



London Borough  
of Hounslow

# Hounslow Pension Fund



Annual Report 2016

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

Welcome to our Annual Report. I am particularly pleased to report that our Pension Fund has continued to thrive despite the considerable volatility within the markets over the last few years. At the end of March 2016 our assets were £779m, which was slightly down from the £805m a year earlier. However, volatility in the markets continues, and at the end of June 2016 we were again over £800m, at £830m, which is the largest we have ever been.

2015 was a busy year for us. In partnership with Capita, our outsourced administration provider, we launched our members' website. 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. We did a significant marketing exercise for the launch of the website at the start of the year, and will again be demonstrating it at our Annual General Meeting in November. I would highly recommend that you take the opportunity to explore the new website. It can be accessed at [www.hounslowpensions.co.uk](http://www.hounslowpensions.co.uk).

In last year's Report I referred to the strategic review of our asset allocation that we had implemented. 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. We have carried out a detailed procurement exercise, which was completed this summer. Whilst we are still invested in our current managers, we are moving some of our funds to the new income manager to sustain our cashflow, and increase our resilience. We will be introducing our new manager at our Annual General Meeting.

We have again been active on corporate governance issues this year. Following our success in being an original co-filer for the climate resolutions

for BP and Shell, which were successfully passed by shareholders with votes of over 98% for both, we have been a co-filer for the strategic resilience resolution for Rio Tinto this year. Again this was successfully passed, attracting support of over 99% of votes cast, the highest level of support for a shareholder resolution yet in the UK.

Finally you may have read in the press about Government proposals for all 89 local government pension funds to pool their assets. We all had to make submissions to the Government in July of this year. There will be 8 national pools. We are in the London Collective Investment Vehicle (CIV) with the 32 other London boroughs and the City of London. We are waiting feedback from the DCLG on the CIV's operational proposals. If agreed, we propose to merge our liquid assets when suitable funds are operational within the London CIV.

Our Annual General Meeting this year is being held on Monday 21st November 2016, here at the Civic Centre, and all are welcome. I hope to see you there.

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

# Management of the scheme

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

## Statement of Investment Principles

The Government requires that all pension schemes issue a Statement of Investment Principles giving information on the various factors that the Pension Scheme takes into account when making its investments. This Statement also covers our approach to social, environmental and ethical issues.

We also provide a Funding Strategy Statement. This Statement is a summary of our approach to our funding liabilities. Both statements are available on our new website [www.hounslowpensions.co.uk](http://www.hounslowpensions.co.uk).

## 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, Columbia Threadneedle and CBRE and internally managed private equity portfolios.

The performance of our managers is closely monitored by Council officers and is also subject to review by Councillors on the Pension Fund Panel.

# Management of the scheme

## ROLE OF THE PENSION FUND PANEL

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

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

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

## Pension Fund Panel



Cllr. Mukesh Malhotra (Lab) - Chair



Cllr. Surinder Purewal (Lab)



Cllr. John Todd (Con)



Cllr. Shantanu Rajawat (Lab)



Cllr. Guy Lambert (Lab)

## Observer members

Harkiran Sandhu (Staff representative)  
David Wylson (Pensioner representative)  
Jackie Willis (Employer 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 2013

## Introduction

The last full triennial valuation of the London Borough of Hounslow Pension Fund was carried out as at 31 March 2013 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated March 2014.

## 2013 Valuation Results

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.

## 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.

## Assumptions

The assumptions used to value the benefits at 31 March 2013 are summarised below:

Assumption	31/03/2013
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

## Asset Value and Funding Level

The smoothed market value of the Fund's assets as at 31 March 2013 for valuation purposes was £684.2m which represented 85% of the Fund's accrued liabilities at that date, allowing for future increases in pay and pensions in payment.

## Updated position since the 2013 valuation

Since March 2013, investment returns have been lower than assumed at the 2013 triennial valuation. The liabilities will have increased slightly due to the accrual of new benefits however an increase in the real discount rate underlying the 2013 valuation funding model will have lessened that increase.

On a basis consistent with the 2013 valuation approach, we expect that the funding level should remain similar to that at 31 March 2013.

The final reported position however will depend on the assumptions adopted as part of the 2016 valuation process.

The next actuarial valuation is due as at 31 March 2016 and the resulting contribution rates required by the employers will take effect from 1 April 2017.

# Reports by Fund Managers: BlackRock

Performance to March 2016	Hounslow	Benchmark return	Difference
1 year (%)	-2.9%	-1.2%	-1.7%
3 years (% pa)	5.3%	6.1%	-0.8%
5 years (% pa)	6.5%	7.0%	-0.5%
10 years (% pa)	6.7%	5.7%	1.0%

## Investment Performance

Over the twelve month period ended 31 March 2016 the invested assets of the Scheme achieved a return of -2.91% underperforming the benchmark return of -1.51%. Over the three year period ended 31 March 2016 the invested assets of the Scheme achieved a return of 5.36% p.a., underperforming the benchmark return of 5.91% p.a. Over the five year period ended 31 March 2016 the invested assets of the Scheme achieved a return of 6.53% p.a. underperforming the benchmark return of 7.04% p.a.

## Investment Strategy

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

Asset Allocation			
	31.03.15	31.03.16	Benchmark
UK Corporate Bonds	16.8%	18%	18%
UK Index Linked	4.8%	4.9%	6%
UK Equities	33%	31%	32%
Overseas Equities	45%	42.9%	44%
Cash	0.4%	3.3%	0%
Total Scheme	100%	100%	100%
VALUE	£394,068,244	£383,358,784	
MARKET ADVANTAGE PORTFOLIO	£22,455,856	£22,361,261	-

### 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 on 5 August 2013

The immediate outlook is dominated by the United Kingdom's decision to leave the European Union which will bring long-lasting political and economic consequences. The next year is likely to be a challenging one for equity investors bringing with it the anxiety that extreme share price volatility creates. There is no playbook for Britain's exit from the EU, but it is one of many unusual challenges investors face at present: China uncertainty, technological disruption and negative interest rates to name but three. The history of such events is that they create opportunities for the medium term investor.

In Fixed Income we expect the British Pound to fall in value and the magnitude and volatility to dictate further responses from the Bank of England. The bank will likely cut its 0.5% policy interest rate to zero, and return to a policy of quantitative easing rather than pushing rates into negative territory. We also expect the leave vote to bring an immediate sell-off in credit spreads.

In global markets, we see declines in global shares and other risk assets. Yet indiscriminate selling could translate into opportunities. U.S. and Asia markets are only marginally affected by the UK's exit from the EU, and are supported by a mix of easy monetary policy and economic growth.

## Positioning and Outlook for 2014/15

At 31 March 2016, asset allocation was marginally biased towards matching assets with overweight positions in UK Index-Linked Gilts and cash. At the same time we had underweight exposure to Overseas equities, relative to the benchmark.



# Reports by Fund Managers: Aberdeen

Performance to March 2016	Hounslow	Benchmark return	Difference
1 year (%)	-4.9%	-1.2%	-3.7%
3 years (% pa)	2.2%	6.1%	-3.9%
5 years (% pa)	5.7%	7.0%	-1.3%
10 years (% pa)	5.9%	5.7%	0.2%

The past 12 months has been more difficult environment for investment, with the overall volatility leaving the average pension fund falling in value slightly as weak equity markets have a more adverse impact than bonds, particularly developed market government debt, which benefited further from being seen as safe havens. The Hounslow portfolio achieved -4.7% over the year and 2.4% per annum over 3 years, but trailed the benchmark.

## Performance

Equities struggled to achieve positive returns; favoured markets were the more predictable and trusted countries, notably the US, which was one of very few that ended the year ahead. All other regions fell in value, including major markets such as the UK, Japan and continental Europe. The relative weakness of sterling favoured UK investors, with returns even less attractive in local currencies. The Hounslow portfolio benefited from performance in fixed income, the stock selection and strategy both providing small gains, but the selection and allocation across the UK and international equity strategies had the main impact on returns. Poor trading in its core Asian operations hurt Standard Chartered, which is held in both equity portfolios; we have been supportive of the resultant management changes. In global equities, the common themes where performance was impacted were exposure, directly or indirectly, to developing economies; as well as commodities and industrials. French supermarket Casino has operations in Latin America, where sentiment is weak. MTN is a South African mobile phone company, which has been impacted by the weak oil price affecting Nigeria, one of its main markets. The better performing positions in the portfolio included consumer staples such as Japan Tobacco, Philip Morris and Pepsico. The UK equity portfolio also lost ground against its domestic index, which fell by 4%. Several companies reported tougher trading and lower profits, for

example Rolls Royce, the aero engines business, educational publisher Pearson and specialist pumps company Weir Group. The acquisition of BG Group by Shell boosted performance while Persimmon, a housebuilder and Sage, a software firm were also positives.

## Strategy

Through the past year we have remained cautious at an overall policy level, reflecting concerns over the stimulus policies being adopted by developed economies, led by the US and the outlook for China. Within equity selection, we have had a deliberate approach which focused on companies that overall offer diversified revenue streams, and individually demonstrated strong competitive advantages, opportunities for growth and have robust financing structures.

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.

## Outlook 2016/2017

There is a feeling of Groundhog Day when assessing the outlook for the global economy; we continue to be cautious, but see some signs for optimism, but this was the same feeling twelve months ago and even further back. Of course, the one thing that is definitely NOT more of the same is the outcome of the EU referendum and Brexit; the economic impact is very uncertain, for the UK economy as well as more widely. The US presidential election might also give cause for investor caution. Investors globally are trying to assess the likely interest rate policy moves by the US Fed, which will influence the global economy and markets. Volatility is certain to be a feature of the year ahead, so our commitment to a measured approach and good quality businesses is even more essential.

# Pension Fund Accounts

For the year ending 31 March 2016

This section gives a summary of the Pension Scheme's income and expenditure during the financial year ending 31 March 2016. 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 2016

	2015/16	2014/15	Notes
	£m	£m	
<b>Dealings with members, employers and others directly involved in the fund</b>			
<b>Contributions</b>			6
From Employers	26.5	26.8	
From Employees	8.3	8.4	
Individual Transfers in from Other Pension Funds	1.3	0.8	
	<b>36.1</b>	<b>36.0</b>	
<b>Benefits</b>			7
Pensions	(27.9)	(27.5)	
Commutation, Lump Sum Retirement and Death-Benefits	(5.2)	(5.2)	
<b>Payments to and on Account of Leavers</b>			
Individual Transfers out to Other Pension Funds	(2.4)	(1.8)	
Refunds to Members Leaving Service	0.2	0.0	
	<b>(35.7)</b>	<b>(34.5)</b>	
<b>Net Additions/(Withdrawals) from Dealings with Members</b>	<b>0.4</b>	<b>1.5</b>	
<b>Management Expenses</b>	<b>(2.3)</b>	<b>(2.9)</b>	8
<b>Returns on Investments</b>			9
Investment Income	20.1	18.2	
Taxes on Income (Irrecoverable Withholding Tax)	(0.2)	(0.2)	
	<b>19.9</b>	<b>18.0</b>	
<b>Profit and Loss on Disposal of Investments and Change in the Market Value of Investments</b>	<b>(44.1)</b>	<b>67.7</b>	14
<b>Net Returns on Investments</b>	<b>(24.2)</b>	<b>85.7</b>	
<b>Net (Increase)/Decrease in the Net Assets available for Benefits During the Year</b>	<b>(26.1)</b>	<b>84.3</b>	
<b>Opening Net Assets of the Scheme</b>	<b>805.3</b>	<b>721.0</b>	
<b>Closing Net Assets of the scheme</b>	<b>779.2</b>	<b>805.3</b>	

# Pension Fund Accounts

For the year ending 31 March 2016

## Net assets statement as at 31 March 2016

	31 Mar 16	31 Mar 15	Note
	£m	£m	
<b>Investment Assets</b>			16
Equities	493.8	536.2	
Pooled investment Vehicles	252.6	232.6	
Property	0.0	0.0	
Private Equity	6.3	7.3	
Derivative Contracts:			
Forward Currency Contracts	7.8	3.6	
Cash (Money Market Fund)	7.6	4.9	
Other Investment Balances:			
Income Due	3.2	3.3	
Amounts Receivable for Sale of Investments	2.7	3.7	
Cash Deposits	14.1	18.0	
	<b>788.1</b>	<b>809.6</b>	
<b>Investment Liabilities</b>			
Derivative Contracts:			
Forward Currency Contracts	(7.9)	(3.6)	16
Amounts Payable for Purchase of Investments	(2.6)	(3.1)	14
<b>Net Value of Investments Assets</b>	<b>777.6</b>	<b>802.9</b>	
Current Assets	3.0	3.2	18
Current Liabilities	(1.4)	(0.8)	19
<b>Net Assets of the Fund Available to Fund Benefits at the Period End</b>	<b>779.2</b>	<b>805.3</b>	

## Notes to the Pension Fund Accounts 2015/16

### 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 2015/16 and the underlying statutory powers underpinning the Scheme, namely, the Public Service Pensions Act 2013 and The Local Government Pensions Scheme (LGPS) Regulations 2013 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2009 (as amended).

# Pension Fund Accounts

For the year ending 31 March 2016

## b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. There are 42 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 2016:

	31 Mar 16	31 Mar 15
	No.	No.
Contributors	6,663	6,574
Pensioners	6,021	5,941
Deferred Pensioners	7,643	7,351
<b>Total</b>	<b>20,327</b>	<b>19,866</b>

## 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 2013. Currently, employer contribution rates range from 12% to 23.8% 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 2016

## Note 2—Basis of preparation of financial statements

The Statement of Accounts summarise the Fund's transactions for the financial year 2015/16 and its position at 31 March 2015. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The accounts have been prepared on an accruals basis, apart from transfer values which have been accounted for on a cash basis.

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

## Note 3—Summary of significant accounting policies

### Fund Account – Revenue Recognition

#### a) Contribution Income

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

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

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

#### b) Transfers to and from other schemes

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

#### c) Investment Income

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

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

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

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

# Pension Fund Accounts

For the year ending 31 March 2016

## 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 2015/16, £0.4m of fees is based on such estimates (2014/15: £0.5m).

The costs of the Council's in-house management team are charged direct to the fund and a proportion of the Council's costs representing management time spent by officers on investment management is also charged to the fund.

## Net Assets Statement

### g) Financial Assets

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



# Pension Fund Accounts

For the year ending 31 March 2016

## **h) Foreign Currency Transactions**

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

## **i) Derivatives**

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

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

## **j) Cash and Cash Equivalent**

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

## **k) Financial Liabilities**

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

## **l) Actuarial Present Value of Promised Retirement Benefits**

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

## **m) Additional Voluntary Contributions**

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

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

# Pension Fund Accounts

For the year ending 31 March 2016

## 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 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, an increase in the discount rate assumption would result in a decrease in the pension liability. An increase in assumed earnings would increase the value of liabilities and an increase in assumed life expectancy would increase the liability
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such, there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £7.3m. There is a risk that this investment may be understated or overstated in the accounts.

# Pension Fund Accounts

For the year ending 31 March 2016

## 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 16	31 Mar 15
Administering Authority	28.0	25.5
Scheduled Bodies	4.8	7.6
Admitted Bodies	2.0	2.1
<b>Total</b>	<b>34.8</b>	<b>35.2</b>

### By Type

	31 Mar 16	31 Mar 15
Employees' Normal Contributions	8.3	8.4
Employer's Contributions:		
Normal Contributions	17.7	17.4
Deficit Recovery Contributions	8.4	8.5
Augmentation Contributions	0.4	0.9
<b>Total</b>	<b>34.8</b>	<b>35.2</b>

## Note 7—Benefits payable

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

### By Authority

	31 Mar 16	31 Mar 15
Administering Authority	30.0	27.3
Scheduled Bodies	1.1	3.6
Admitted Bodies	2.0	1.8
<b>Total</b>	<b>33.1</b>	<b>32.7</b>

### By Type

	31 Mar 16	31 Mar 15
Pensions	27.9	27.5
Commutation and lump sum retirement benefits	4.6	4.6
Lump sum death benefits	0.6	0.6
<b>Total</b>	<b>33.1</b>	<b>32.7</b>

# Pension Fund Accounts

For the year ending 31 March 2016

## Note 8 – Management expenses

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

	31 Mar 16	31 Mar 15
Administration Expenses	0.6	0.7
Oversight and Governance	0.2	0.3
Investment Management Expenses	1.5	1.9
<b>Total</b>	<b>2.3</b>	<b>2.9</b>

Since the performance related fee arrangement started, no performance related fees have been paid to the Fund's investment managers. In addition to the above, £0.8m was incurred in respect of transaction costs in 2015/16 (£0.9m in 2014/15).

Included in the administration expenses above are audit fees for the pension fund of £21k (£21k for 2014/15).

## Note 9—Investment income

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

	2015/16	2014/15
	£m	£m
Equity Dividends	15.1	14.0
Pooled Investments - unit trusts and other managed funds	5.0	3.4
Interest on cash deposits	0.0	0.7
<b>Total</b>	<b>20.1</b>	<b>18.2</b>

# Pension Fund Accounts

For the year ending 31 March 2016

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Investment Management Expenses	1.5	1.9
<b>Total</b>	<b>2.3</b>	<b>2.9</b>

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	£m	£m
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Pooled Investments - unit trusts and other managed funds	5.0	3.4
Interest on cash deposits	0.0	0.7
<b>Total</b>	<b>20.1</b>	<b>18.2</b>

## Note 10—Investment management arrangements

As at 31 March 2016, the investment portfolio was mainly managed by two external managers, Aberdeen Asset Management Plc & BlackRock Investment 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.

The market value and proportion of investments managed by each fund manager at 31 March 2016 was as follows:

# Pension Fund Accounts

For the year ending 31 March 2016

Fund Manager	Mandate	31-Mar-16		31-Mar-15	
		Market Value		Market Value	
		£m	%	£m	%
Aberdeen	Global Balanced	319.3	41.1	337.1	42.0
BlackRock	Global Balanced	405.8	52.2	416.9	51.9
Threadneedle	Property	27.4	3.5	24.3	3.0
CBRE	Property	17.4	2.2	16.2	2.0
LAMIT	Property	0.5	0.1	0.4	0.0
Private Equity	Various	6.7	0.9	8.0	1.0
Other (Cash Deposits)	Internal	0.5	0.1	0.0	0.0
		<b>777.6</b>	<b>100.0</b>	<b>802.9</b>	<b>100.0</b>

## Note 11—Equities

	31 Mar 16	31 Mar 15
	£m	£m
UK Investments (listed)	245.2	233.9
Overseas Investments (listed):		
North America	148.8	139.2
Japan	14.1	17.5
Europe	35.1	99.9
Other	50.6	45.7
	<b>493.8</b>	<b>536.2</b>

The top 10 equity holdings of the London Borough of Hounslow Pension Fund worldwide as at 31 March 2016 were:

	Bid value	% of Total Fund	% of Equities
	£m	%	%
Astrazeneca	15.0	1.9	3.0
British American Tobacco	13.3	1.7	2.7
Royal Dutch Shell 'B' Shares	11.2	1.4	2.3
Compass Group Plc	10.5	1.3	2.1
Imperial Brands Plc	10.2	1.3	2.1
Shire Plc	8.3	1.1	1.7
Relx Plc	8.1	1.0	1.6
Lloyds Banking Group	7.7	1.0	1.6
Royal Dutch Shell 'A' Shares	7.5	1.0	1.5
Comcast Corporation	7.5	1.0	1.5
	<b>99.3</b>	<b>12.7</b>	<b>20.1</b>



# Pension Fund Accounts

For the year ending 31 March 2016

## Note 12—Pooled investments

	31 Mar 16	31 Mar 15
	£m	£m
UK Pooled Investments		
Bond Fund	131.6	110.7
Index Linked	35.9	40.8
Mid Cap & Smaller Companies	8.2	8.1
Property	45.2	41.0
Absolute Return	31.7	31.9
	<b>252.6</b>	<b>232.6</b>

The top 10 pooled investment holdings of the London Borough of Hounslow Pension Fund worldwide as at 31 March 2016 were:

	Market value	% of Total Fund	% of Pooled Investments
	£m	%	%
Merrill Lynch Fund All Stocks Corporate Bond	68.9	8.8	27.3
Columbia Threadneedle Property Fund	27.4	3.5	10.8
Aberdeen Fund Managers Corporate Bond	24.6	3.2	9.7
Aberdeen Global Services Corporate Bond	22.4	2.9	8.9
BlackRock Aquila Life Market Advantage Fund	22.3	2.9	8.8
BlackRock - Index Linked A	18.5	2.4	7.3
Aberdeen Global Funds II Sterling Bond Fund Z2	17.4	2.2	6.9
CBRE Lionbrook UK Property Fund	17.4	2.2	6.9
Aberdeen Strategic Bond	10.6	1.4	4.2
Aberdeen Diversified Growth Fund	9.4	1.2	3.7
	<b>238.9</b>	<b>30.7</b>	<b>94.6</b>

## Note 13—Private Equity

	31 Mar 16	31 Mar 15
	£m	£m
Private equity	6.3	7.3
	<b>6.3</b>	<b>7.3</b>

The top 10 private equity holdings of the London Borough of Hounslow Pension Fund worldwide as at 31 March 2016 were:

# Pension Fund Accounts

For the year ending 31 March 2016

	Valuation	% of	% of
		Total Fund	Private Equity
	£m	%	%
Environmental Technologies Fund	2.4	0.3	38.7
Advent IV	1.1	0.1	17.7
The Chandos Fund (YFM)	0.7	0.1	11.3
Schroder Private Equity Fund of Funds IV	0.6	0.1	9.7
Schroder Private Equity Fund of Funds III	0.5	0.1	8.1
Hg Capital 5th Fund	0.4	0.1	6.5
Schroder Private Equity Fund of Funds II	0.3	0.0	4.8
The Capital Fund (YFM)	0.2	0.0	3.2
Schroder Private Equity Fund of Funds	0.1	0.0	1.6
Advent III	0.0	0.0	0.0
	<b>6.3</b>	<b>0.8</b>	<b>101.6</b>

## Note 14 – Reconciliation of movement in investments

	Market Value as at 31 March 2016	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 2015
	£m	£m	£m	£m	£m
Fixed Interest Securities	0.0				0.0
Equities	493.8	261.2	(257.2)	(46.4)	536.2
Pooled Investments	207.2	71.1	(53.1)	(2.3)	191.5
Pooled Property Investments	45.2			4.2	41.0
Private Equity	6.3	0.1	(1.0)	(0.1)	7.3
Cash Funds	7.6	48.7	(46.1)	0.0	5.0
	<b>760.1</b>	<b>381.1</b>	<b>(357.4)</b>	<b>(44.6)</b>	<b>781.0</b>
Derivative Contracts:					
Forward currency contracts	(0.1)	0.4	(0.9)	0.4	0.0
<b>Total</b>	<b>760.0</b>	<b>381.5</b>	<b>(358.3)</b>	<b>(44.2)</b>	<b>781.0</b>
Other Investment Balances:					
Cash deposits	14.1			0.1	18.0
Amount receivable for sales of investments	2.7				2.0
Investment income due	3.3				3.3
Spot FX contracts	0.0				0.0
Amounts payable for purchases of investments	(2.5)				(1.4)
<b>Net Investment Assets</b>	<b>777.6</b>	<b>381.5</b>	<b>(358.3)</b>	<b>(44.1)</b>	<b>802.9</b>

# Pension Fund Accounts

For the year ending 31 March 2016

## Note 15 – Analysis of derivatives

### Objectives and policies for holding derivatives

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

### Forward foreign currency

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

## Note 16a— Classification of financial instruments

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

	31-Mar-16			31-Mar-15		
	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
<b>Financial assets</b>						
Equities	493.8			536.2		
Pooled investments	252.6			232.6		
Private equity	6.3			7.3		
Cash (Money Market Fund)	7.6			4.9		
Derivative contracts	7.8			3.6		
Short term deposits		14.1			18.0	
Other investment balances	5.9			5.3		
Debtors		0.4		1.7	1.1	
Cash at bank		2.6			2.1	
<b>Total Financial assets</b>	<b>774.0</b>	<b>17.1</b>	<b>0.0</b>	<b>791.6</b>	<b>21.2</b>	<b>0.0</b>
<b>Financial liabilities</b>						
Derivative contracts	(7.9)			(3.6)		
Other investment balances	(2.6)			(1.7)		
Outstanding settlements						
Creditors			(1.4)			(2.2)
<b>Total Financial liabilities</b>	<b>(10.5)</b>	<b>0.0</b>	<b>(1.4)</b>	<b>(5.3)</b>	<b>0.0</b>	<b>(2.2)</b>
<b>Net Assets</b>	<b>763.5</b>	<b>17.1</b>	<b>(1.4)</b>	<b>786.3</b>	<b>21.2</b>	<b>(2.2)</b>

# Pension Fund Accounts

For the year ending 31 March 2016

## 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 2016	31 March 2015
	£m	£m
<b>Financial assets</b>		
Fair value through profit and loss	(44.6)	64.8
Loans and receivables	0.0	0.4
<b>Total Financial assets</b>	<b>(44.6)</b>	<b>65.2</b>
<b>Financial liabilities</b>		
Fair value through profit and loss	0.4	0.5
Financial liabilities measured at amortised cost	0.1	0.0
<b>Total Financial liabilities</b>	<b>0.5</b>	<b>0.5</b>
<b>Total</b>	<b>(44.1)</b>	<b>65.7</b>

## 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.

# Pension Fund Accounts

For the year ending 31 March 2016

	31-Mar-16				31-Mar-15			
	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
<b>Financial assets</b>								
At fair value though	494.2	258.1	11.4	763.7	544	229.9	11.3	785.2
Loans and receivables	7.7	19.7		27.4	27.6			27.6
<b>Total Financial assets</b>	<b>501.9</b>	<b>277.8</b>	<b>11.4</b>	<b>791.1</b>	<b>571.6</b>	<b>229.9</b>	<b>11.3</b>	<b>812.8</b>
<b>Financial liabilities</b>								
At fair value though		-10.5		-10.5	-6.7			
At amortised cost	-1.4			-1.4	-0.8			
<b>Total Financial liabilities</b>	<b>-1.4</b>	<b>-10.5</b>	<b>0</b>	<b>-11.9</b>	<b>-7.5</b>	<b>0</b>	<b>0</b>	<b>-7.5</b>
<b>Total</b>	<b>500.5</b>	<b>267.3</b>	<b>11.4</b>	<b>779.2</b>	<b>564.1</b>	<b>229.9</b>	<b>11.3</b>	<b>805.3</b>

## 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.

# Pension Fund Accounts

For the year ending 31 March 2016

## 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 WM Company, has determined that the following movements in market price risk are reasonably possible for the 2015/16 reporting period:

Asset type	Value as at 31 March 2016 £m	Percentage Change %	Value on increase £m	Value on decrease £m
UK Equities	245.2	11.0	272.2	218.2
Overseas Equities	248.6	10.2	274.0	223.2
Total Bonds	131.6	6.2	139.8	123.4
ILG	35.9	9.4	39.3	32.5
Cash	25.1	0.0	25.1	25.1
Property	45.2	2.3	46.2	44.2
Alternatives	46.0	4.4	48.0	44.0
<b>Total Investment Assets</b>	<b>777.6</b>		<b>844.5</b>	<b>710.7</b>



# Pension Fund Accounts

For the year ending 31 March 2016

## 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 WM Company, the Council considers the following likely volatility associated with foreign exchange rate movements:

Currency exposure - asset type	Value as at 31 March 2015 £m	Percentage Change %	Value on increase £m	Value on decrease £m
Overseas Equities	286.8	6.2	304.8	268.9
Alternatives	1.9	6.2	2.0	1.8
<b>Total Investment Assets</b>	<b>288.7</b>		<b>306.8</b>	<b>270.7</b>

### 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 £7.6m in this fund at 31 March 2016. Money market funds have AAA ratings from leading ratings agencies. This fund is the £7.6m 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 £9.4m in a call account with Standard Chartered at 31 March 2016. The balance of £4.7m invested cash is held with the Fund's Custodian, Northern Trust. As at 31 March 2016 both Standard Chartered and Northern Trust had a credit rating of AA-. These funds make up the £14.1m cash deposits the Net Assets Statement.

# Pension Fund Accounts

For the year ending 31 March 2016

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# Pension Fund Accounts

For the year ending 31 March 2016

## Note 19 – Actuarial present value of promised retirement benefits

The table below shows the total net liability of the Fund as at 31 March 2016. 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

	2015/16	2014/15
	£m	£m
Present Value of Promised Retirement Benefits	(1,314.0)	(1,356.7)
Fair Value of Scheme Assets (bid value)	777.5	789.3
<b>Net Liability</b>	<b>(536.5)</b>	<b>(567.4)</b>

### Assumptions

To assess the value of the Fund's liabilities at 31 March 2016, the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2013 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 2013. The post retirement mortality tables adopted are the SIPA tables with a multiplier of 110%, for males and 85% for females. These base tables are then projected using the CMI 2012 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 15	31 Mar 14
Retiring today	Males	22.1	22.0
	Females	26.6	26.5
Retiring in 20 years	Males	24.2	24.1
	Females	28.9	28.8

### Financial Assumptions

The main financial assumptions are:

	31 Mar 15	31 Mar 14
RPI increases	3.2	3.6
CPI increases	2.4	2.8
Salary increases	4.2	4.6
Pension increases	2.4	2.8
Discount rate	3.3	4.5

# Pension Fund Accounts

For the year ending 31 March 2016

Note 20—Current assets	2015/16	2014/15
	£m	£m
Debtors:		
Amount due from the London Borough of Hounslow	0.0	0.6
Contributions due - employers	0.3	0.5
Contributions due - employees	0.1	0.1
Cash balances	2.6	2.1
<b>Total</b>	<b>3.0</b>	<b>3.3</b>

## Debtors

Debtors represent those sums of money owed to the Pension Fund for contributions due from scheduled and admitted bodies for 2015/16, for which payment had not been received as at 31 March 2016.

Note 21—Current liabilities	2015/16	2014/15
	£m	£m
Creditors:		
London Borough of Hounslow	0.7	0.0
Investment Management Fees	0.4	0.5
PAYE tax due to HMRC	0.3	0.3
<b>Total</b>	<b>1.4</b>	<b>0.8</b>

## Creditors

Creditors represent those sums of money owed by the Pension Fund for fund management services received during 2015/16, for which payment had not been made as at 31 March 2016 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 2016.

## Investment Commitments

The Council is committed to making further investments in private equity funds. The total value of commitments outstanding at 31 March 2016 was £0.2m (£2.0m at 31 March 2015).

## Note 22 – Additional voluntary contributions

The Pension's Additional Voluntary Contributions (AVC) providers are Standard Life. Additional voluntary contributions of £63k were paid directly to Standard Life during the year (2014/15: £28k). 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 2016 was £307k.

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 2015/16, 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 2016 £0.7m was owed to the General Account by the Pension Fund (At 31 March 2015 £0.6m was owed to the Pension Fund by the General Account). The Pension Fund incurred administrative expenses of £0.6m in 2015/16 (£0.5m 2014/15) for Council officers' time spent in administering the Fund. No other material transactions with related parties of the Fund during 2015/16 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
Feltham Community College
Floreat School
Gumley House Catholic School
Heston Community School
Isleworth & Syon School for Boys
Kingsley Academy
Lampton School
Nishkam School West London
Norwood Green Junior School
Oakhill Academy
Oriel Academy
Reach Academy
Rivers Academy
Space Studio
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
Cucina
Cultural Community Solutions
Edwards & Ward
EVO
Fusion
HAY
Hounslow Highways - Ringway
NVIRO
Serco
SITA
St Gobain - Jewsons
Wilson Jones Catering
WLGMP - Spectra

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

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

The 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.

The table to the left shows the employers in the Pension Fund as at 31 March 2016.

# Pension Fund Administration

## Introduction

2015/16 was a year of improvement and enhancement with a focus on the overall member experience.

The new pension scheme website, [www.hounslowpensions.co.uk](http://www.hounslowpensions.co.uk), was proudly launched in January 2016 which provides the opportunity for member self-service and a greater understanding of the LGPS generally. An automated interface has been implemented between the pension administration system and the main Council's HR/Payroll system which eliminates much of the manual intervention that was impacting the service.

In November we held our AGM, which was attended by over 250 members of the pension scheme and included a demonstration of the new website as well as speakers from Columbia Threadneedle and our pension scheme administrators Capita Employee Benefits (CEB).

A very well attended employers forum was held in February 2016 where the actuary, CEB and officers from the London Borough of Hounslow explained the roles and responsibilities to representatives of our employers and emphasised the importance of adhering to the Pensions Administration Strategy.

Most importantly from a member experience perspective the performance statistics as well as the service provided by CEB has recovered to expected levels over the last year. Officers from LBH have worked closely with senior management at CEB to ensure both the quality and timeliness of pension queries are being dealt with and responded to at a high standard as well as the need for all statutory and regulatory requirements to be met.

## 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.

## Contact details for Capita Employee Benefits

The administration team for Hounslow is now based in Darlington as part of a further service improvement for our pension scheme members. The Darlington location forms part of Capita's public sector hub and specifically for Hounslow pension scheme members this site is benefits from increased levels of LGPS experience from the management to the administrators.

The London Borough of Hounslow Pension Fund

Capita Employee Benefits

PO BOX 195,

Mowden Hall,

Darlington,

DL1 9FS

Telephone: 01325 746031

Email: [hounslow.pensions@capita.co.uk](mailto:hounslow.pensions@capita.co.uk)

[www.hounslowpensions.co.uk](http://www.hounslowpensions.co.uk)



# Pension Fund Administration

## Service Level Performance 2015/16

The statistics set out in the table illustrate the concerted efforts the team has made to recover the administration service to the high levels expected levels following the difficulties that were experienced with service delivery during the 2014/15 scheme year.

The amount of casework received during the 2015/16 year is consistent with 2014/15; we have however seen a material increase in the amount of cases processed within the contractual timescale. The overall service level attainment percentage, across all work types has increased from 91.45% to 94.50%

Description	Number of cases	SLA Working Days	Percentage achieved against SLA
Employee Estimate	503	10	100%
Others - contractual	1,262	Variable	99.68%
Member Correspondence	4,055	10	99.58%
Retirement	383	10	98.96%
Deferred / Refund	997	10	98.79%
Employer Estimate	166	5	99.40%
Payment of Pension and Lump Sum	295	5	98.31%
Death	450	Variable	98.22%
IFA and Transfer In	455	10	97.14%
New Entrants	888	10	48.65%
<b>Total</b>	<b>9,454</b>	<b>Variable</b>	<b>94.50%</b>

The overall performance level of 94.5% is an improvement from the previous year however still lower than the expected levels. The main reason for this was a review of the New Entrants category which identified process failures resulting in a high number of SLA fails.

As a comparison the previous years' SLA performance is given in the table on the right.

Year	SLA Performance
2014/15	91.45%
2013/14	98.73%
2012/13	98.66%

## Pension surgery sessions

Capita are available at the Civic Centre every three weeks for pension surgeries for contributing members at the Civic Centre. To book an appointment please email [pensions@hounslow.gov.uk](mailto:pensions@hounslow.gov.uk).

## 2016 Pension Fund AGM

This years pension fund AGM will be held on Monday 21 November from 2pm at the Civic Centre. Look out for further details of the AGM in your annual newsletter.