentford School for Girls |
| Chiswick School |
| Feltham Community College |
| Gumley House Catholic School |
| Isleworth & Syon School for Boys |
| Rivers Academy West London |
| St Mark's Catholic School |
| Lampton School |
| Cranford Community School |
| Reach Academy |
| EVO* |
| Cranstoun* |
| Caterleisure* |
| EACH* |
| Hestia* |
| St Mary's College* |
| Hounslow Highways* |
| NVIRO* |
| Hounslow Action for Youth* |
| New employers since the 2013 valuation |
| Westbrook Primary School |
| The Green School for Girls |
| Kingsley Academy |
| Norwood Green Junior School |
| Oriel Primary School |
| Nishkam School |
| Oakhill Academy |
| Serco* |
| Cucina* |
| WLGMP* |

* Closed to new members

The number of scheme employers with active pension members administered by the London Borough of Hounslow as the administering authority of the local government pension scheme (LGPS) has increased from 12 at the time of the 2010 triennial actuarial valuation to 30 at the time of the 2013 triennial actuarial valuation. Since the 2013 valuation has further increased to 38 (converted academy schools and new free schools make up 17 of the 38 current scheme employers).

In addition, the LGPS reformed its benefit structure and administrative processes from 1 April 2014. These reforms are contained within the LGPS 2013 Regulations.

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 strategy also sets out the administering authority's approach to the admission of new scheme employers in the London Borough of Hounslow pension fund and the funding arrangement for academies and free schools in the fund.

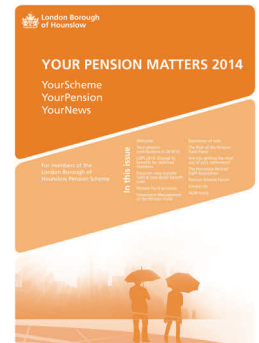
By implementing a pension administration strategy, the pension fund can more clearly communicate its message of high quality administration and value for money to its scheme employers and members.

The pension fund administrator: 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.

Look out for the latest newsletter and customer survey:

Please look out for the latest annual newsletter, which also includes a customer survey for you to tell us what you think of the administration service. This has been made available to all members of the scheme. An electronic copy can be found at www.hounslow.gov.uk/pension



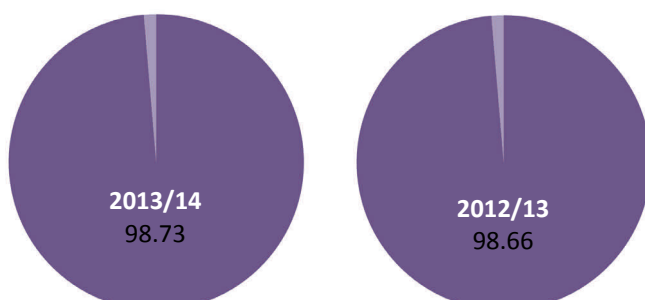
Service standards over the period 1 April 2013 to 31 March 2014

During the period of this annual report, Capita administered our scheme. Their workflow summary is shown below:

| Description | Rec'd | Complete | SLA (days) | On time | % On time |
|----------------------|--------------|--------------|------------|--------------|--------------|
| Joiners | 1,098 | 1,098 | 10 | 1,095 | 99.73 |
| Transfers in/out | 364 | 364 | 10 | 355 | 97.53 |
| Retirement/Deaths | 1,108 | 1,108 | 10 | 1,070 | 96.57 |
| Deferred/Refunds | 1,005 | 1,005 | 10 | 983 | 97.81 |
| Estimates | 448 | 448 | 10 | 446 | 99.57 |
| Others – contractual | 4,806 | 4,806 | Variable | 4,768 | 99.21 |
| Total | 8,829 | 8,829 | | 8,717 | 98.73 |

Percentage of cases completed in time

During the period 98.73% of all work has been completed within the council's stipulated time limits.



The Local Government pension scheme 2014 reforms: one year on

The 2014 LGPS reforms have now been effective since April 2014.

Pension surgery sessions

Capita has been holding twice monthly pension surgeries for active members to explain the 2014 reforms and discuss pension benefits. Please ask your employer or see the Hounslow intranet for further details.

2014 pension fund AGM

This year's pension fund AGM will be held on Monday 10 November from 2pm at the Civic Centre and will include a presentation from Capita reflecting on the 2014 reforms one year on.

Look out for further details of the AGM in your annual newsletter.

For more information on the 2014 LGPS reforms, please visit www.lgps2014.org

Contact details for Capita Employee Benefits are:

The London Borough of Hounslow Pension Fund
Capita Employee Benefits
PO BOX 195
Mowden Hall
Darlington
DL1 9FS
Telephone: 020 8972 6000
Email: hounslow.pensions@capita.co.uk