Hounslow Pension Fund

Annual Report 2015

Index

INTRODUCTION BY COUNCILLOR MUKESH MALHOTRA, CHAIRMAN HOUNSLOW PENSION FUND

Welcome to our Annual Report. I am pleased that our Pension Fund has continued to grow, despite the challenging times and considerable market volatility. At the end of March 2015 our assets were over £800m, at £805m, at that time the largest we had ever been. There are, however, performance and funding issues we need to address. Despite this it is important to remember that the Fund is a long term asset, and should be seen as such. Over 10 years we are in the top 6th percentile of all local authority pension funds. We continue to look to review our strategy to ensure our Pension Fund protects our pensioners, our current employees and our future pensioners. So with the volatility since March of this year we are working with our advisers to minimise our risks, and are reviewing our asset allocation.

April 2014 saw the introduction of the new Local Government Pension Scheme for our members, and I am very pleased to see it has bedded in well for Hounslow. We continue to work in partnership with Capita, our outsourced administration provider.

One of the areas we are now developing with them is a members' website, which will enable members to do self-service for some functions and also to analyse various options relating to their retirement. It will enable members to do modelling on options relating to how they contribute to their pension scheme and when they want to retire. We will demonstrate our new web site at our Annual General Meeting in November. I would highly recommend that you take the opportunity to see how the changes will impact on yourselves. The details for benefits for our members are on our Hounslow Pensions web page, and there is a specific link to them on page 34 of this Annual Report.

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. We have continued to work on the review and have now implemented the restructure. So we have invested some money into diversified growth funds run by Aberdeen and by BlackRock, our fund managers. These seek to maintain returns, whilst reducing volatility. We have also invested in two pooled property funds. As part of this restructure we moved our property portfolio into Threadneedle Property Trust. We have undertaken this restructure to diversify our investment asset base to increase our resilience, without reducing our performance or taking on additional risk. We are now 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. This will contribute to making our fund sustainable to meet future needs. Again we will be covering these issues in more depth at our Annual General Meeting.

Our Annual General Meeting this year is being held on the 16th November 2015, here at the Civic Centre, and all are welcome. I hope to see you there.

Management of the Scheme

PENSION FUND TRUSTEES AND ADVISERS

Trustees: Pension Fund Panel of the London Borough of Hounslow

Adviser: Allenbridge Epic

Fund Managers:
Aberdeen Asset Management (UK) Ltd
Black Rock Investment Management (UK) Ltd
CBRE Global Investors
Threadneedle Investments

Banker: National Westminster Bank Plc

Custodian of assets:
The Northern Trust Company

Actuary: Barnett Waddingham LLP

External auditors: KPMG

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

ADMINISTRATION

Investment:
Assistant Director Strategic Finance, London Borough of Hounslow

Pension benefits: Capita Employee Benefits

PENSION FUND PANEL

The chairman of the panel is Councillor Mukesh Malhotra.

Other members are:

Councillor Surinder Purewal (Lab)
Councillor Shantanu Rajawat (Lab)
Councillor John Todd (Con)
Councillor Guy Lambert (Lab)

Observer members are:

Mike Smith (Staff Representative)
David Wylson (Pensioner Representative)
Jackie Willis (Employer Representative)

ROLE OF THE PENSION FUND PANEL

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

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

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

This is on our website: **www.hounslow.gov.uk/pension**

Investment Management of the Pension Fund

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

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. The full Statement is available on our website at www.hounslow.gov.uk/pension

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

Performance

Investment performance of the Pension Fund assets compared to the benchmark of Local Authority Pension Scheme Performance (WM Local Authority Average):

In the three years to March 2015 we were the 65th best performing fund out of 81. In the five years to March 2015 we were the 36th best performing fund out of 79. In the ten years to March 2015 we were the 6th best performing fund out of 74.

	Hounslow	Benchmark	LA Average
1 year to 31 March 2015	11.20%	13.60%	13.20%
3 years to 31 March 2015	10.10%	11.10%	11.00%
5 years to 31 March 2015	8.80%	8.80%	8.70%
10 years to 31 March 2015	9.10%	7.90%	7.90%

Actuary’s Statement as at 31 March 2015

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 employer 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 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.

Assumptions

The assumptions used to value the benefits at 31 March 2013 are summarised in the following table:

Assumption	*31 March 2015*
Discount rate	6.0% per annum
Pensions increases	2.7% per annum
Salary increases	2.7% per annum until 31 March 2015 and 4.5% per annum thereafter
Mortality	S1PA tables with a multiplier of 110% for males and 85% for females, with projected improvements in line with the 2012 CMI model allowing for a long term rate of improvement of 1.5% per annum
Retirement	Each member retires at a single age, weighted based on when each part of their pension is payable unreduced
Commutation	Members will convert 50% of the maximum possible amount of pension into cash

Updated position since the 2013 valuation

Since March 2013, investment returns have been higher than assumed at the 2013 triennial valuation. The liabilities will have increased slightly due to the accrual of new benefits and due to the decrease in the real discount rate underlying the valuation funding model. Overall, we expect that the funding level should be slightly lower than at 31 March 2013.

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. We will continue to monitor the financial position of the Fund on a regular basis.

Alison Hamilton FFA

Partner, Barnett Waddingham LLP

Fund Managers Report – Aberdeen

Performance to March 2015	Hounslow	Benchmark return	Difference
1 year (%)	9.4%	14.1%	-4.7%
3 years (% pa)	9.3%	11.5%	-2.2%
5 years (% pa)	8.7%	8.9%	-0.2%
10 years (% pa)	9.1%	8.2%	+0.9%

Investment performance was positive for the past 12 months, continuing the trend of recent years, where easy monetary policy from leading central banks around the world encouraged investors to be less risk averse. Global equity markets were led higher by another strong return from the US and the dollar, and China. The Hounslow portfolio achieved [9.4%] over the year and [9.3%] per annum over 3 years, but trailed the benchmark.

Performance

Global equity markets have been the dominant feature behind investment returns. Although there have been some very strong returns from stocks around the world helping the Hounslow investment performance, for example US healthcare business CVS Health, Asian insurer AIA, Japanese robotics firm Fanuc and Swiss drug company Novartis, other areas in the equity portfolio have hindered overall returns. The portfolio's exposure to Resources stocks affected returns, as the oil price collapse late in 2014 impacts on profitability, Brazilian companies reflected a challenging domestic economic picture, with sentiment against stocks such as Banco Bradesco, a well-financed domestic retail bank. Vale, an iron ore miner, was hurt by worries over global demand which has affected the global price of the commodity. Although the Chinese economy showed increasing signs of slowing, this wasn't reflected in the stock market, which powered ahead. Some of these themes were also present in the UK equity portfolio, for example Weir Group, an equipment supplier and Wood Group, an oil industry services company, which fell back on oil price weakness. Standard Chartered, the UK-listed bank with a strong presence in Asia was out of favour, amid concerns of the region's slowdown, and these negatives were only partly offset by further strong performances from Prudential, Persimmon and Pearson (an education and publishing business). Fixed income portfolios contributed positively, however, led by credit.

Strategy 2014/2015

Although equity and bond markets have reflected investor enthusiasm over the year, our primary stance has been one of caution, with a view that stock markets were increasingly divorced from the reality that corporate profitability in developed markets, particularly the US, was close to all-time highs and the capacity for further profits growth less clear. The question of unsustainable growth rates in China, affecting the wider region, was also one that we felt had to be explored carefully, leaving us wary of chasing markets ever higher. We therefore remained focused on identifying long term investments, often leading businesses in their market or industry, looking for robustly financed and well run operations. We continue to diversify the equity portfolio, looking to avoid excess concentration in any single market.

Asset Allocation

	31.03.15	31.03.14	Benchmark
	%	%	%
Fixed Interest	13.7	13.1	17.6
Index Linked	6.7	6.1	5.9
UK Equities	34.2	39.6	34.7
Overseas Equities	41.6	39.1	41.8
Cash	3.8	2.1	0.0
TOTAL PORTFOLIO	100.0	100.0	100
VALUE	**334,705,513**	**297,593,500**	
DIVERSIFIED GROWTH PORTFOLIO	**9,437,811**		

Outlook 2015/2016

The outlook for the global economy is finely balanced; the rate of economic growth across developed markets and leading Asian countries has been below the long term average, and in certain countries it has been disappointing, leading to sustained stimulus by central banks. The three challenges in place at present are the timing and speed of interest rate changes in the US and the UK; the impact of any sustained slowdown in China and the authorities' policy response; and whether Greece might derail European economic progress. We will continue to pursue good quality businesses that offer attractive long term investment opportunities.

Fund Managers Report – BlackRock

Performance to March 2015	Hounslow	Benchmark return	Difference
1 year (%)	13.2%	14.0%	-0.8%
3 years (% pa)	11.2%	11.7%	-0.5%
5 years (% pa)	9.0%	9.1%	-0.1%
10 years (% pa)	9.6%	8.3%	+1.3%

Investment Performance

Over the twelve month period ended 31 March 2015 the main portfolio of the Scheme achieved a return of 13.2% slightly underperforming the benchmark return of 14.0%. The market advantage portfolio achieved an 8.8% return outperforming its benchmark by 4.8%.

Over the three year period ended 31 March 2015 the main portfolio of the Scheme achieved a return of 11.2% p.a., again slightly underperforming the benchmark return of 11.7% p.a. Over the five year period ended 31 March 2015 the main portfolio of the Scheme achieved a return of 9.0% p.a. matching the benchmark return of 9.0% p.a.

Investment Strategy

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

Asset Allocation

	31.03.14 %	31.03.15 %	Benchmark %
UK Corporate Bonds	**18.5**	**16.8**	**18.0**
UK Index Linked	**3.1**	**4.8**	**6.0**
UK Equities	**32.9**	**33.0**	**32.0**
Overseas Equities	**45.3**	**45.0**	**44.0**
Cash	**0.3**	**0.4**	**0.0**
TOTAL MAIN PORTFOLIO	**100.0**	**100.0**	**100.0**
VALUE	**£347,447,965**	**£394,068,244**	
MARKET ADVANTAGE PORTFOLIO	**£20,633,333**	**£22,455,856**	**-**

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

Positioning and Outlook for 2014/15

At 31 March 2015, asset allocation was marginally biased towards growth assets with a moderate overweight position in both Overseas and UK equities, and a correspondingly underweight exposure to UK index-linked gilts, relative to the benchmark.

The US Federal Reserve is (reluctantly) ending a long period of abnormally low rates. The world's premier central bank and its peers have quashed volatility, helped lift asset prices to great heights and had us obsess about monetary policy. As we near a US exit from zero interest rates, traditional drivers of portfolio returns such as productivity and earnings growth are set to reassert themselves.

As we shift our focus to fundamentals, we see some key indicators flashing red. Productivity growth appears to be flagging. This affects growth rates, monetary policy and, ultimately, corporate margins. We expect to see increased differentiation between companies that are failing to deliver on expectations and those that are performing ahead of consensus.

US stocks look pricey and corporate margins high. We prefer cyclical sectors such as consumer discretionary, tech and financials over bond proxies (utilities and consumer staples). We like equities in Europe (banks) and Japan (financials and exporters) on weak currencies and monetary stimulus. We favour EM equities in countries with reform momentum or monetary easing.

Pension Fund Accounts

This section gives a summary of the Pension Scheme's income and expenditure during the financial year ending 31 March 2015. 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.

	2014/15	2013/14	Note
	£m	£m	
Dealings with members, employers and others directly involved in the fund			
Contributions:			6
From Employers	26.8	25.2	
From Employees	8.4	7.9	
Individual Transfers in from Other Pension Funds	0.8	3.9	
	36.0	**37.0**	
Benefits			7
Pensions	(27.5)	(25.8)	
Commutation, Lump Sum Retirement and Death Benefits	(5.2)	(6.1)	
Payments to and on Account of Leavers			
Individual Transfers out to Other Pension Funds	(1.8)	(3.1)	
Refunds to Members Leaving Service	0.0	0.0	
	(34.5)	**(35.0)**	
Net Additions/(Withdrawals) from Dealings with Members	**1.5**	**2.0**	
Management Expenses	**(2.9)**	**(3.3)**	8
Returns on Investments			9
Investment Income	18.2	19.3	
Taxes on Income (Irrecoverable Withholding Tax)	(0.2)	(0.2)	
	18.0	**19.1**	
Profit and Loss on Disposal of Investment and Change in the Market Value of Investments	**67.7**	**12.9**	14
Net Return on Investments	**85.7**	**32.0**	
Net Increase in the Net Assets Available for Benefits During the Year	**84.3**	**30.7**	
Opening net assets of the scheme	**721.0**	**690.3**	
Closing net assets of the scheme	**805.3**	**721.0**	

NET ASSETS STATEMENT AS AT 31 MARCH 2015

	31 Mar 15	31 Mar 14	Note
	£m	£m	
Investment Assets			16
Equities	536.2	493.1	11
Pooled Investment Vehicles	232.6	204.6	12
Property	0.0	0.0	
Private Equity	7.3	8.6	13
Derivative Contracts:			
Forward Currency Contracts	3.6	4.8	15
Cash Instruments	4.9	6.2	
Other Investment Balances:			
Income Due	3.3	3.9	
Amounts Receivable for Sale of Investments	3.7	1.2	
Cash Deposits	18.0	7.3	
	809.6	**729.7**	
Investment Liabilities			
Derivative Contracts:			
Forward Currency Contracts	(3.6)	(4.7)	15
Amounts Payable for Purchase of Investments	(3.1)	(2.1)	
Net Value of Investment Assets	**802.9**	**722.9**	10
Current Assets	3.2	0.5	20
Current Liabilities	(0.8)	(2.4)	21
Net Assets of the Fund Available to Fund Benefits at the Period End	**805.3**	**721.0**	

NOTES TO THE PENSION FUND ACCOUNTS 2014/15

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 2014/15 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 62 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 2015:

	2014/15	**2013/14**
	No.	**No.**
Active members	6,574	6,519
Pensioners receiving benefits	5,941	5,800
Deferred Pensioners	7,351	6,923
	19,866	**19,242**

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 2015. 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 2015 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.hounslow.gov.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.

NOTE 2 – BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Statement of Accounts summarise the Fund's transactions for the financial year 2014/15 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 2014/15 (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. 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 2014/15, £0.5m of fees is based on such estimates (2013/14: £0.7m).

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 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).

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 2015 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 £7.3m. There is a risk that this investment may be understated or overstated in the accounts.

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 15	31 Mar 14
Administering Authority	25.5	23.3
Scheduled Bodies	7.6	8.1
Admitted Bodies	2.1	1.7
Total	**35.2**	**33.1**

By Type

	31 Mar 15	31 Mar 14
Employees' Normal Contributions	8.4	8.0
Employer's Contributions:		
Normal Contributions	17.4	15.9
Deficit Recovery Contributions	8.5	9.3
Augmentation Contributions	0.9	0.0
Total	**35.2**	**33.1**

NOTE 7 – BENEFITS PAYABLE

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

By Authority	31 Mar 15	31 Mar 14
Administering Authority	27.3	26.8
Scheduled Bodies	3.6	3.2
Admitted Bodies	1.8	1.8
Total	**32.7**	**31.8**

By Type

Pensions	27.5	25.8
Commutation and lump sum retirement benefits	4.6	5.6
Lump sum death benefits	0.6	0.4
Total	**32.7**	**31.8**

NOTE 8 – MANAGEMENT EXPENSES

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

	31 Mar 15	31 Mar 14
Administration Expenses	0.7	1.5
Oversight and Governance	0.3	0.3
Investment Management Expenses	1.9	1.5
Total	**2.9**	**3.3**

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, £0.9m was incurred in respect of transaction costs in 2014/15 (£0.9m in 2013/14).

Included in the administration expenses above are audit fees for the pension fund of £21k (£21k for 2013/14).

NOTE 9 – INVESTMENT INCOME

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

	2014/15	2013/14
	£m	£m
Equity Dividends	14.0	14.0
Pooled Investments - unit trusts and other managed funds	3.4	3.9
Property	0.0	0.8
Interest on cash deposits	0.7	0.6
	18.2	**19.3**

NOTE 10 – INVESTMENT MANAGEMENT ARRANGEMENTS

As at 31 March 2015, 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 2015 was as follows:

Fund Manager	Mandate	31 Mar 15 Market Value		31 Mar 14 Market Value	
		£m	%	£m	%
Aberdeen	Global Balanced	337.1	41.9	306.5	42.4
BlackRock	Global Balanced	416.9	51.8	368.9	51.0
Threadneedle	Property	24.3	3.0	20.5	2.8
CBRE	Property	16.2	2.0	14.6	2.0
LAMIT	Property	0.4	0.0	0.4	0.1
Private Equity	Various	8.0	1.0	9.2	1.3

Sterling Liquidity Fund	Money Market Fund	0.0	0.0	2.4	0.33
Other (Cash Deposits)	Internal	0.0	0.3	0.4	0.1
		802.9	**100.0**	**722.9**	**100.0**

NOTE 11 – EQUITIES

	31 Mar 15	31 Mar 14
	£m	£m
UK Investments (listed)	233.9	248.3
Overseas Investments (listed):		
North America	139.2	121.4
Japan	17.5	13.8
Europe	99.9	63.6
Other	45.7	46.0
	536.2	**493.1**

The top 10 equity holdings of the London Borough of Hounslow Pension Fund worldwide as at 31 March 2015 were:

	Bid value	% of Total Fund	% of Equities
	£m	%	%
Astrazeneca	15.3	1.9	2.6
British American Tobacco	12.0	1.5	2.1
Imperial Tobacco	10.9	1.4	1.9
HSBC Holdings	10.9	1.4	1.9
Royal Dutch Shell	10.7	1.3	1.8
Compass Group	10.6	1.3	1.8
Rio Tinto	9.6	1.2	1.7
Royal Dutch Shell 'B' Ord	8.1	1.0	1.4
Chevron	8.0	1.0	1.4
Actavis	7.4	0.9	1.3
	103.4	12.8	**17.9**

NOTE 12 – POOLED INVESTMENTS

	31 Mar 15	31 Mar 14
	£m	£m
UK Pooled Investments		
Bond Funds	110.8	103.6
Index Linked	40.8	28.7
Mid Cap & Smaller Companies	8.1	7.7
Property	41.0	35.6
Absolute Return	31.9	29.0
	232.6	**204.6**

The top 10 pooled investment holdings of the London Borough of Hounslow Pension Fund worldwide as at 31 March 2015 were:

	Market value	% of Total Fund	% of Pooled Investments
	£m	%	%
Merrill Lynch Fund All Stocks Corporate Bond	66.3	8.2	28.5
Threadneedle Property Fund	24.3	3.0	10.5
Aberdeen Global STG CRED BD 72 GBP CAPNAV	24.3	3.0	10.4
BlackRock Aquila Life Market Advantage Fund	22.5	2.8	9.7
Aberdeen Global Indexed Linked Bond Fund	21.8	2.7	9.4
BlackRock - Index Linked A	19.0	2.4	8.2
CBRE UK Property Fund	16.2	2.0	7.0
Aberdeen Global Funds II Sterling Bond Fund Z2	15.7	1.9	6.7
Aberdeen Diversified Growth Fund	9.4	1.2	4.1
Aberdeen Global Funds II Sterling Long-dated Bond Z2	4.5	0.6	2.0
	224.0	**27.8**	**96.3**

NOTE 13 – PRIVATE EQUITY

	31 Mar 15	31 Mar 14
	£m	£m
Private equity	7.3	8.6
	7.3	**8.6**

The top 10 private equity holdings of the London Borough of Hounslow Pension Fund as at 31 March 2015 were:

	Valuation	% of Total Fund	% of Private Equity
	£m	%	%
Environmental Technologies Fund	3.0	0.4	41.1
Advent IV	1.1	0.1	15.1
Schroder Private Equity Fund of Funds IV	0.7	0.1	9.6
Schroder Private Equity Fund of Funds III	0.6	0.1	8.2
The Chandos Fund (YFM)	0.6	0.1	8.2
Hg Capital 5th Fund	0.4	0.0	5.5
Schroder Private Equity Fund of Funds II	0.4	0.0	5.5
The Capital Fund (YFM)	0.2	0.0	2.7
Schroder Private Equity Fund of Funds	0.1	0.0	1.4
Advent III	0.1	0.0	1.4
	7.2	**0.8**	**98.7**

NOTE 14 – RECONCILIATION OF MOVEMENT IN INVESTMENTS

	Market Value as at 31 March 2015	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during rhe year	Market Value as at 31 March 2014
	£m	£m	£m	£m	£m
Fixed Interest Securities	0.0	0.0	0.0	0.0	0.0
Equities	536.2	278.5	(275.0)	39.6	493.1
Pooled Investments	191.5	9.3	(6.6)	19.8	169.0
Pooled Property Investments	41.0			5.4	35.6
Private Equity	7.3	0.2	(1.5)		8.6
Cash Funds	5.0	61.2	(62.4)	0.0	6.2
Total	**781.0**	**349.2**	**(345.5)**	**64.8**	**712.5**
Derivative Contracts:					
Forward currency contracts	0.0	0.9	(1.5)	0.5	0.1
Total	**781.0**	**350.1**	**(347.0)**	**65.3**	**712.6**
Other Investment Balances:					
Cash deposits	18.0			0.4	7.3
Amount receivable for sales of investments	2.0				0.9
Investment income due	3.3				3.9
Spot FX contracts	0.0				
Amounts payable for purchases of investments	(1.4)				(1.8)
Net Investment Assets	**802.9**	**350.1**	**(347.0)**	**65.7**	**722.9**

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-15			31-Mar-14		
	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	536.2			493.1		
Pooled investments	232.6			204.6		
Private equity	7.3			8.6		
Cash (Money Market Fund)	4.9			6.2		
Derivative contracts	3.6			4.8		
Short term deposits		18.0			7.3	
Other investment balances	5.3			4.8		
Debtors	1.7	1.1		0.3	0.3	
Cash at bank		2.1			0.2	
Total Financial assets	**791.6**	**21.2**	**0.0**	**722.4**	**7.8**	**0.0**
Financial liabilities						
Derivative contracts	(3.6)			(478)		
Other investment balances	(1.7)			(0.3)		
Outstanding settlements						
Creditors			(2.2)			(421)
Total Financial liabilities	**(5.3)**	**0.0**	**(2.2)**	**(5.10**	**0.0**	**(4.2)**
Net Assets	**786.3**	**21.2**	**(2.2)**	**717.4**	**7.8**	**(4.2)**

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 2015	31 March 2014
	£m	£m
Financial assets		
Fair value through profit and loss	64.8	12.9
Loans and receivables	0.4	0.0
Total Financial assets	**65.2**	**12.9**
Financial liabilities		
Fair value through profit and loss	0.5	0.0
Financial liabilities measured at amortised cost	0.0	0.0
Total Financial liabilities	**0.5**	**0.0**
Total	**65.7**	**12.9**

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.

	31-Mar-15	31-Mar-14

	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	5445.0	229.9	11.3	785.2	504.0	204.6	8.6	717.2
Loans and receivables	27.6			27.6	13.0			13.0
Total Financial assets	**571.6**	**229.9**	**11.3**	**812.8**	**517.0**	**204.6**	**8.6**	**730.2**
Financial liabilities								
At fair value though profit and loss	(6.7)			(6.7)	(6.8)			
At amortised cost	(0.8)			(0.8)	(2.4)			
Total Financial liabilities	**(7.5)**	**0.0**	**0.0**	**(7.5)**	**(9.2)**	**0.0**	**0.0**	**(9.2)**
Total	**564.1**	**229.9**	**11.3**	**805.3**	**507.8**	**204.6**	**8.6**	**721.0**

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.

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 2014/15 reporting period:

Asset type	**Value as at 31 March 2015**	**Percentage Change**	**Value on increase**	**Value on decrease**
	£m	**%**	**£m**	**£m**
UK Equities	238.0	10.4	262.7	213.2
Overseas Equities	305.7	9.6	335.1	276.3
Total Bonds	110.7	6.0	117.4	104.1
ILG	40.8	9.4	44.7	37.0
Cash	29.2	0.0	29.2	29.2
Property	41.0	3.6	42.4	39.5
Alternatives	39.9	5.3	33.6	30.2
Total Investment Assets	**805.3**		**865.1**	**729.5**

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	Percentage Change	Value on increase	Value on decrease
	£m	%	£m	£m
Overseas Equities	286.8	6.2	304.8	268.9
Alternatives	1.9	6.2	2.0	1.8
Total Investment Assets	**288.7**		**306.8**	**270.7**

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 2015. 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 £11.5m in a call account with Standard Chartered at 31 March 2015. The balance of £6.5m invested cash is held with the Fund's Custodian, Northern Trust. As at 31 March 2015 both Standard Chartered and Northern Trust had a credit rating of AA-. These funds make up the £18.0m cash deposits the Net Assets Statement.

<u>NOTE 18 – FUNDING ARRANGEMENTS</u>

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 2013 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 2014. The report and Funding Strategy Statement are both available on the Council's website at

https://www.hounslow.gov.uk

The common rate of contribution for the London Borough of Hounslow from 1 April 2015 is 12.9% of payroll. The common rate of contributions is the rate that, in addition to contributions paid by members, is sufficient to meet 100% of the liabilities arising in respect of service after the valuation.

Adjustments to contributions by individual employers are required to make good the deficiency resulting from the change in funding requirement, i.e. £124.3 million as at the date of the actuarial valuation. The Authority has agreed to keep the employer's contribution stable to meet the 100% funding requirement over a 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 2013	% per annum	Risk Adjusted Discount Rate
Equities	6.9	75%
Gilts	3.3	15%
Cash	3.1	0%
Property	6.0	3%
Corporate Bonds	3.9	7%
Expense Allowance	0.1	0%

Financial Assumptions	2013	2010
Discount rate	6.0% per annum	6.8% per annum
Retail price Inflation (RPI)	3.5% per annum	3.5% per annum
Consumer Price Inflation (CPI)	2.7% per annum	3.0% per annum
Pension and Deferred Pension Increases	2.7% per annum	7.0% per annum
Short -Term Pay Increases	In line with the CPI assumption for the 2 years to 31 March 2015	Pay freeze for those earning over £21k for the 2 years to 31 March 2012
Long -Term Pay Increases	4.5% per annum (RPI plus 1% per annum)	5.0% per annum

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

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

The next actuarial revaluation of the Fund will be as at 31 March 2016 and will be published in 2017.

NOTE 19 – ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

The table below shows the total net liability of the Fund as at 31 March 2015. 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.

	31 Mar 15	31 Mar 14
	£m	£m
Present Value of Promised Retirement Benefits	(1,356.7)	(1,115.3)
Fair Value of Scheme Assets (bid value)	789.3	709.3
Net Liability	**(567.4)**	**(406.0)**

Assumptions

To assess the value of the Fund's liabilities at 31 March 2015, 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

NOTE 20 – CURRENT ASSETS

	31 Mar 15	31 Mar 14
	£m	£m
Debtors:		
Amount due from the London Borough of Hounslow	0.6	0.0
Contributions due - employers	0.5	0.2
Contributions due - employees	0.1	0.1
Cash Balances	2.1	0.2
	3.3	**0.5**

Debtors

Debtors represent those sums of money owed to the Pension Fund for contributions due from scheduled and admitted bodies for 2014/15, for which payment had not been received as at 31 March 2015, and money owed to the Pension Fund from the Council's General Account as at 31 March 2015.

NOTE 21 – CURRENT LIABILITIES

	31 Mar 15	31 Mar 14
	£m	£m
London Borough of Hounslow	0.0	1.7
Management Fee Due	0.5	0.7
PAYE tax due to HMRC	0.3	0.0
	0.8	**2.4**

Creditors

Creditors represent those sums of money owed by the Pension Fund for fund management services received during 2014/15, for which payment had not been made as at 31 March 2015 and money owed to the Council's General Account from the Pension Fund as at 31 March 2015.

Investment Commitments

The Council is committed to making further investments in private equity funds. The total value of commitments outstanding at 31 March 2015 was £2.0m (£2.2m at 31 March 2014).

NOTE 22 – ADDITIONAL VOLUNTARY CONTRIBUTIONS

The Pension's Additional Voluntary Contributions (AVC) providers are Standard Life.

Additional voluntary contributions of £28k were paid directly to Standard Life during the year (2013/14: £16k). 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 2015 was £378k.

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 2014/15, 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 2015 £0.5m was owed by the General Account to the Pension Fund (At 31 March 2014 £1.7m was owed by the Pension Fund to the General Account).

The Pension Fund incurred administrative expenses of £0.5m in 2014/15 (£0.8m 2013/14) for Council officers' time spent in administering the Fund.

No other material transactions with related parties of the Fund during 2014/15 were identified.

The Council has a significant interest in one scheduled body (Hounslow Homes) who are within the Fund. Prior to its cessation in January 2015, the Council received £2.2m in employer contributions, deficit and early retirement costs from this body (2013/14: £3.0m).

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
Gumley House Catholic School
Heston Community School
Isleworth & Syon School for Boys
Kingsley Academy
Lampton School
London Borough of Hounslow
Nishkam School West London
Norwood Green Junior School
Oakhill Academy
Oriel Academy
Reach Academy
Rivers Academy
St Mark's Catholic School
The Green School for Girls
The Rise School
West Thames College
Westbrook Primary School
Scheme Employers – Admitted Bodies
Carillion Integrated Services
Caterservice
Chartwells
Cranstoun
Cucina
Cultural Community Solutions
EVO
Fusion
HAY
Hounslow Highways - Ringway
NVIRO
Serco
SITA
St Gobain - Jewsons
St Mary's University College
WLGMP

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.

Administration

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

Service Standards over the period 1 April 2014 to 31 March 2015

During the period of this Annual Report Capita administered our scheme. Their workflow summary is shown below:

Description	Completed Cases	SLA (days)	% On time
Joiners	932	10	97.75
Transfers in/out	589	10	93.89
Retirement/ Deaths	1,049	10	88.74
Deferred/ Refunds	1,106	10	77.31
Estimates	626	10	87.06
Others	5,180	Variable	94.19
Total	**9,482**		**91.45**

Capita's performance is monitored by the Strategic Pensions Manager who is based in the Strategic Finance team in the Corporate Resources directorate.

The Strategic Pensions Manager assesses the accuracy of the performance information provided by Capita by analysis of workflows in their administration system from a sample of cases completed during the month. This analysis is used to confirm and/or challenge the accuracy of reporting against the Council's performance criteria.

Capita acknowledges the poor performance in 2014/15, which has been discussed at length. However the recent monthly performance has consistently been back to the expected levels, which we expect to be highlighted in the 2016 Annual Report.

Look out for the latest newsletter:

Please look out for the latest annual newsletter. This has been made available to all members of the scheme. An electronic copy will be made available on the Hounslow Pensions Web page:
http://www.hounslow.gov.uk/pension

Pension surgery sessions

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

2015 Pension Fund AGM

This years pension fund AGM will be held on Monday 16 November from 2pm at the Civic Centre and will include a presentation from Capita on the new website for members of the Fund.

Contact details for Capita Employee Benefits are:

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