London Borough of Hounslow

Hounslow Pension Fund

Annual Report 2017

Index

Introduction by Chairman of the Pension Fund Panel, Councillor Mukesh Malhotra

Welcome to our Annual Report. I am pleased to report that our Pension Fund has continued to thrive. At the end of March 2017 our net assets were £945m, which was 21% higher than our value of £779m, a year ago, and the highest we have ever been. This is particularly encouraging given the turbulent financial period we have just been through, which saw the BREXIT vote in the UK, and the election of a new President in the Unites States .Both events contributed to volatility on the world markets.

The actuary reported on our triennial valuation of our assets and liabilities at the end of March. It is pleasing to note that despite the considerable volatility over the previous three years the funding level for the London Borough of Hounslow element of the fund, our largest employing body, has increased from 83% to 86%. The funding level for the whole fund declined slightly from 85% to 84%. We do have a flight path in place to return to 100% funding.

In last year's Report I 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. I 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.

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. Whilst we currently do not have any assets on the CIV platform later this year we will move some of our global equities on to one of the providers on the CIV. We have already benefitted from lower fees on our BlackRock global equities, through the purchasing power of the CIV.

I would like to take the opportunity to remind you that we do now have an extensive members' website which is proving popular. This has details on the benefits available from the Local Government Pension Scheme and it also enables members to do self-service for some functions and also to analyse various options relating to their retirement. For example it enables members to model options relating to how they contribute to their pension scheme and on when they want to retire. I would encourage you to explore the new website. It can be accessed at www.hounslowpensions.co.uk.

The year has also seen a worrying increase in Cyber Security issues around the world, and it is something we are very aware of managing the risks within the Pension Fund.

This will be my last report prior to the new administration next year. I have enjoyed my time immensely and I would like to thank my fellow Councillors and representatives on the Pension Fund Panel and the Pension Board, the officers led by Lorelei Watson, Head of Treasury, Pensions and Capital, and the advisers, Allenbridge for their support and advice.

Finally our Annual General Meeting this year is being held on Monday 27th November 2017, here at the Civic Centre, in the Council Chamber and all are welcome. However, due to the smaller seating capacity of the Council Chamber than the previous venue of the Conference Centre, we will be accepting people on a ticket only basis and it will be first come, first served. So look out for the invitation details in the autumn Newsletter. I hope to see you there.

Councillor Mukesh Malhotra,
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
	Black Rock Investment Management (UK) Ltd
	CBRE Global Investors
	Fidelity
	Columbia Threadneedle Investments
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

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.

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

Cllr. Mukesh Malhotra (Lab) - Chair

Cllr. Surinder Purewal (Lab)

Cllr. John Todd (Con)

Cllr. Shantanu Rajawat (Lab)

Cllr. Guy Lambert (Lab)

Observer members

Esther Rey (Staff representative)
David Wylson (Pensioner representative)

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.

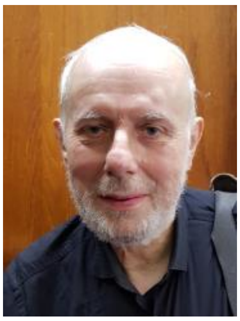
The Pension Board is an oversight body. It does not replace existing governance arrangements or the role of our Pension Fund Panel.

Pension Board Members

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 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated March 2017.

2016 Valuation Results

The 2016 valuation certified a common contribution rate of 21.0% 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;
- plus 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 slightly due to the accrual of new benefits as well as a decrease in the real discount rate underlying the valuation funding model. Overall, we expect that the funding level should be slightly higher than at 31 March 2016 although the ongoing cost is likely to have increased due to lower real discount rates. The next actuarial valuation is due as at 31 March 2019 and the resulting contribution rates required by the employers will take effect from 1 April 2020.

Alison Hamilton FFA, Partner, Barnett Waddingham LLP

Reports by Fund Managers: BlackRock

	12 months to 31/03/2017 % p.a.	3 years to 31/03/2017 % p.a.	5 years to 31/03/2017 % p.a.
Main portfolio	23.6	10.8	10.6
Benchmark	24.0	11.7	11.2
Market Advantage portfolio	7.5	5.2	4.9
Benchmark	3.9	4.0	4.0

Investment Strategy

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

Asset Allocation			
	31.03.17	31.03.16	Benchmark
UK Corporate Bonds	17.06%	18%	18%
UK Index Linked	3.03%	4.9%	6%
UK Equities	41.64%	31%	32%
Overseas Equities	37.41%	42.9%	44%
Cash	0.86%	3.3%	0%
Total Scheme	100%	100%	100%
VALUE	£391,534,182	£383,358,784	
MARKET ADVANTAGE PORTFOLIO	£24,045,046	£22,361,261	-

Notes:
The current benchmark was effective from November 2016. 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 2016/17

At 31 March 2017, 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. It is worth noting that at the end of March, the global equity allocation was switched to a passive mandate.

Our outlook for 2017 is for steady positive global growth as developed market output gaps narrow, albeit towards lower potential growth rates. The growth outlook is stronger than recent years and the risks around growth are no longer skewed to the downside.

Although the UK economy has been surprisingly resilient since the EU referendum in June, partly due to the sharp depreciation of Sterling, we maintain our view that the impact of BREXIT has been deferred rather than entirely reduced.

The Eurozone and Japan will still lag in growth terms, however weaker currencies and firmer data suggest the Eurozone could experience a cyclical upswing in 2017, though downside risks around politics and the banking section loom large. In the coming months we continue to see European political risks due to Brexit and regional elections to cause economic drag and risk off sentiment from investors.

Reports by Fund Managers: Aberdeen

Despite the period including a host of unexpected political and economic events and outcomes, from Brexit to Trump, investment returns have been spectacular, particularly given the continued backdrop of insipid economic growth across developed economies. Equities have dominated, led by international markets that were boosted by sterling weakness; bond returns outstripped reasonable expectations but trailed powerful equity returns. The Hounslow portfolio rose by 20.1% over the year and by 9 % per annum over 3 years.

Performance

Although the modest tilt towards equities has been beneficial for the Hounslow Fund, the adverse impact of market allocation within international equities has been a persistent headwind behind the investment performance of the fund relative to its benchmark over the past three years. The US market has been a dominant weighting within the index, and although there are many good companies listed in the US, our approach to international equities has been to invest in a more diverse, balanced manner, in particular favouring the developing economies in Asia and Latin America. However, the US market has been persistently strong, often led by tech and internet companies, a segment where the Fund has had limited exposure. The portfolio has seen positive contributions from a variety of stocks, including electronics companies Taiwan Semiconductor and Samsung Electronics, as well as Japanese chemical business Shin-Etsu and US consumer stocks Pepsico and Philip Morris. However, laggards over the three year period included commodity stocks Vale, a Brazilian iron ore business; and Canadian fertiliser producer Potash Corp of Saskatchewan, both of which struggled as commodity prices fell. Standard Chartered, the UK bank with an Asian profile, has recovered well over the past year, but earlier problems still impact the longer term performance. Weir, a UK industrial business, has also seen a recovery after earlier weakness. The Fund has seen a positive effect from the lower exposure to fixed income versus the benchmark. Further, the bond portfolio, invested mostly in corporate bonds, has outperformed, aided by modest exposure to high yield and emerging market government debt. The Fund's investment in the Aberdeen Diversified Growth Fund, which has a very broad strategy, has outperformed its objective, by 2.8% pa over 3 years and 6.9% over 12 months.

Strategy

Our overall approach through the year was one of caution. The economic and political outlook was uncertain in Europe and the US and the influence of the Chinese economy on global sentiment and growth unclear. Despite this, we were comfortable with a modest tilt towards equities, which offered reasonable value by comparison to bonds, but the profile within the international equity portfolio was a clear reflection of the better value that we could see from developing economies, where the economic growth story was typically more positive.

Outlook 2016/2017

It is easy to feel uncertain about the outlook for domestic and international economies, given the capacity for political shocks and the still modest growth expectations for many regions. Interest rate increases, being led by the US, could stifle economic progress; and political ambitions can easily be stymied by unexpected popular responses which could affect policy. However, there are sufficient positives for us to remain modestly optimistic that equity markets will advance, as the earlier discomfort in a number of developing economies seems to be receding. We may see a little volatility, but are encouraged by enthusiasm for India and China and confidence that developed markets political landscape will not upset momentum.

Reports by Fund Managers: Fidelity

Introduction

The Multi Asset Income Fund ('MAI') aims to deliver a stable and sustainable income stream by seeking natural income from a range of asset classes. It has exposure to a range of securities globally (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. MAI is very well diversified with a wide opportunity set and a high level of flexibility to allocate across asset classes and regions. By reacting to changing market conditions and adapting the mix of asset classes, the investment team aims to achieve stability of income, capital growth and, during times of market stress, capital protection.

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

Performance

Performance to March 2017	Capital Return	Income Return	Total Return
Q1 2017	2.2%	1.0%	3.2%
Since inception (03/11/2016)	2.7%	1.2%	3.9%

The fund generated positive total returns and delivered natural income in line with its objectives over the period. The strong performance of equity markets supported returns from growth assets, as did the underweight position in UK investment grade bonds.

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. These include income generating assets such as investment grade bonds and cash; growth generating assets such as equities; and assets with both income and growth generating properties (hybrid assets) such as high yield bonds. Within these three asset classes, the fund can also invest in 'opportunistic' holdings such as loans, infrastructure and property.

Positioning and Outlook

We continue to favour growth and hybrid assets over income generating assets. We recently trimmed the allocation to equities and investment grade bonds, and added to positions in hybrid assets. We maintain a neutral view on equities as economic data remains strong. However, markets are vulnerable to various risks in the coming months. Therefore, we maintain some equity market hedges, specifically in the UK and European markets, which should protect the portfolio against market volatility. Markets took the US Federal Reserve's (Fed) decision to raise interest rates by 0.25% in March in their stride. This was perhaps unsurprising, with US financial conditions having loosened between December and March. Despite this, US business loan growth slowed over the past six months, raising some worries among investors.

We do not believe this is a concern for now, as slower loan growth has been driven by relatively low demand for loans rather than by banks tightening lending standards. Although this may be an issue for the Fed, we are unlikely to find out until May, when committee members will start signalling the potential for a June rate rise. With inflation having stabilised as the oil price has drifted lower, there is relatively little for markets to get excited about in the meantime. Elsewhere, asset classes such as European financial equities could perform strongly if the European Central Bank starts to become more aggressive.

Pension Fund Accounts

For the year ending 31 March 2017

This section gives a summary of the Pension Scheme's income and expenditure during the financial year ending 31 March 2017. 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	2015/16	Notes
	£m	£m	
Dealings with members, employers and others directly involved in the fund			
Contributions			6
From Employers	25.9	26.5	
From Employees	8.2	8.3	
Individual Transfers in from Other Pension Funds	1.9	1.3	
	36.0	**36.1**	
Benefits			7
Pensions	(28.7)	(27.9)	
Commutation, Lump Sum Retirement and Death-Benefits	(7.2)	(5.2)	
Payments to and on Account of Leavers			
Individual Transfers out to Other Pension Funds	(1.6)	(2.4)	
Refunds to Members Leaving Service	(0.2)	0.0	
	(37.7)	**(35.5)**	
Net Additions/(Withdrawals) from Dealings with Members	**(1.7)**	**0.4**	
Management Expenses	**(2.9)**	**(2.3)**	8
Returns on Investments			9
Investment Income	23.1	20.1	
Taxes on Income (Irrecoverable Witholding Tax)	(0.1)	(0.2)	
	23.9	**19.9**	
Profit and Loss on Disposal of Investments and Change in the Market Value of Investments	147.4	(44.1)	14
Net Returns on Investments	**170.4**	**(24.2)**	
Net (Increase)/Decrease in the Net Assets available for Benefits During the Year	**165.8**	**(26.1)**	
Opening Net Assets of the Scheme	779.2	805.3	
Closing Net Assets of the scheme	945.0	779.2	

Pension Fund Accounts

For the year ending 31 March 2017

Net assets statement as at 31 March 2017

	31 Mar 17	31 Mar 16	Note
	£m	£m	
Investment Assets			16
Equities	440.4	493.8	
Pooled investment Vehicles	485.1	252.6	
Property	0.0	0.0	
Private Equity	5.4	6.3	
Derivative Contracts:			
Forward Currency Contracts	0.0	7.8	
Cash (Money Market Fund)	4.9	7.6	
Other Investment Balances:			
Income Due	3.2	3.2	
Amounts Receivable for Sale of Investments	5.3	2.7	
Cash Deposits	8.4	14.1	
	952.7	**788.1**	
Investment Liabilities			
Derivative Contracts:			
Forward Currency Contracts	0.0	(7.9)	16
Amounts Payable for Purchase of Investments	(10.6)	(2.6)	14
Net Value of Investments Assets	**942.1**	**777.6**	
Current Assets	4.7	3.0	18
Current Liabilities	(1.8)	(1.4)	19
Net Assets of the Fund Available to Fund Benefits at the Period End	**945.0**	**779.2**	

Notes to the Pension Fund Accounts 2016/17

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).

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 45 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 2017:

	31 Mar 17	31 Mar 16
	No.	No.
Contributors	7,132	6,663
Pensioners	6,025	6,021
Deferred Pensioners	8,018	7,643
Total	**21,175**	**20,327**

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 2016. 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 1.7% to 27.7% 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 2017

Note 2—Basis of preparation of financial statements

The Statement of Accounts summarise the Fund's transactions for the financial year 2016/17 and its position at 31 March 2017. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (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.

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 2016/17, £0.4m of fees is based on such estimates (2015/16: £0.4m).

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.

h) Foreign Currency Transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the sport 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 2017

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 ae 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 2017

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 16**
Administering Authority	27.8	28.0
Scheduled Bodies	4.6	4.8
Admitted Bodies	1.7	2.0
Total	**34.1**	**34.8**
By Type		
	31 Mar 17	**31 Mar 16**
Employees' Normal Contributions	8.2	8.3
Employer's Contributions:		
Normal Contributions	17.3	17.7
Deficit Recovery Contributions	8.4	8.4
Augmentation Contributions	0.2	0.4
Total	**34.1**	**34.8**

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 16**
Administering Authority	32.6	30.0
Scheduled Bodies	1.2	1.1
Admitted Bodies	2.1	2.0
Total	**35.9**	**33.1**
By Type		
	31 Mar 17	**31 Mar 16**
Pensions	28.7	27.9
Commutation and lump sum retirement benefits	6.7	4.6
Lump sum death benefits	0.5	0.6
Total	**35.9**	**33.1**

Pension Fund Accounts

For the year ending 31 March 2017

Note 8 – Management expenses

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

	31 Mar 17	31 Mar 16
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 2015/16) and £0.8m in respect of transaction costs (£0.8m in 2015/16) 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 2015/16).

Note 9—Investment income

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

	2016/17	2015/16
	£m	£m
Equity Dividends	13.5	15.1
Pooled Investments - unit trusts and other managed funds	9.6	5.0
Interest on cash deposits	0.0	0.0
	23.1	**20.1**

Note 10—Investment management arrangements

As at 31 March 2017, 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

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 2017

The market value and proportion of investments managed by each fund manager at 31 March 2017 was as follows:

		31-Mar-17			31-Mar-16	
Fund Manager	**Mandate**	**Market Value**			**Market Value**	
		£m	**%**		**£m**	**%**
Aberdeen	Global Balanced	370.5	39.3		319.3	41.1
BlackRock	Global Balanced	415.7	44.1		405.8	52.2
Fidelity	Income Fund	104.2	11.1		0.0	0.0
Threadneedle	Property	28.3	3.0		27.4	3.5
CBRE	Property	17.3	1.8		17.4	2.2
LAMIT	Property	0.5	0.1		0.5	0.1
Private Equity	Various	5.4	0.6		6.7	0.9
Other	Internal	0.2	0.0		0.5	0.1
		942.1	**100.0**		**777.6**	**100.0**

Note 11—Equities

	31 Mar 17		31 Mar 16
	£m		£m
UK Investments (listed)	285.4		245.2
Overseas Investments (listed):			
North America	64.0		148.8
Japan	16.7		14.1
Europe	34.0		35.1
Other	40.3		50.6
	440.4		**493.8**

The top 10 equity holdings of the London Borough of Hounslow Pension Fund worldwide as at 31 March 2017 were:

	Bid value		% of Total Fund	% of Equities
	£m		%	%
British American Tobacco	20.1		2.1	4.6
Royal Dutch Shell 'B' Shares	17.4		1.8	4.0
Unilever Plc	12.5		1.3	2.8
Compass Group Plc	11.7		1.2	2.7
Rio Tinto	10.0		1.1	2.3
Relx Plc	9.7		1.0	2.2
Shire Plc	8.5		0.9	1.9
Auto Trader Group Plc	7.8		0.8	1.8
Lloyds Banking Group	7.4		0.8	1.7
Wolseley	6.7		0.7	1.5
	111.8		**12.7**	**20.1**

Pension Fund Accounts

For the year ending 31 March 2017

Note 12—Pooled investments

	31 Mar 17	31 Mar 16
	£m	£m
Pooled Investments		
Bond Fund	109.3	131.6
Overseas Equity Fund	146.3	0.0
Income Fund	103.8	0.0
Index Linked	33.2	35.9
Mid Cap & Smaller Companies	11.9	8.2
Property	46.1	45.2
Absolute Return	34.5	31.7
	485.1	**252.6**

The top 10 pooled investment holdings of the London Borough of Hounslow Pension Fund worldwide as at 31 March 2017 were:

	Market value	% of Total Fund	% of Pooled Investments
	£m	%	%
Blackrock Pensions Aquila Life World (ex UK) Fund	132.1	14.0	27.2
Fidelity Investments Multi Asset Income Fund	103.8	11.0	21.4
Blackrock All Stocks Corporate Bond	66.9	7.1	13.8
Aberdeen Fund Managers Corporate Bond	31.6	3.3	6.5
Columbia Threadneedle Property Fund	28.4	3.0	5.9
BlackRock Aquila Life Market Advantage Fund	24.0	2.5	4.9
Aberdeen Fund Managers Sterling Index Linked Bond	21.3	2.3	4.4
CBRE UK Property Fund	17.3	1.8	3.6
Blackrock Emerging Markets Index Fund	14.3	1.5	2.9
BlackRock Index Linked A Bond Fund	11.9	1.3	2.5
	451.6	**47.8**	**93.1**

Note 13—Private Equity

	31 Mar 17		31 Mar 16
	£m		£m
Private equity	5.4		6.2
	5.4		**6.2**

The top 10 private equity holdings of the London Borough of Hounslow Pension Fund worldwide as at 31 March 2017 were:

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For the year ending 31 March 2017

	Valuation	% of Total Fund	% of Private Equity
	£m	%	%
Environmental Technologies Fund	1.5	0.2	27.8
Advent IV	1.0	0.1	18.5
Schroder Private Equity Fund of Funds IV	0.8	0.1	14.8
The Chandos Fund (YFM)	0.7	0.1	13.0
Schroder Private Equity Fund of Funds III	0.6	0.1	11.1
Schroder Private Equity Fund of Funds II	0.3	0.0	5.6
Hg Capital 5th Fund	0.2	0.0	3.7
The Capital Fund (YFM)	0.2	0.0	3.7
Schroder Private Equity Fund of Funds	0.1	0.0	1.9
Advent III	0.0	0.0	0.0
	5.4	**0.6**	**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 2016
	£m	£m	£m	£m	£m
Fixed Interest Securities	0.0				
Equities	440.4	174.0	(328.7)	101.3	493.8
Pooled Investments	439.4	401.2	(214.9)	45.9	207.2
Pooled Property Investments	46.1			0.9	45.2
Private Equity	5.4		(1.7)	0.8	6.3
Cash Funds	4.9		(2.7)		7.6
	936.2	**575.2**	**(548.0)**	**148.9**	**760.1**
Derivative Contracts:					
Forward currency contracts	(0.1)	0.6			(0.1)
Total	**936.1**	**575.8**	**(548.0)**	**148.9**	**760.0**
Other Investment Balances:					
Cash deposits	8.4			(2.4)	14.1
Amount receivable for sales of investments	5.3				2.7
Investment income due	3.3				3.3
Spot FX contracts					
Amounts payable for purchases of investments	(10.6)				(2.5)
Net Investment Assets	**942.5**	**575.8**	**(548.0)**	**146.5**	**777.6**

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For the year ending 31 March 2017

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 outsourced 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-16		
	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			493.8		
Pooled investments	485.1			252.6		
Private equity	5.4			6.3		
Cash (Money Market Fund)	4.9			7.6		
Derivative contracts	0.0			7.8		
Short term deposits		8.4			14.1	
Other investment balances	8.5			5.9		
Debtors		0.3			0.4	
Cash at bank		4.4			2.6	
Total Financial assets	**944.3**	**13.1**	**0.0**	**774.0**	**17.1**	**0.0**
Financial liabilities						
Derivative contracts	0.0			(7.9)		
Other investment balances				(2.6)		
Outstanding settlements	(10.6)					
Creditors			(1.8)			(1.4)
Total Financial liabilities	**(10.6)**	**0.0**	**(1.8)**	**(10.5)**	**0.0**	**(1.4)**
Net Assets	**933.7**	**13.1**	**(1.8)**	**763.5**	**17.1**	**(1.4)**

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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 2016
	£m	£m
Financial assets		
Fair value through profit and loss	148.9	(44.6)
Loans and receivables	0.0	0.0
Total Financial assets	**148.9**	**(44.6)**
Financial liabilities		
Fair value through profit and loss	0.0	0.4
Financial liabilities measured at amortised cost	(2.4)	0.1
Total Financial liabilities	**(2.4)**	**0.5**
Total	**146.5**	**(44.1)**

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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	31-Mar-17				31-Mar-16			
	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 though profit and loss	450.9	467.8	16.8		494.2	258.1	11.4	763.7
Loans and receivables	4.3	17.5	0.1		7.7	19.7		27.4
Total Financial assets	**455.2**	**485.3**	**16.9**	**957.4**	**501.9**	**277.8**	**11.4**	**791.1**
Financial liabilities								
At fair value though		(10.6)		(10.6)		(10.5)		(10.5)
At amortised cost	(1.8)			(1.8)	(1.4)			(1.4)
Total Financial liabilities	**(1.8)**	**(10.6)**	**0.0**	**(12.4)**	**(1.4)**	**(10.5)**	**0.0**	**(11.9)**
Total	**453.4**	**474.7**	**16.9**	**945.0**	**500.5**	**267.3**	**11.4**	**779.2**

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.

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 2017	Percentage Change	Value on increase	Value on decrease
	£m	%	£m	£m
UK Equities	285.2	9.5	312.3	258.1
Overseas Equities	301.3	10.1	331.7	270.9
Total Bonds	109.3	8.3	118.4	100.2
ILG	33.2	12.2	37.3	29.1
Diversifying Strategies	103.8	5.2	109.2	98.4
Cash	11.4	0.0	11.4	11.4
Property	46.1	2.5	47.3	44.9
Alternatives	51.8	5.2	54.5	49.1
Total Investment Assets	**942.1**		**1,022.0**	**862.2**

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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 2017	Percentage Change	Value on increase	Value on decrease
	£m	%	£m	£m
Overseas Equities	301.3	8.4	326.6	276.0
Alternatives	1.8	9.0	2.0	1.6
Total Investment Assets	**303.1**		**328.6**	**277.6**

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 £4.9m in this fund at 31 March 2017. Money market funds have AAA ratings from leading ratings agencies. This fund is the £4.9m 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 £6.4m in a call account with Standard Chartered at 31 March 2017. The balance of £2.0m invested cash is held with the Fund's Custodian, Northern Trust. As at 31 March 2017 both Standard Chartered and Northern Trust had a credit rating of AA-. These funds make up the £8.4m 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 2017. 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		2015/16
	£m		£m
Present Value of Promised Retirement Benefits	(1,561.3)		(1,314.0)
Fair Value of Scheme Assets (bid value)	922.5		777.5
Net Liability	**(638.8)**		**(536.5)**

Assumptions

To assess the value of the Fund's liabilities at 31 March 2017, the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2016 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-16
Retiring today	Males	21.4	22.1
	Females	25.0	26.7
Retiring in 20 years	Males	23.5	24.4
	Females	27.4	29.1

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Financial Assumptions

The main financial assumptions are:

	31-Mar-17	31-Mar-16
RPI increases	3.6	3.2
CPI increases	2.7	2.4
Salary increases	4.2	4.2
Pension increases	2.7	2.4
Discount rate	2.8	3.7

Note 20 – Current assets

	2016/17	2015/16
	£m	£m
Debtors:		
Amount due from the London Borough of Hounslow	0.0	0.0
Contributions due - employers	0.2	0.3
Contributions due - employees	0.1	0.1
Cash balances	4.4	2.6
Total	**4.7**	**3.0**

Debtors
Debtors represent those sums of money owed to the Pension Fund for contributions due from scheduled and admitted bodies for 2016/17, for which payment had not been received as at 31 March 2017.

Note 21 – Current liabilities

	2016/17	2015/16
	£m	£m
Creditors:		
London Borough of Hounslow	1.2	0.7
Investment Management Fees	0.3	0.4
PAYE tax due to HMRC	0.3	0.3
Total	**1.8**	**1.4**

Creditors
Creditors represent those sums of money owed by the Pension Fund for fund management services received during 2016/17, for which payment had not been made as at 31 March 2017 and the amounts due to HMRC, in respect of tax and NI contributions, as well as the Council's General Account as at 31 March 2017.

Investment Commitments
The Council is committed to making further investments in private equity funds. The total value of commitments outstanding at 31 March 2017 was £0.2m (£0.2m at 31 March 2016).

Note 22 – Additional voluntary contributions

The Pension Fund's Additional Voluntary Contributions (AVC) provider is currently Standard Life. Additional voluntary contributions of £76k were paid directly to Standard Life during the year (2015/16: £63k). 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 2017 was £468k. A further £123k is held within Equitable Life, the former provider of AVCs to fund members. The value of these in 15/16 was £135k.

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 2016/17, 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 2017 £1.2m was owed to the General Account by the Pension Fund (At 31 March 2016 £0.7m was owed to the General Account by the Pension Fund).

The Pension Fund incurred administrative expenses of £0.5m in 2016/17 (£0.6m 2015/16) for Council officers' time spent in administering the Fund.

No other material transactions with related parties of the Fund during 2016/17 were identified.

The Pension Administration Strategy

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

Scheme Employers – Schedule Bodies
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
Carillion Integrated Services
Caterservice
Chartwells
City West
Cucina
Cultural Community Solutions
Edwards & Ward
EVO
Fusion
HAY
Hounslow Highways - Ringway
Hounslow Music Service
Lampton 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 Adminis-tering Authority and Scheme Employer, as well as all other Scheme Employers in the London Borough of Hounslow Pension Fund.

The number of Scheme Employers with contributing pension members administered by the London Borough of Hounslow as the Administering Authority of the Local Government Pension Scheme (LGPS) has continued to trend upwards.

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.

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 addi-tional voluntary contributions you choose to make. Contact Capita if you require any information about the Hounslow Pension Scheme.

Service Level Performance 2016/17

The amount of casework received during 2016/17 was 17% higher than that of 2015/16, 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	530	10	97.74
Others - Contractual	1,292	Variable	97.91
Member Correspondence	4,780	10	98.66
Retirement	465	10	96.77
Deferred/Refund	1,351	10	97.26
Employer Estimates	157	5	97.45
Payment of Pension & Lump Sum	510	5	97.84
Death	454	Variable	93.83
IFA and Transfers In	317	10	97.48
New Entrants	1,214	10	100.00
Total	**11,070**		**97.49**

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, increasing from 94.50% in 2015/16 to 97.49% in 2016/17.

Year	SLA Performance
2015/16	94.50%
2014/15	91.45%
2013/14	98.73%

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