



London Borough  
of Hounslow

# Hounslow Pension Fund



Annual Report 2011

# Index

- P3 Introduction by Chairman,  
Councillor John Chatt and  
Director of Finance Stephen  
Fitzgerald**
- P4 Management of the scheme**
- P5 Investment management and  
Statement of Investment  
Principles**
- P6 Actuarial Valuation by  
Barnett Waddingham**
- P7/8 Reports by fund managers**
- P9-15 Accounts**
- P16 The Pension Fund  
Administrator :  
Capita Hartshead**



# Introduction by Chairman, Councillor John Chatt and Director of Finance Stephen Fitzgerald



Welcome to our Annual Report. I am particularly pleased to report that our Pension Fund is continuing to grow despite the current volatility in markets. The continued recovery in equity markets in 2010 has helped the Pension Fund investments reach record levels. At

the end of March 2011 our investments were nearly £575m, at that time the largest we had ever been.

The whole area of public sector pensions is very much up for discussion now. At the time of writing we are awaiting the outcome of the specific Ministerial talks into the local government pension scheme recommendations of Lord Hutton's Review. That review reported earlier this year. It is highly likely that there will be changes to local government pension funds. These may well include raising the retirement age on a phased basis, and also introducing career average pensions. Such changes are probably inevitable to ensure that local government pension schemes survive and are in the long term sustainable. We will be keeping a close eye on developments.

Our Annual General Meeting this year is being held on 27<sup>th</sup> October 2011 and all are welcome. I hope to see you there.



Welcome to our Annual Report. This report sets out key information about how our Pension Fund is managed. It summarises financial and management performance and is in accordance with regulatory guidance as required by the Local Government Pension Scheme (LGPS) regulations.

Councillor Chatt refers to our Pension Fund being valued at £575m at the end of March 2011, at that time the largest we had ever been. However, the funding level and market volatility does remain a cause for concern in spite of the market recovery in 2010. The 2010 actuarial valuation is now complete and our funding level has gone down slightly from 84% to 81%. On the actuary's advice we have been able to keep the employers' contributions stable by extending our deficit recovery period from 13 years to 17 years. This funding position is still one of the best in London. Indeed, overall our performance over the last 3 years has been an average 7.4% per annum, whereas the average fund has only been 5.4% per annum. Now that we have the actuary's valuation we are undertaking a major review of our investment strategy, with the help of our advisers. Through this review we may decide to change our current strategy and asset allocation. The aim of this would be to increase our investment returns, but without taking on significant greater risk.

We will keep members of the Pension Fund informed of what we decide to do on our investment strategy and on the likely changes to pension fund reform.

Further information on our Pension Fund and on benefits is available on our website. Visit [www.hounslow.gov.uk/pension](http://www.hounslow.gov.uk/pension)

# 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

**Director of Finance:**  
London Borough of Hounslow

**Banker:** HSBC

**Custodian of assets:**  
The Northern Trust Company

**Actuary:** Barnett Waddington Lip

**External auditors:** Audit Commission

**Legal adviser:** Borough Solicitor.  
London Borough of Hounslow

## ADMINISTRATION

**Investment:**  
Director of Finance, London Borough of Hounslow

**Pensions:** Capita Hartshead

## ROLE OF THE PENSION FUND PANEL

The Pension Fund Panel meets at least four times a year. The trustees have responsibility for the management of the investments of the pension fund. They are appointed by the Borough Council, whose Executive has overall responsibility for the administrative matters. The responsibilities of the panel include:

## YOUR PENSION FUND PANEL

The chairman of the panel is Councillor John Chatt.  
Other members at 1 July 2011 are:



Councillor Mindu Bains (Lab)



Councillor Gerald McGregor



Councillor John Chatt (Lab)



Councillor Shantanu Rajawat (Lab)



Councillor Sam Hearn (Con)



Councillor Sohan Sangha (Lab)



Councillor Elizabeth Patricia Hughes (Lab)



Councillor John Todd (Con)



Councillor Paul Lynch (Con)

Observer members are: -  
Mohammad Chaudhry  
(Employee Representative)

Mike Smith  
(Staff Representative)

- Setting the investment policy for the scheme
- Monitoring the performance of the fund and its managers  
Corporate governance policy
- Appointing investment managers and advisers.

Further details on how our fund is managed is available in a **Governance Compliance Statement:** Appendix 1  
This is on our website:  
[www.hounslow.gov.uk/pension](http://www.hounslow.gov.uk/pension)

The fund's **Communication Policy Statement** is also on the website above: **Appendix 2**

# 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 internally managed property and private equity portfolios. The performance of our managers is closely monitored by Council officers and is also subject to review by Councillors on the Pension Fund Panel. Our fund has had excellent performance in the last few years.

## Statement of Investment Principles

The Government requires that all pension schemes issue a **Statement of Investment Principles** giving information on the various factors that the Pension Scheme takes into account when making its investments. This 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](http://www.hounslow.gov.uk/pension): Appendix 3

We also provide a **Funding Strategy Statement** (also available on the website at [www.hounslow.gov.uk/pension](http://www.hounslow.gov.uk/pension): Appendix 4). 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):

	Hounslow (%)	Local authority average (%)
<b>1 year to 31 March 2011</b>	9.1	8.2
<b>3 years to 31 March 2011</b>	7.4	5.4

In the three years to March 2011 we were the 11<sup>th</sup> best performing fund out of 85.

# Actuarial Valuation

## INTRODUCTION

The last full triennial valuation of the London Borough of Hounslow Pension Fund was carried out by Barnett Waddingham LLP as at 31 March 2010 in accordance with the Local Government Pension Scheme (Administration) Regulations 2008 (“the Regulations”) as amended. The results were published in our report dated March 2011.

## 2010 VALUATION

The 2010 valuation certified a common contribution rate of 19.7% of pensionable pay to be paid by each employing body participating in the London Borough of Hounslow Pension Fund. In addition to this each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer’s contribution rate are contained in the Rates and Adjustment Certificate in the triennial valuation report.

The results for the Fund were as follows

- The funding level was determined to be 81%, i.e. the value of the accumulated assets represented 81% of the value of the accrued liabilities of Fund as at the valuation date.
- The common contribution rate was set at 19.7% of payroll assuming the funding level was to be restored over a 17 year period.
- In addition, adjustments were made, where appropriate, to individual Employers’ contribution rates as set out in the Rates and Adjustments Certificate.

The funding level of the Fund had decreased from 84% at the 2007 triennial valuation.

## VALUATION METHOD

The contribution rates were calculated using the Projected Unit Method or the Attained Age Method. Employers remaining open to new entrants being valued on the Projected Unit Method, whereas the employers who did not allow new entrants to join were valued using the Attained Age Method.

## CONTRIBUTION RATES

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

- 100% of the liabilities in respect of each employer that have built up within the Fund in respect of service to the valuation date, allowing for future pay

increases and increases to pension in payment when these fall due

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

## ASSET VALUE AND KEY FINANCIAL ASSUMPTIONS

The value of the Fund’s assets as at 31 March 2010 for valuation purposes was taken as £509m.

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

In addition, it was assumed that there would be zero pay increase for 2 years from 31 March 2010 for those earning over £21,000. The rate of increases to pensions in payment is based on CPI rather than RPI.

Rate of return on investments	6.8% per annum
Rate of increase in pay	5.0% per annum
Rate of increase to pensions in payment	3.0% per annum

## POST VALUATION EVENTS - CHANGES IN MARKET CONDITIONS

In the year since March 2010 investment returns have been close to that assumed at the 2010 valuation. However liabilities will have also increased due to a reduction in the real discount rate underlying the valuation funding model.

Overall, we estimate that the funding level as at 31 March 2011 will be similar to that of the 2010 valuation.

The next actuarial valuation is due as at 31 March 2013 and the resulting contribution rates required by the employers will take effect from 1 April 2014. We will continue to monitor the financial position of the Fund.

**Alison Hamilton FFA, Partner**  
**19 July 2011**

# Reports by fund managers

## Aberdeen

### **LONDON BOROUGH OF HOUNSLOW – INVESTMENT REPORT TO MARCH 2011**

On the face of it, with the average pension fund achieving a return of 8.2%, the year to March 2011 was a reasonably ordinary period. The reality was somewhat different, and events since the period end have only compounded the fear that normal economic and investment conditions may take some time to return. The early part of the period included the initial fears surrounding Greece and the realisation that they were unable to balance their budget, which led to dramatic weakness in Greek government bonds, as well as equity markets more widely. Further worries that Greece might not be the only country that was in financial difficulties, with other peripheral nations – Ireland, Portugal and even Spain – also vulnerable, led to weakness in sovereign debt from these countries and a rush towards safer havens such as UK government bonds. This environment was not helped by a progressively weaker economic picture through the period, with lacklustre growth and a tendency for downgrades to even weaker growth projections. This was accompanied by higher inflation data than expected, effected by a variety of factors from rising oil prices and other commodities to increases in VAT in the UK. Finally, late in the period, events such as the Arab Spring and the earthquake, tsunami and nuclear disaster in Japan affected sentiment, whilst the latter also caused widespread disruption to the distribution chain for global manufacturing, and therefore overall economic activity.

However, despite this challenging environment, many companies seemed to be trading well, with earnings higher and increases in dividends. Companies were being rewarded for cutting costs and achieving greater efficiencies in the previous year, which was recognised

by investors, leading to further share price increases even after the tremendous recovery from the earlier lows through 2009.

The Hounslow portfolio fared well alongside the average pension fund in the year, rising by 9.4%, outperformance of 1.2%. The UK portion of the Fund was the primary success for the period, led by a series of good engineering businesses all contributing to the strong returns; for example, Weir Group, John Wood Group and AMEC. We have also been very nervous of the UK-oriented banks, with no exposure to these businesses, which have performed poorly. The portfolio remains oriented towards companies which are financially strong, well managed and have growth opportunities, often being able to sell their expertise and skills into those developing markets where growth is still expected.

The period since March 2011 has been very difficult for pension funds and other investors, as considerable concerns remain over a host of issues, from eurozone sovereign debt default to anxiety over insipid growth data and unease in some quarters over inflation, in the UK but also in developing countries. At this point in time it is very difficult to say with any certainty that the conditions for a meaningful recovery are in place; but the key is confidence, and often it is when the outlook is at its bleakest that things begin to improve. Although there is no instant recovery, we can see the possibility for economic data in the next few months being not quite so bad, and investors may regain some confidence. We will continue to focus the portfolio on good quality companies that are able to grow their businesses and generate good profits and dividends, even in a low growth world.

# BlackRock

## Investment Performance

Over the twelve month period ended 31 March 2011, the invested assets of the Fund achieved a return of 9.1 %. This compares with the benchmark return of 8.2%.

Over the three year period ended 31 March 2011 the invested assets of the Fund achieved a return of 8.3% p.a. This compares with the benchmark return of 6.1% p.a.

## Investment Strategy

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

	31.03.10 (%)	31.03.11 (%)
<b>UK Fixed Interest</b>	<b>10.6</b>	<b>10.3</b>
<b>UK Index Linked</b>	<b>3.3</b>	<b>3.4</b>
<b>Overseas Fixed Interest</b>	<b>2.5</b>	<b>2.3</b>
<b>UK Equities</b>	<b>35.3</b>	<b>36.4</b>
<b>Overseas Equities</b>	<b>43.7</b>	<b>44.1</b>
<i>North America</i>	<i>15.2</i>	<i>14.4</i>
<i>Europe</i>	<i>9.9</i>	<i>11.6</i>
<i>Japan</i>	<i>4.5</i>	<i>4.3</i>
<i>Pacific</i>	<i>5.2</i>	<i>5.7</i>
<i>Emerging Markets</i>	<i>8.9</i>	<i>8.1</i>
<b>MUST Units</b>	<b>0.0</b>	<b>0.0</b>
<b>Cash</b>	<b>4.6</b>	<b>3.5</b>
<b>TOTAL PORTFOLIO</b>	<b>100.0</b>	<b>100.0</b>
<b>VALUE</b>	<b>£279,364,509</b>	<b>£304,053,974</b>

## Market Outlook for 2011/12

As at 31 March 2011, Fund positioning reflected our preference for equities over bonds. The Fund had overweight exposures to equities in the UK, North America, the Pacific and Emerging Markets. The Fund had an underweight exposure to UK Bonds, particularly in respect of UK Index-linked Bonds.

The uncertain economic environment continues to pose questions for investors regarding the prospects for global growth, with recent macroeconomic data in the second quarter pointing towards a weak recovery across Developed Markets, compounded by elevated inflation. We do not currently see inflation as a cause for concern, however, although clearly this has created a situation that policymakers must weigh carefully. Emerging Markets nations are endeavouring to manage inflation issues through monetary tightening, and the Chinese government has recently stated that it has inflation under control. The decline in oil prices has removed some of the inflationary pressures and risks to growth that threatened developing economies. The euro zone sovereign debt situation continues to weigh heavily on sentiment.

Global growth is decelerating and we expect to see more profit warnings as the imbalances in the domestic economy cause company-specific earnings shocks. Domestic exposure is limited to companies with healthy balance sheets, strong management teams and proven strategies, and we are avoiding companies for which financial leverage will limit growth. Nonetheless, though we acknowledge that the risks to global growth have increased, we expect it to remain robust this year albeit lower than initially forecast, led by the developing world and Asia, and particularly China.

# Pension Fund Accounts

FUND ACCOUNT FOR THE YEAR ENDING 31 MARCH 2011

	2009/10 £'000	2010/11 £'000	Notes
<b>Income</b>			
<b>Contributions:</b>			<b>20</b>
<i>Employees</i>	6,904	7,665	
<i>Employers</i>	22,094	23,798	2
<i>Augmentation Payments</i>	103	132	3
Transfers from other schemes (individuals)	3,085	2,484	
Transfers from other schemes (group transfers)	58	0	4
<b>Total Income</b>	<b>32,244</b>	<b>34,079</b>	
<b>Expenditure</b>			
<b>Benefits payable:</b>			<b>20</b>
<i>Pensions</i>	(20,668)	(21,483)	
<i>Lump sums</i>	(5,903)	(5,615)	
<i>Death benefits</i>	(827)	(487)	
<i>Refunds</i>	(46)	(16)	
Transfers to other schemes (individuals)	(5,237)	(5,655)	
Transfers to other schemes (group transfers)	0	0	4
Administrative Expenses	(1,144)	(1,191)	5
<b>Total Expenditure</b>	<b>(33,825)</b>	<b>(34,447)</b>	
<b>Net additions (withdrawals) from dealings with members</b>	<b>(1,581)</b>	<b>(368)</b>	
<b>Returns on Investments</b>			
Investment Income	14,565	16,082	6
Change in market value of realised and unrealised investments	123,668	32,982	
Irrecoverable withholding tax	(227)	(225)	
Investment management expenses	(1,115)	(1,411)	
Property expenses	(184)	(255)	
<b>Net returns on investments</b>	<b>136,707</b>	<b>47,173</b>	
<b>Net increase (decrease) in the Fund during the year</b>	<b>135,126</b>	<b>46,805</b>	
Opening net assets of the scheme at 1 April	392,315	527,441	
<b>Closing net assets of the scheme at 31 March</b>	<b>527,441</b>	<b>574,246</b>	

## PENSION FUND ACCOUNTS (subject to audit)

This section gives a summary of the Pension Scheme's income and expenditure during the financial year ending 31 March 2011. 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.

# Accounts

## NET ASSETS STATEMENT AS AT 31 MARCH 2011

	2009/10 £'000	2010/11 £'000	Notes
<b>Investments</b>			
Equity investments	329,198	366,218	7
Fixed interest securities	29,263	31,816	8
Unit trusts	119,004	134,420	9
Property	18,800	18,850	10
Private equity	7,308	8,986	
Short term deposits	21,559	11,871	11
Outstanding settlements	293	(206)	
Investment income receivable	1,831	2,282	
<b>Total Investments</b>	<b>527,256</b>	<b>574,237</b>	
<b>Current Assets and Current Liabilities</b>			
Debtors	547	230	12
Balance due from General Fund	18	20	
Creditors	(380)	(241)	13
<b>Net Current Assets</b>	<b>185</b>	<b>9</b>	
<b>Net Assets</b>	<b>527,441</b>	<b>574,246</b>	

## NOTES TO THE PENSION FUND ACCOUNTS 2010/11 NOTE 1: ACCOUNTING POLICIES

### Accounting Standards

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

**Basis of Preparation** - except where otherwise stated, the accounts have been prepared on the accruals basis.

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

- Listed securities and securities on the Unlisted Securities Market (USM) are shown by reference to bid price at the close of business on 31 March 2011.
- Other unlisted securities are valued having regard to the latest dealings, professional valuations, asset values and other appropriate financial information.
- Unit Trust investments are stated at the latest bid prices quoted by their respective managers prior to 31 March 2011.
- Investments held in foreign currencies have been valued on the relevant basis and translated into sterling at the rate ruling on 31 March 2011.
- Freehold properties are included on the basis of their open market

value. There are no leasehold properties. The property portfolio was valued as at 31 March 2011 by Drivers Jonas Deloitte, an established firm of property consultants and chartered surveyors who are regulated by the Royal Institution of Chartered Surveyors.

- Investments were realisable at 31 March 2011, other than property and private equity.

**Contributions** – represent those amounts receivable from the various employing authorities in respect of their own contributions and those of their pensionable employees. The Actuary on the basis of periodic valuations of the Fund's assets and liabilities determines the employers' contributions. Employees' contributions has been

included at rates required by the Local Government Pension Scheme (Amendment) Regulations 2008.

**Actuarial Valuations** – the accounts summarise the transactions and net assets of the Fund. They do not take account of liabilities to pay pensions and other benefits in the future.

The Authority’s Actuary carries out valuations of the Fund’s assets and liabilities at three yearly intervals. The last valuation was carried out by Barnett Waddingham as at 31 March 2010 and was effective from 1 April 2011.

The common rate of contribution for all scheduled bodies from 1 April 2011 is 12.8% 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. £120.2 million as at the date of the actuarial valuation. The Authority has agreed a phased increase in the employer’s contribution to meet the 100% funding requirement over a 17-year period. In previous years it has been policy to fund the pension strain arising from early retirements from employers’ contributions in the year in which the person retires. But from 2007/08 policy has changed to not pre-fund these liabilities, but to spread the funding in line with the deficit recovery period. This has been agreed with the Actuary.

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

	2010	2007
Actuarial value of liabilities	£628.8m	£541.0m
Actuarial value of assets	£508.6m	£455.9m
Deficit	£120.2m	£85.1m
Funding level	81%	84%

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

Rate of general pay increases	5.0% pa
Rate of increase of non GMP pensions in payment	3.0% pa
The increases in the flow of income from ordinary shares, unit trusts and property	6.8% pa

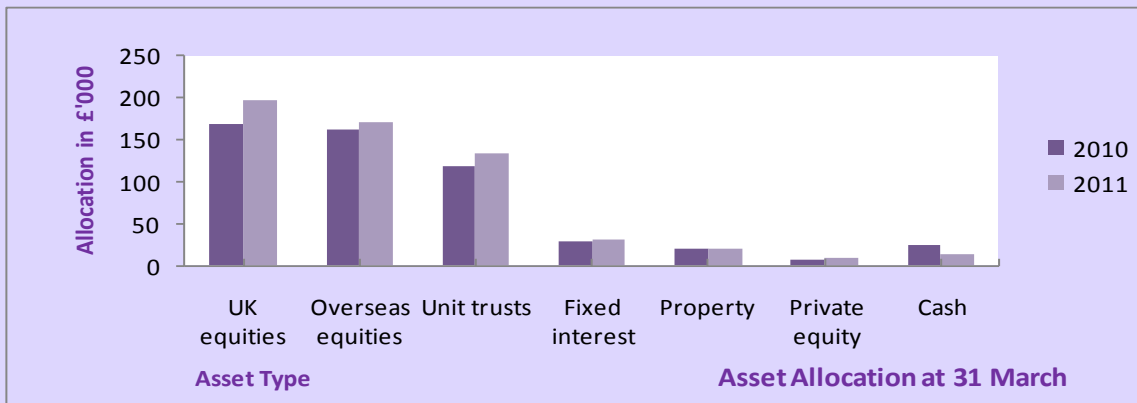
**Valuation of Liabilities** – The Authority’s Actuary, Barnett Waddingham has valued the liabilities of the Fund on an IAS26 basis as at 31 March 2011. The value of the liabilities at 31 March 2011 is £782.9 m (31 March 2010 £885.1 m) compared with a fair value of scheme assets of £566.4m (31 March 2010 £527.1m). Therefore on this basis the deficit at 31 March 2011 is £216.5m (31 March 2010 £358.0m).

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

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

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

**Interest Payable/Receivable** – interest payable/receivable on sums borrowed/lent from/to the Authority’s General Fund is calculated using the average rate of interest earned in the year by the Authority on approved investments.



## NOTE 2: EMPLOYERS' CONTRIBUTION

Employers Contributions comprise two elements, normal contributions, which are the contributions required to fund future service liabilities and deficit funding, which is the additional contributions required to fund the deficiency as calculated at the last actuarial valuation. Normal contributions are calculated at 12.8% of payroll, and deficit funding will vary for different employers within the Fund. At the last actuarial valuation the Authority agreed to fund the deficiency over a 17-year period.

## NOTE 3: AUGMENTATION

These are payments to the Pension Fund from Hounslow Community Services and West Thames College to make up for the funding shortfall following early retirement.

## NOTE 4: TRANSFERS IN/OUT

There were no group transfers in or out during 2010/11.

## NOTE 5: ADMINISTRATION

	2009/10 £000s	2010/11 £000s
Scheme Administration	1,123	1,166
Actuary Fees	16	22
Annual Meeting and Report	5	3
<b>Total costs</b>	<b>1,144</b>	<b>1,191</b>

## NOTE 6: INVESTMENT INCOME

	2009/10 £000s	2010/11 £000s
Equity investments	9,138	9,609
Fixed interest securities	1,273	1,267
Unit trusts	2,186	3,408
Property	1,639	1,591
Short term deposits	327	206
Broker commissions recaptured	2	1
	<b>14,565</b>	<b>16,082</b>

## NOTE 7: EQUITY INVESTMENT

	31 Mar 10 £000s	31 Mar 11 £000s
<b>UK Investments (listed)</b>	167,653	196,178
<b>Overseas Investments (listed):</b>		
North America	63,569	66,078
Japan	12,604	10,639
Europe	61,141	68,748
Other	24,231	24,575
	<b>329,198</b>	<b>366,218</b>

## NOTE 8: FIXED INTEREST SECURITIES

	31 Mar 10 £000s	31 Mar 11 £000s
<b>UK Securities</b>		
Government Bonds	25,795	27,232
Government Indexed Linked	0	181
Other fixed interest stocks	3,468	3,800
<b>Overseas Securities</b>	0	603
	<b>29,263</b>	<b>31,816</b>

## NOTE 9: UNIT TRUST

	31 Mar 10 £000s	31 Mar 11 £000s
<b>UK Unit Trusts</b>		
Cash Fund	13,256	13,590
Bond Fund	20,388	34,275
Index Linked	14,783	16,001
Mid Cap Companies	2,603	1,721
Property	330	358
<b>Overseas Unit Trusts</b>		
Fixed Interest	15,739	13,947
Equity	51,905	54,528
	<b>119,004</b>	<b>134,420</b>

### The top 10 equity holdings of LBH Pension Fund worldwide

		£'000	% of total fund
1	Rio Tinto	12,398	2.2
2	BG Group	11,678	2.0
3	British American Tobacco	9,238	1.6
4	Standard Chartered	8,445	1.5
5	Royal Dutch Shell	8,083	1.4
6	Vodafone Group	8,074	1.4
7	BP	6,944	1.2
8	Compass Group	6,817	1.2
9	Wm Morrison Supermarkets	6,758	1.2
10	GlaxoSmithKline	5,958	1.0
		<b>84,393</b>	<b>14.7</b>

### NOTE 10: PROPERTY

	31 Mar 10 £000s	31 Mar 11 £000s
UK Property Investments: Freehold	18,800	18,850
	<b>18,800</b>	<b>18,850</b>

### NOTE 11: SHORT TERM DEPOSITS

	31 Mar 10 £000s	31 Mar 11 £000s
Bank Deposits	21,559	11,871
	<b>21,559</b>	<b>11,871</b>

### NOTE 12: DEBTORS

Debtors represent those sums of money owed to the Pension Fund for contributions due from admitted bodies for 2010/11 but for which payment had not been received by 31<sup>st</sup> March 2011.

### NOTE 13: CREDITORS

Creditors represent those sums of money owed by the Pension Fund for fund management services received during 2010/11 but for which payment had not been made by 31<sup>st</sup> March 2011.

### NOTE 14: INVESTMENT COMMITMENTS

The Council is committed to making further investments in private equity funds. The total value of commitments outstanding at 31 March 2011 was £5.4m.

### NOTE 15: TAXATION

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

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

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

### NOTE 16: MEMBERSHIP OF FUND

The following summarises the membership of the Pension Fund as at 31 March 2011:

	31 Mar 10 No.	31 Mar 11 No.
Contributors	6,019	5,989
Pensioners	4,974	5,135
Deferred Pensioners	5,481	5,911
<b>Total</b>	<b>16,474</b>	<b>17,035</b>

## NOTE 17: MOVEMENT IN FUNDS MANAGED

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

	Aberdeen £000s	BlackRock £000s	LBH £000s	Total £000s
Opening Balance at 1 April 2010	216,708	279,110	31,438	527,256
Purchases	120,744	208,321	1,311	330,376
Sales	(106,520)	(198,951)	(1,102)	(306,573)
Corporate Actions	612	(746)	0	(134)
Movement in short term deposits	(7,395)	(2,275)	0	(9,670)
Change in market value	12,940	18,416	1,626	32,982
<b>Closing Balance at 31 March 2011</b>	<b>237,089</b>	<b>303,875</b>	<b>33,273</b>	<b>574,237</b>
<b>Proportion of Fund</b>	<b>41%</b>	<b>53%</b>	<b>6%</b>	<b>100%</b>

## NOTE 18: ADDITIONAL VOLUNTARY CONTRIBUTIONS

The current provider for Additional Voluntary Contributions is Standard Life. Employees can contribute to the fund and Hounslow acts only as an agent, the contract is between the employee and Standard Life. The amount of contributions received in the year is £19,684. The value of these separately invested additional voluntary contributions at 31 March 2011 was £236,195.

There are also separately invested additional voluntary contributions with the previous provider, Equitable Life. The value of these contributions at 31 March 2011 was £241,539.

These amounts are not included in the Pension Fund Accounts in accordance with regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831).

## NOTE 19: DIRECT TRANSACTION COSTS

The amounts of direct transaction costs suffered by each Fund Manager were as follows:

	2009/10 £000s	2010/11 £000s
Aberdeen Asset Managers Ltd	139	161
Blackrock Investment Management Ltd	486	434
	<b>625</b>	<b>595</b>

## NOTE 20: SCHEDULED AND ADMITTED BODIES

The scheduled bodies to the Fund are:

- Hounslow Magistrates' Courts Committee
- West Thames College
- Gunnersbury Park
- Cranford Park
- Hounslow Homes
- Lampton School
- Cranford Community College

There were also 20 Admitted Bodies making contributions of £1.4m (£1.7m 2009/10).

The total contributions receivable and benefits payable are as follows:

	2009/10		2010/11	
	Contributions Receivable £000s	Benefits Payable £000s	Contributions Receivable £000s	Benefits Payable £000s
London Borough of Hounslow	25,207	24,393	25,474	23,964
Scheduled Bodies	2,200	1,744	4,755	2,205
Admitted Bodies	1,689	1,303	1,366	1,432
<b>Total</b>	<b>29,096</b>	<b>27,440</b>	<b>31,595</b>	<b>27,601</b>

From 1 April 2001 following creation of the Greater London Magistrates Courts Authority future pension provision moved from the Authority. The Pension Fund remains liable for pensions entitlement accruing to 31 March 2001.

## NOTE 21: STATEMENT OF INVESTMENT PRINCIPLES

The Statement of Investment Principles for the Pension Fund is available on our website at [www.hounslow.gov.uk/pensions](http://www.hounslow.gov.uk/pensions) and is available on request from the Director of Finance.

## NOTE 22: RELATED PARTY TRANSACTIONS

The Council was a related party to the Fund. During 2010/11, surplus Pension Fund monies were invested internally with the Council as a result of the day-to-day administration of the Fund. The Pension Fund received £14k in interest from the Council during 2010/11 on the internally invested cash. The balance of Pension Fund cash held in the Council's account at 31<sup>st</sup> March 2011 was £20k (£18k 31<sup>st</sup> March 2010).

The Pension Fund incurred administrative expenses of £493k in 2010/11 (£601k 2009/10) for Council officers' time spent in administering the Fund.

No other material transactions with related parties of the Fund during 2010/11 were identified.

# The Pension Fund Administrator : Capita Hartshead

Capita Hartshead 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 retirement contributions or additional voluntary contributions you choose to make. Contact Capita Hartshead if you require any information about the Hounslow Pension Scheme.

## Service Standards over the period 1 April 2010 to 31 March 2011

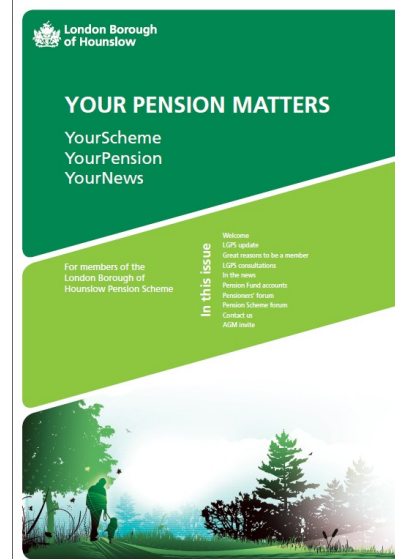
During the period of this Annual Report Capita Hartshead administered our scheme. Their workflow summary is shown below:

Description	Rec'd	Complete	SLA (days)	On time	% On time
Joiners	850	850	10	849	99.88
Transfers in/out	45	45	10	45	100
Retirement/Deaths	393	393	10	385	97.96
Deferred/Refunds	507	507	10	504	99.41
Estimates	405	405	10	405	100
Others – contractual	3014	3014	Variable	3005	99.70
<b>Total</b>	<b>5214</b>	<b>5214</b>		<b>5193</b>	<b>99.60</b>

## Percentage of Cases Completed in Time



## Look out for the latest newsletter:



'Your Pension Matters';

And the latest annual benefit statement for new and deferred members:



The LBOH Administration Team at Capita Hartshead will be happy to help you with any queries you might have about the pension scheme.

The team's contact details are below:

**LBOH Administration Team**  
**Capita Hartshead**  
**PO BOX 195**  
**Mowden Hall**  
**Darlington**

**Telephone: 01737 366032/035**  
**Email: Hounslow.pensions@capita.co.uk**

LONDON BOROUGH OF HOUNSLOWGOVERNANCE COMPLIANCE STATEMENTPENSION FUND PANEL - 16th June 2010**1. Background**

The Local Government Pension Scheme (Administration) Regulations 2008 require administering authorities to prepare and maintain a separate written statement on governance policy on pension fund matters. The Department for Communities and Local Government (DCLG) has published regulations requiring Pension Funds to report on their governance arrangements against a set of best practice principles. Where a Pension Fund's compliance does not meet the required standards there is a requirement to explain, within the governance compliance statement, the reasons for not complying i.e. the compliance principles are not mandatory.

**2. Structure****2.1 DCLG principle: 'The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.'**

*Partially compliant*

London Borough of Hounslow (LBH) Pension Fund is partially compliant in that the Administering Authority delegates its investment function in maintaining a pension fund to the Pension Fund Panel (PFP). The 4 Terms of Reference are:-

To consider on the advice of the Director of 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 Director of Finance and appropriate Manager (s).

N.B. The Benefits contract is outsourced to Capita Hartshead. Regular contract monitoring statistics are reported to the PFP. However, benefits issues are formally dealt with by the Executive.

**2.2 DCLG principle: 'That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.'**

*Compliant*

LBH representatives include Administering Authority councillors, an employer representative, and a staff side representative. A pensioner representative is currently being appointed.

**2.3 DCLG principle: 'That where a secondary committee or panel has been established the structure ensures effective communication across both levels'.**

*Compliant*

Not applicable as there is no secondary committee. The Pension Fund Panel considered that the additional resource and time allocated to such a secondary committee could not be justified within the current management of the fund. However it was considered that this could be reviewed if it was felt that there was significant demand from scheme members or employers for such a committee at some future time.

- 2.4 DCLG principle: 'That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel'.**

*Compliant*

Not applicable as there is no secondary committee.

### **3. Representation**

- 3.1 DCLG principle: 'That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include :-**

- i) employing authorities (including non-scheme employers, e.g., admitted bodies);
- ii) scheme members (including deferred and pensioner scheme members);
- iii) independent professional observers; and
- iv) expert advisors (on an ad-hoc basis).'

*Partially Compliant*

LBH Pension Fund has representation from the Administering Authority, a further scheme employer, and from a current scheme member. In addition an independent expert adviser attends meetings. There is currently no pensioner representative.

- 3.2 DCLG principle: 'That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.'**

*Compliant*

LBH Pension Fund is compliant, although lay members do not have voting rights (see 4 below).

- 3.3 DCLG principle: 'That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.'**

*Compliant*

Representatives are aware of their roles and responsibilities as members of the Pension Fund Panel.

### **4. Voting**

- DCLG principle: 'The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.'**

*Compliant*

LBH Pension Fund does not extend voting rights to lay members.

The survey undertaken by the DCLG, in March 2006 showed that only 4 Administering Authorities, out of 89, had

conferred voting rights on these Committee members sitting directly on the Pensions Committee and only 5 Administering Authorities had conferred voting rights on these Committee members sitting on a secondary or advisory committee. This survey has not been updated. In line with other Pension Funds the PFP does not currently consider extending voting rights to lay members would add value to the management of the Fund. If appropriate the situation will be reconsidered at a later date.

## 5. Training/Facility time/Expenses

### 5.1 DCLG principle: 'That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.'

*Compliant*

Training is provided to all members of the PFP to assist with the decision making process. All members are required to attend the 3 day trustee training provided by the Local Government Employers' Association.

### 5.2 DCLG principle: 'That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.'

*Compliant.*

## 6. Meetings (frequency/quorum)

### 6.1 DCLG principle: 'That an administering authority's main committee or committees meet at least quarterly.'

*Compliant*

PFP meets at least once a quarter.

### 6.2 DCLG principle: 'That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. '

*Compliant*

Not applicable as there is no secondary committee.

### 6.3 DCLG principle: 'That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.'

*Compliant*

Lay members have representation on the PFP. In addition an Annual General Meeting is held for all scheme members.

## 7. Access

**DCLG principle: 'That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee. '**

*Compliant*

## 8. Scope

**DCLG principle: 'That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.'**

*Partially compliant*

Hounslow's PFP has, in common with most LGPS Committees, traditionally focussed on the management and investment of the funds under their supervision. The PFP has discussed whether to extend its Terms of reference. These are detailed in Section 2.1. At its meeting in June 2008 the PFP decided to maintain its Terms of Reference as they are. It also decided that regular contract monitoring statistics should come to PFP.

## **9. Publicity**

**DCLG principle: 'That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements.'**

*Compliant*

This Governance Compliance Statement is a public document on Part 1 of the PFP Agenda of 16 June 2010.

**London Borough of Hounslow Pension Fund**  
**Local Government Pension Scheme**

### **Communications Policy Statement**

This statement sets out the Council's policy concerning communications with members, members' representatives, prospective members and employing authorities as required by The Local Government Pension Scheme Regulations 2007/08 (As amended).

The Council, in partnership with Capita Hartshead, the pension scheme administrators of the London Borough of Hounslow Pension Fund, will carry out the communication strategy using the methods outlined below.

### **Members, Members' Representatives & Prospective Members**

- Scheme booklets are issued on or before appointment; or a link to the booklet is provided on the pension intranet site. Further copies are available on request to both scheme and non-scheme members
- Annual benefit statements are sent to all active and deferred members of the pension fund
- An annual newsletter is sent to all pension fund members; or a link to the newsletter is provided on the pension intranet site
- Annual General Meeting held on the Council premises with invitations sent to all pension fund members; or provided via a link to the pension intranet site
- Capita Hartshead provide pension surgeries and drop in days as needed
- Information regularly updated on the staff intranet with links to the Capita Hartshead and national LGPS websites and joiner forms for prospective members
- Pensioners receive a payslip in April and May and also if their net monthly pension changes by £5 or more
- Consultative documents are distributed to departmental representatives and trade unions where relevant
- Pension information session at pre-retirement courses

### **Employing Authorities**

- Information relevant to the LGPS is distributed to all employers in the Hounslow Pension Fund when appropriate
- Employer training days organised as needed by Capita Hartshead
- Actuarial Valuation report is distributed to all employers in the Hounslow Pension Fund
- Consultative documents are distributed to employers in the Hounslow Pension Fund where relevant
- Client Side Pensions Officer to act as a liaison officer between the employers and Capita Hartshead

This statement shall be revised if there is any material change in the Administering Authority's Communications Policy.

**LONDON BOROUGH OF HOUNSLOW PENSION FUND****STATEMENT OF INVESTMENT PRINCIPLES****1. INTRODUCTION**

- 1.1 The London Borough of Hounslow (LBH) operates the Local Government Pension Scheme which was established in accordance with statute to provide death and retirement benefits to all eligible employees of the Council and its admitted bodies.
- 1.2 The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999 require administering authorities to prepare and review from time to time a written statement recording the investment policy of their Pension Fund. The purpose of this document is to satisfy the requirements of these Regulations, and to explain to Fund members, employees and other interested parties how the Fund is managed, and the factors taken into account in doing so.
- 1.3 The Council have delegated the investment management of the scheme to its Pension Fund Panel. The ultimate responsibility for the investment strategy lies with them.
- 1.4 The Pension Fund Panel (PFP) have appointed professional fund managers Blackrock, and Aberdeen Asset Managers to manage the Pension Fund's investment. The managers' activities are constrained by their detailed Investment Management Agreements, which incorporate the statutory restrictions.
- 1.5 The Pension Fund Panel have appointed an independent advisor to advise on investment strategy, oversee the activities of the investment managers, and be generally available for consultation on fund investment matters.
- 1.6 Barnett Waddingham have been appointed as actuaries to the Fund.
- 1.7 Northern Trust has been appointed as the custodian to the Fund.
- 1.8 This document outlines the broad investment principles governing the investment policy of the LBH Pension Fund, and comments on the compliance with the '6 Investment Principles' identified in the Myners Review of Institutional Investment in the UK.

**2. AIMS AND OBJECTIVES OF THE FUND**

- 2.1 The aim of the Fund is to provide a pool of assets sufficient to meet the long-term pensions and benefits liabilities (as prescribed by the Local Government Pension Scheme Regulations) for the members of the Fund.
- 2.2 The current investment objective is defined as a return of 1% per annum (Aberdeen Asset Managers) and a return of 1.25% per annum (Blackrock) above the WM Local Authority Universe Average (ex property) over rolling three-year periods. The investment strategy proposed by the Fund Managers is reviewed at regular meetings of the Pension Fund Panel (each Manager attends every other meeting of the PFP). WM attend the autumn meeting of the Pension Fund Panel to overview each Fund Manager's annual performance.
- 2.3 The LBH Pension Fund is a long term Fund, and the investment strategy must reflect this. Ultimate responsibility is to present and future pensioners. Responsibility to Council Taxpayers is secondary, and the Fund should never fall below unmanageable funding levels.

**3. INVESTMENT RESPONSIBILITIES**

- 3.1 LBH is the Administering Authority and is responsible for managing the Fund in accordance with the Regulations. The Statement of Corporate Governance gives details of the membership and operation of the Pension Fund Panel. Trustees include Councillors, an employer's representative, and a staff representative. The Panel meets at least quarterly.

3.2 The Terms of Reference of the Pension Fund Panel are: -

To consider on the advice of the Director of 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; and

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 and appropriate Manager (s).

3.3 The Fund Managers are responsible for:-

a) attending meetings with the Pension Fund Panel and with officers, as requested;

b) the investment of the Pension Fund assets in compliance with prevailing legislation, the constraints imposed by this document and their detailed Investment Management Agreements;

c) security selection within asset classes; and

d) active management of their cash balances.

3.4 The Custodian is responsible for:-

a) its own compliance with prevailing legislation;

b) providing the administering authority with monthly valuations of the Scheme's assets and details of all transactions during the month; and

c) collection of income and tax reclaims.

3.5 The Independent Advisor is responsible for:-

a) provision of expert advice, for example on tendering procedures for professional services, on the Statement of Investment principles and on other compliance issues;

b) provision of expert advice on Pension Fund performance i.e. investment selection, and research into specific issues;

c) attendance at each meeting of the Pension Fund Panel; and

d) liaison with Trustees and officers of the LBH Pension Fund.

3.6 The Actuary is responsible for:-

a) undertaking a triennial valuation of the Fund; and

b) providing advice as to the maturity of the Scheme and its funding level, in order to aid the Pension Fund Panel in balancing the short term and long term objectives of the Pension Fund.

3.7 The Director of Finance is responsible for:-

a) acting as professional advisor to the Fund;

b) the appointment of any professional external consultants, as required, and subject to the approval of the Pen-

sion Fund Panel;

c) alerting the Pension Fund Panel and the Executive of any problems in the funding level or administration of the Fund (in his capacity as the Council's Section 151 Officer); and

d) ensuring compliance with this document and bringing breaches thereof to the attention of the Pension Fund Panel.

#### **4. DESCRIPTION OF THE FUND'S LIABILITIES**

- 4.1 The LBH Pension Fund is a defined benefit scheme which provides benefits related to a final salary for members. Each member's pension is specified in terms of a formula based on salary and service and is unaffected by the investment return achieved on the Scheme's assets. Full details of Scheme benefits are set out in the LGPS regulations.
- 4.2 Active members make pension contributions based on a percentage of their pensionable pay (5.5% to 7.5% depending on salary). The Council is responsible for meeting the balance of costs necessary to finance the benefits payable from the Scheme. Employers' contribution rates are determined triennially, based on the advice of the Scheme's actuary. The Council therefore has a financial responsibility for the investment return achieved on the Scheme's assets.
- 4.3 The most recent actuarial valuation was based on 2010 values. At 31 March 2010 the Fund had a deficit of £120m, and was funded to 81% (84% at March 2007 valuation). To maintain a stable employer contribution rate the deficit recovery period has extended from 13 years to 17 years. The next valuation date is 31 March 2013.

#### **5. INVESTMENT POLICY**

- 5.1 The investment objectives are to maximise returns over the long term within acceptable risk tolerances. Investment returns are defined as the overall rates of return (capital growth and income combined). The LBH Fund is split between two fund managers, property is currently managed internally, and private equity is currently managed internally. The limits for the latter two are below:-

<b>Category</b>	<b>Limit of fund</b>
property	8% target 10% max limit
private equity (incl commitments)	5% max limit

- 5.2 The Pension Fund Panel have appointed two professional fund managers Blackrock, and Aberdeen Asset Managers to manage the Pension Fund's other investments. The managers' activities are constrained by their detailed Investment Management Agreements, which incorporate the statutory restrictions. Their performance benchmarks are referred to above in para 2.2. LBH has adopted an active balanced approach with its Fund Managers in order to give diversification and spread of risk. Hence both Fund Managers have discretion to determine tactical asset allocation and individual stock selection within specified control ranges (see below). The investment strategy proposed by the Fund Managers is reviewed at regular meetings of the Pension Fund Panel (each Manager attends every other meeting of the PFP). WM attend the autumn meeting of the Pension Fund Panel to overview each Fund Manager's annual performance.
- 5.3 The Fund Managers are required to determine a suitable asset mix (equities, fixed interest and cash) to meet their performance benchmark. The limits on individual investments are those specified in Schedule 1 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2003. Acceptable asset classes are:-

- \* UK equities
- \* UK fixed interest (gilts and corporate bonds)
- \* UK index linked gilts

- \* Overseas equities, major classes being
  - North America
  - Europe
  - Japan
  - Pacific Rim
  - Emerging markets
- \* Global fixed interest
- \* Unquoted securities via pooled funds
- \* Cash

## 5.4 Investment Constraints

- 5.4.1** The Pension Fund Panel has had regular discussions on stock lending since 2009. The Fund managers have introduced stock lending on their pooled investments. The Pension Fund Panel is currently considering introducing stock lending on its directly held investments.
- 5.4.2 Underwriting is permitted provided that the underlying stock is suitable on investment grounds and complies with existing investment criteria
- 5.4.3 Use of direct derivatives (including options, futures and contracts for differences) is not allowed.
- 5.4.4 Any instrument not explicitly permitted under para 5.3 may only be purchased for the Fund with the express written consent of the Chairman of the Pension Fund Panel and the Director of Finance.
- 5.4.5 Limitations on the discretion of the investment managers are in the following table. These must be in accordance with the current requirements of the LGPS Regulations. Current maximum limits are as follows. It is proposed in the interests of flexibility and diversity that these limits are adopted. References to percentages are to percentages of the total value of all existing investments of the Fund before making the investment which is subject to the limit. Such limits only apply at the time the investment is made.

	<b>Max permitted under Regs</b>
1. Any single sub-underwriting contract	5%
2. Contributions to any single partnership	5%
3. All contributions to partnerships	15%
4. All deposits with any local authority, or similar	10%
5. All investments in unlisted securities of companies.	15%
6. Any single holding in unlisted securities	10%
7. All deposits with any single bank, institution or person (other than NSB)	10%
8. All sub-underwriting contracts	15%
9. All investments in units subject to the trusts of unit trust schemes and all investments in open-ended investment companies, where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body	35%
10. Any single insurance contract	35%
11. All securities transferred by the authority under stock lending arrangements	35%

## 6. SOCIAL, ENVIRONMENTAL AND ETHICAL CONSIDERATIONS

- 6.1 The authority's primary responsibility is to secure the best returns for the Fund in the interest of its taxpayers. The Pension Fund Panel has considered Socially Responsible Investment in the context of the investment strat-

egy and acknowledges the difficulties in defining 'ethical' investment. The Panel adopts a critical engagement policy as detailed in the paragraphs below. By adopting corporate governance principles the Fund encourages corporate social responsibility.

- 6.2 The authority does not impose either negative or positive restrictions on Fund Managers' choice of investments. However, we expect the Fund Managers to encourage best corporate practice in companies' management of their social, environmental and ethical activities. They seek to encourage this by engaging in positive dialogue with companies to encourage them to pursue such activities provided that it would not have any detrimental impact on the investment return or risk of the portfolio. In addition both fund managers have signed up to the United Nations Principles for Responsible Investment.
- 6.3 The LBH Pension Fund is a member of the Local Authority Pension Fund Forum. This currently comprises 55 local authority pension funds. It exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance amongst the companies in which they invest.
- 6.4 The LBH Pension Fund is also a member of the Institutional Investors Group on Climate Change (IIGCC). The IIGCC seeks to promote a better understanding of the implications of climate change amongst its members and other institutional investors, and to encourage companies and markets in which its members invest to address any material risk and opportunities to their businesses associated with climate change and a shift to a lower carbon economy.

## **7. EXERCISE OF RIGHTS (INCLUDING VOTING RIGHTS) ATTACHING TO INVESTMENTS**

- 7.1 The LBH Pension Fund exercises its voting rights at the Annual/Extraordinary General Meetings of all UK companies within the FTSE 350, European companies within the Eurotop 300, and US companies in the S & P 500, in which the Fund has shareholdings. The voting policy is based on best practice, as agreed in previous meetings of the PFP. Such practice encompasses the Combined Code of Best Practice arising from Cadbury, Greenbury, Ham-pel, Higgs and Smith Committees relating to corporate governance and corporate responsibility. The voting system is operated by templates monitored by Manifest. For controversial issues the views of the PFP will be sought.
- 7.2 With regard to other rights such as the taking up of rights issues this is left for investment managers to decide in the light of their assessment of market conditions at the time.

## **8. REALISATION OF INVESTMENTS**

- 8.1 The investment managers have full discretion to make decisions on the realisation of investments having regard to their benchmarks and their investment targets.

## **9. RISK**

Pension Funds operate in an environment of risk. It is not efficient to eliminate all risk. The aim is to have reasonable risk management strategies in place. Risk can be categorised, and where possible meaningful measures have been put in place to manage risk.

### **Investment risk - diversification of assets**

- 9.1 The Council has appointed two Fund Managers, with balanced mandates, to secure diversification of investment strategies and investments across UK equities, overseas equities and fixed interest investments. The Fund also invests directly in property, and in private equity type investments, which adds to the diversity. Any instrument not explicitly permitted under para 5.3 may only be purchased for the Fund with the express written consent of the Chairman of the Pension Fund Panel and the Director of Finance.
- 9.2 The LGPS Regulations contain restrictions on the proportions of the Fund which can be invested in certain types of assets - see para 5.4.5 above.

## **Performance risk and its management**

- 9.3 Asset allocation benchmarks are used. Performance is currently monitored relative to the WM Local Authority Universe. This ensures that Fund Managers do not deviate significantly from the Panel's intended approach, whilst permitting flexibility to manage their portfolios and enhance returns over the longer term.

## **Funding and asset/liability mismatch risk**

- 9.4 The actuarial valuation measures the overall funding levels of the Fund. The most recent actuarial valuation was based on 2010 values. At 31 March 2010 the Fund had a deficit of £120m, and was funded to 81% (84% at March 2007 valuation). To maintain a stable employer contribution rate the deficit recovery period has extended from 13 years to 17 years. The next valuation date is 31 March 2013. The Fund is now carrying out a strategic asset allocation review to improve its effectiveness, by maintaining return for a lower level of risk, or increasing investment returns for the same level of risk.

## **10. COMPLIANCE WITH MYNERS**

Under Regulation 12(3) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 the Council is required to state the extent to which it complies with the six principles of investment practice identified by Myners. Local authorities are to refer to guidance issued by the Chartered Institute of Public Finance and Accountancy in making their disclosures. The principles, together with the Council's position on compliance (in italics) are set out below.

### **1. Effective decision-making**

Administering authorities should ensure that:

- \* decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation;
- and
- \* those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

#### Compliant

*PFP has clear Terms of Reference. Hounslow's Statement of Investment Principles and Statement of Corporate Governance detail decision-making processes. All PFP Members are expected to undertake a formal training programme run by Local Government Employers. The Fund has appointed an independent external adviser who also is identifying training opportunities.*

### **2. Clear objectives**

An overall investment objective(s) should be set out for the Fund that takes account of the scheme's liabilities, the potential impact on local taxpayers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employees, and these should be clearly communicated to advisers and investment managers.

#### Compliant

*The Fund's triennial actuarial valuation sets out the overall funding objective for the Fund. The 2010 objective was to achieve 100% funding within 17 years. Following the 2010 actuarial valuation a full review of strategic asset allocation is being undertaken. Risk is covered in section 9 of the Statement of Investment Principles. Officers hold quarterly meetings with the fund managers and the adviser at which fund objectives are discussed, and performance monitored. The outcomes of these meetings are reported to each meeting of the PFP.*

### **3. Risk and Liabilities**

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.

These include the implications for local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

#### Compliant

*Section 9 of the Statement of Investment Principles covers the Fund's approach to risk. The triennial actuarial valuation assesses the liabilities of the fund against the context of investment values. The employers' contributions are calculated to ensure that the Fund will meet its liabilities after an agreed period. For the 2010 actuarial valuation the objective is to break even after 17 years.*

*The Fund is regularly audited by its internal auditors, and such reports discussed at the Audit Committee. External auditors report on the final accounts, to the Audit Committee, the Pension Fund Panel, and Borough Council. Both internal and external audits ensure effective internal controls are in place.*

*When participating employers join the Fund a risk assessment is undertaken of the risk of default. Where relevant such employers are expected to take out bonds to protect the pension fund in the event of their default.*

*The Pension Fund's Risk Register is attached at Appendix 1.*

### **4. Performance Assessment**

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers.

Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

#### Compliant

*Active management is adopted with appropriate risk controls as reflected in a well-diversified portfolio of investments. The current investment objective is defined as a return of 1% per annum (Aberdeen Asset Managers) and a return of 1.25% per annum (Blackrock) above the WM Local Authority Universe Average (ex property) over rolling three-year periods. Performance is monitored quarterly and reported to the PFP. The benchmark is being revised as part of the strategic asset allocation review following on from the 2010 actuarial valuation.*

*The investment performance of the fund and its managers is measured by the independent WM Company. The latter does an annual presentation to the PFP each autumn. Individual managers are measured separately against the local authority peer group.*

***The investment adviser has produced a detailed work programme, which is monitored to ensure achievement.***

*The administering authority produces an Annual Report, which includes performance. It also holds an Annual General Meeting to which all scheme members (actives/deferreds/pensioners) are invited, to review performance and ensure accountability to members.*

***Further work is under consideration for the PFP to be able to assess its effectiveness as a decision making body.***

## 5. Responsible Ownership

Administering authorities should:

- \* adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents
- \* include a statement of their policy on responsible ownership in the Statement of Investment Principles
- \* report periodically to scheme members on the discharge of such responsibilities.

### Compliant

*Both Aberdeen and BlackRock have confirmed that they have adopted the existing Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. Section 6 of the Statement of Investment Principles details the Fund's approach to social, environmental and ethical considerations.*

*Section 7 of the Statement of Investment Principles explains how the Fund exercises voting rights at the Annual/ Extraordinary General Meetings of all UK companies within the FTSE 350, European companies within the Euro-top 300, and US companies in the S & P 500, in which the Fund has shareholdings.*

*Manifest produces an independent annual report to the PFP on how the Fund has exercised its voting rights over the previous year. This report is on the open part of the Agenda and is available to fund members and the public.*

## 6. Transparency and Reporting

Administering authorities should:-

- \* act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives
- \* provide regular communication to scheme members in the form they consider most appropriate.

### Compliant

*The Fund has a Communications Policy Statement which is available on the website. This details the scheme booklets, annual benefit statements, and consultative documents that are produced both for scheme members and employing bodies. The Fund has a dedicated website, run by itself. The Fund produces an Annual Report, which is available in both hard copy and on the website.*

*An Annual General Meeting is also held to which all scheme members (actives/deferreds/pensioners) are invited, to review performance and ensure accountability to members.*

*The Fund publishes its Statement of Investment Principles, its Governance Compliance Statement, and its Funding Strategy Statement on its website.*

*All Part 1 Agenda reports are available to scheme members and the public on the authority's website.*

London Borough of Hounslow Pension Fund

**Client:** London Borough of Hounslow **Date** 30 August 2011  
**Subject:** Funding Strategy Statement  
**Prepared by** Alison Hamilton FFA

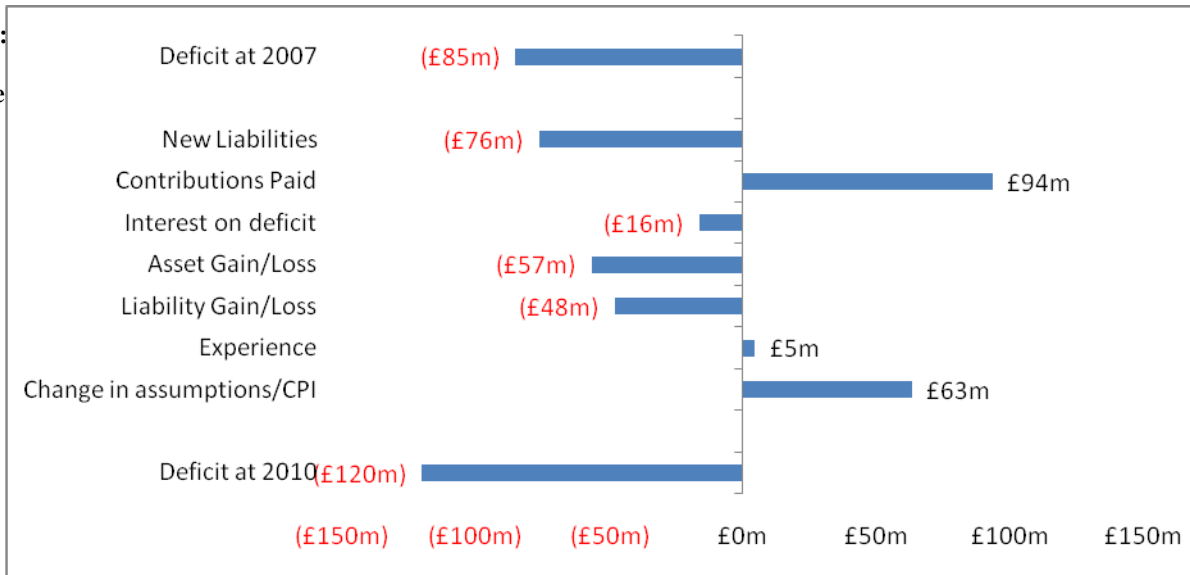
	2010 Valuation	2007 Valuation
<b>Past Service Funding Position</b>	£	£
<b>Smoothed Asset Value</b>	509m	456m
<b>Past Service Liabilities</b>		
Active Members	232m	227m
Deferred Pensioners	110m	94m
Pensioners	287m	213m
<b>Value of Scheme Liabilities</b>	629m	541m
<b>Surplus (Deficit)</b>	(120m)	(85m)
<b>Funding Level</b>	81%	84%
<b>Deficit recovery period</b>	17 years	13 years
<b>Employer Contribution Rates</b>	<b>% of Payroll</b>	<b>% of Payroll</b>
Future Service Contribution Rate	12.8%	13.9%
Deficit recovery	6.9%	6.9%
<b>Total Contribution Rate</b>	<b>19.7%</b>	<b>20.8%</b>

**Executive Summary**

It can be seen from the above that the deficit has increased from £85m to £120m between the 2007 and 2010 triennial valuations. The funding level, that is, the value of the accumulated assets as a percentage of the value of the accrued liabilities has declined from 84% to 81% between the two valuation dates.

The chart below illustrates which factors have led to this increase in deficit over the intervaluation period.

Subject:  
Prepare



As can be seen new liabilities building up and the assumed increase in deficit are paid for by the contributions made to the scheme.

The decline in funding level is mainly attributable to the increase in the liabilities of the scheme. This is primarily due to an increase in the numbers of pensioners receiving pensions and the increases in the average pension being paid from the fund. However the increase in the liability values has been offset by the future change in indexation which is now linked to CPI (consumer price indexation) compared to RPI.

The main net loss is from the growth of the scheme's assets which was lower than assumed at the 2007 valuation.

In order to keep the contribution rates for most employers as stable as possible per the requirement in the regulations the deficit recovery period was increased to 17 years. This compared to the period of 13 years adopted at the 2007 valuation

The total contribution rate at the 2010 valuation of 19.7% is similar to the rate of 20.8% adopted at the 2007 valuation. The difference between the rates is attributable to the decrease in the future service contribution rate at the 2010 valuation, that is the average ongoing contribution rate required to cover future service benefits.

## **Introduction**

This is the Funding Strategy Statement (“FSS”) for the London Borough of Hounslow Pension Fund (“the Fund”). It has been prepared in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended)

It should be read in conjunction with the Fund’s Statement of Investment Principles (“SIP”).

## **Purpose of the Funding Strategy Statement**

The purpose of this Funding Strategy Statement is explain the funding objectives of the Fund and in particular:

How the costs of the benefits provided under the Local Government Pension Scheme (“LGPS”) are met through the Fund.

The objectives in setting employer contribution rates, and,

The funding strategy that is adopted to meet these objectives.

## **Purpose of the Fund**

The purpose of the Fund is to:

Pay out monies in respect of the benefits provided under the Regulations and to meet the costs associated with administering the Fund, and,

Receive contributions, transfer values and investment income.

## **Funding Objectives**

Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.

The funding objectives are

To set levels of employer contributions which will build up a Fund of assets that will be sufficient to meet all future benefit payments from the Fund.

To build up the required assets in such a way that produces levels of employer contributions that are as stable as possible.

## **Key Parties**

The key parties involved in the funding process and their responsibilities are as follows:

### **The Administering Authority**

The Administering Authority for the London Borough of Hounslow Pension Fund is the London Borough of Hounslow. The main responsibilities of the Administering Authority are as follows:

To collect employee and employer contributions.

Invest the Fund’s assets.

Pay the benefits due to Scheme members.

Manage the actuarial valuation process in conjunction with the Fund Actuary.

Prepare and maintain this FSS and also the SIP after consultation with other interested parties.

Monitor all aspects of the Fund's performance.

### **Individual Employers**

The responsibilities of each individual employer which participates in the Fund, including the Administering Authority are as follows:

Collect employee contributions and pay these together with their own employer contributions as certified by the Fund Actuary to the Administering Authority within the statutory timescales.

Promptly notify the Administering Authority of any new Scheme members and any other membership changes.

Exercise any discretions permitted under the Regulations.

Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures.

### **Fund Actuary**

The Fund Actuary for the London Borough of Hounslow Pension Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are:

Advising interested parties on funding strategy and completion of actuarial valuations in accordance with the FSS and the Regulations.

Advising on other actuarial matters affecting the financial position of the Fund.

### **Funding Strategy**

The factors affecting the Fund's finances are constantly changing and so it is necessary for its financial position and the contributions payable to be reviewed from time to time by means of an actuarial valuation to check that the funding objectives are being met.

The actuarial valuation process is essentially a projection of future cashflows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund.

Details of the membership of the participating employers in the Fund and their individual contribution rates is provided in Appendix 2.

### **Funding Method**

The key objective in determining employers' contribution rates is to establish a funding target and then set levels of employer contributions to meet that target over an agreed timescale.

The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund. The funding target, however, may depend on certain employer circumstances and, in particular, on whether an employer is an "open" employer who allows new recruits access to the Fund, or a "closed" employer who no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the chosen funding target.

The principal methods and assumptions to be used in the calculation of the funding target are set out in Appendix 1.

### **Deficit Recovery/Surplus Amortisation Periods**

Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of ac-

crued liabilities depending on how the actual experience of the Fund differs to the actuarial assumptions. Accordingly the Fund will normally either be in surplus or in deficit.

Where the actuarial valuation discloses a significant surplus or deficit then the levels of required employers' contributions will include an adjustment to either amortise the surplus or fund the deficit over a period of some years.

The period that is adopted for any particular employer will depend upon

The significance of the surplus or deficit relative to that employer's liabilities.

The covenant of the individual employer and any limited period of participation in the Fund.

The implications in terms of stability of future levels of employers' contribution.

At the 2010 valuation the period adopted to recover the deficit was no more than 17 years for any employer.

### **Pooling of Individual Employers**

The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly contribution rates are set for individual employers to reflect their own particular circumstances.

However, certain group of individual employers may be pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small.

The main purpose of pooling is to produce more stable employer contribution levels in the longer term whilst recognising that ultimately there will be some level of cross subsidy of pension cost amongst pooled employers.

### **Cessation Valuations**

On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer.

In assessing the deficit on termination, the actuary may adopt a discount rate based on gilt yields and adopt different assumptions to those used at the previous valuation to protect the other employers in the Fund from having to fund any future deficits from the liabilities that will remain in the Fund.

### **Links with the Statement of Investment Principles**

The main link between the FSS and the SIP relates to the discount rate that underlies the funding strategy as set out in the FSS and the expected rate of investment return which is expected to be achieved by the underlying investment strategy as set out in the SIP.

As explained above the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the underlying investment strategy and so there is consistency between the funding strategy and investment strategy.

### **Risks and Counter Measures**

Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are a number of risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

The major risks to the funding strategy are financial risks although there are other external factors including demographic risks, regulatory risks and governance risks.

## **Financial Risks**

The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors including market returns being less than expected and/or the chosen fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets. The valuation results are most sensitive to the real discount rate. Broadly speaking an increase/decrease of 0.5% per annum in the real discount rate will decrease/increase the liabilities by 10% and decrease/increase the required employer contribution by around 2.5% of payroll.

The Pension Fund Investment Committee, however, regularly monitors the investment returns achieved by the fund managers and receive advice from the Fund Administrator and the independent adviser on investment strategy.

The Committee may also seek advice from the Fund Actuary on valuation related matters.

In addition the Fund Actuary provides funding updates between valuations to check whether that the funding strategy continues to meet the funding objectives.

## **Demographic Risks**

Allowance is made in the funding strategy via the actuarial assumptions of a continuing improvement in life expectancy. However, the main risk to the funding strategy is that it might underestimate the continuing improvement in mortality. For example an increase of 1 year to life expectancy of all members in the Fund will reduce the funding level by around 0.5% to 1%.

The actual mortality of pensioners in the Fund is, however, monitored by the Fund Actuary at each actuarial valuation and assumptions kept under review.

The liabilities of the Fund can also increase by more than has been planned as a result of early retirements.

However, the Administering Authority monitors the incidence of early retirements and procedures are in place which require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

## **Regulatory Risks**

The benefits provided by the Scheme and employee contribution levels are set out in Regulation as determined by central Government. The tax status of the invested assets is also determined by central Government.

The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which increase the cost to individual employers of participating in the Scheme.

The Administering Authority, however, actively participates in any consultation process of any change in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

## **Governance**

Many different employers participate in the Fund. Accordingly it is recognised a number of employer specific events could impact on the funding strategy including:

Structural changes in an individual employer's membership.

An individual employer deciding to close the Scheme to new employees.

An employer ceasing to exist without having fully funded their pension liabilities.

However, the Administering Authority monitors the position of employers participating in the Fund, particularly those who may be susceptible to the aforementioned events and takes advice from the Fund Actuary when required.

In addition the Administering Authority keeps in close touch with all individual employers participating in the Fund to ensure that, as Administering Authority, it has the most up to date information available on individual employer situations and also to keep individual employers fully briefed on funding and related issues.

**Monitoring and Review**

This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.

However, the Administering Authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if deemed necessary.

## **Appendix 1 - Actuarial Valuation as at 31 March 2010**

The following sets out the method and assumptions used in calculating the funding target and recovery plan.

### **Method**

For open employers, the actuarial funding method that was adopted is known as the Projected Unit Funding Method which considers separately the benefits in respect of service completed before the valuation date (“past service”) and benefits in respect of service expected to be completed after the valuation date (“future service”). This approach focuses on

The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service after making allowance for future increases to members’ pay and pensions in payment. A funding level in excess of 100% indicates a surplus of assets over liabilities; a funding level of less than 100% indicates a deficit.

The future service funding rate i.e. the level of contributions required from the individual employers which together with employee contributions are expected to support the cost of benefits accruing in future.

The key feature of this method is that in assessing the future service cost the contribution rate represents the cost of one year’s benefit accrual.

For closed employers then the funding method adopted is known as the Attained Age Method. The key difference with this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over the remaining expected working lifetime of active members.

### **Financial assumptions**

At this valuation we have used a market related funding model. The key features of the model are as follows:

Assumed future levels of retail price inflation are derived by considering the difference between index-linked gilt and fixed-interest gilt yields at the valuation date, as published by the Bank of England. At this valuation we have also included an adjustment known as an inflation premium. This inflation premium is deducted from the market implied inflation assumption to reflect the expectation that market implied inflation tends to overstate actual retail price inflation.

Pay increases are assumed to exceed future retail price inflation based on past experience and expectations of future experience.

Pension increases are assumed to be in line with CPI rather than RPI. It is assumed that CPI will be 0.5% per annum less than RPI, consistent with the historical average.

### **Investment return (discount rate)**

The expected future return from equities is based on dividend yields at the valuation date in addition to an allowance for real capital growth in asset values.

Rather than take “spot” yields and market values of assets at the valuation date we have used smoothed yields and asset values spanning the 6 month period around the valuation date.

The discount rate used to discount future payments to and from the Fund and so determine the value placed on the liabilities reflects the risk adjusted expected return that will be earned by the actual investment strategy adopted by the Fund.

## Individual Employers

It is important to consider how the financial assumptions in particular impact on individual participating employers. The general Fund practice, as set out in the FSS is to allocate investment performance pro rata across all employers based on a “mirror image” investment strategy to the whole Fund. In completing the calculations for individual employers therefore, the same actuarial assumptions have been adopted regardless of the individual employer liability profiles.

### Inflation (Retail Prices Index)

The inflation assumption will be taken to be the investment market’s expectation for inflation. This is derived by considering the difference in yields from conventional and index linked gilts using the Bank of England Inflation Curve and then adjusting by an inflation premium

### Pay Inflation

As benefits are currently linked to pay levels at retirement, an assumption has to be made about future levels of pay inflation. Historically there has been a close link between price and pay inflation with pay increases in excess of price inflation averaging out at between 1% and 3% per annum depending on economic conditions.

At this valuation we have adopted a lower salary increase assumption, at 1.5% per annum above price inflation.

In addition, in anticipation of Government policy we have completed calculations assuming a short term “pay freeze” for 2 years for those earning over £21,000 per annum.

### Pension increases

Previously, pension increases were assumed to be in line with retail price increases. The 2010 Emergency Budget announced that in future, the pension increase orders will be linked to the CPI rather than RPI. We have therefore assumed that pension increases will be 0.5% less than the price inflation assumption. i.e. 3.0% per annum

### Mortality and other statistical assumptions

These are as described in the 2010 valuation report.

### Summary of key assumptions for the 2010 actuarial valuation

Financial Assumptions	March 2010		March 2007	
	% p.a.	Real % p.a.	% p.a.	Real % p.a.
Investment Return				
Equities/absolute return				
funds	7.5%	4.0%	7.6%	4.3%
Gilts	4.5%	1.0%	4.7%	1.3%
Bonds & Property	5.6%	2.1%	5.4%	2.0%
Discount Rate	6.8%	3.3%	6.9%	3.5%
Pay Increases	5.0%	1.5%	4.9%	1.5%
Price Inflation	3.5%	-	3.4%	-
Pension Increases	3.0%	(0.5%)	3.4%	-

## Appendix 2 - Participating Employers and Contribution Schedule

### Individual Employer data as at 31 March 2010

Employer	Code	Active Members			Pensioners			Deferred Pensioners		
		Number	Actual Pay	Average	Number	Annual Pensions	Average	Number	Annual Pensions	Average
			£ (000)	£		£ (000)	£		£ (000)	£
London Borough of Hounslow	920	4,834	92,107	19,054	4,446	19,057	4,286	4,866	7,893	1,622
Brunel University College	921	-	-	-	92	245	2,662	20	30	1,477
Hounslow Magistrates Court	922	-	-	-	19	104	5,486	27	53	1,955
Gunnersby Park Joint CTTE	923	-	-	-	4	29	7,216	2	12	6,166
Cranford Park Joint Committee	924	-	-	-	6	17	2,877	-	-	-
Heston & Isleworth Old Peoples	925	-	-	-	2	4	2,132	-	-	-
Hounslow Hospital Association	926	-	-	-	1	1	1,401	-	-	-
Hounslow Racial Equality Council	927	7	172	24,639	7	13	1,878	10	12	1,204
Hounslow Community Transport	928	-	-	-	4	3	688	1	1	1,472
Age Concern Feltham	929	-	-	-	2	7	3,361	1	2	2,208
Hounslow Toy Library	930	-	-	-	1	1	548	-	-	-
West Thames College	931	148	3,104	20,974	74	293	3,954	125	174	1,393
Gumley School	932	-	-	-	2	8	4,100	3	2	554
Gunnersbury School	933	-	-	-	2	3	1,372	-	-	-
Brentford Regeneration Partnership	934	-	-	-	-	-	-	1	1	1,286
Community Initiatives Partnership	935	-	-	-	14	87	6,210	25	104	4,179
Hounslow Cultural & Community Services	936	-	-	-	94	423	4,499	206	256	1,242
Hounslow Sport & Recreation Services	937	-	-	-	20	104	5,207	74	142	1,924
Hounslow Homes	938	517	14,341	27,738	170	948	5,574	223	445	1,996
Apetito	950	7	56	8,012	6	17	2,837	1	0	130
Fusion	951	82	1,670	20,362	5	31	6,259	4	9	2,144
John Lang	952	20	207	10,373	4	29	7,298	-	-	-
Hounslow Community Services	953	116	2,314	19,945	5	36	7,158	10	55	5,450
Continental Landscapes	954	42	1,094	26,053	4	28	7,060	-	-	-
Scope	955	3	20	6,826	1	1	1,200	-	-	-
Jewson	956	1	23	23,162	-	-	-	4	14	3,615
SITA	957	36	829	23,023	1	6	6,179	3	5	1,730
Lampton School	958	42	847	20,164	-	-	-	2	2	1,089
<b>Total</b>		<b>5,855</b>	<b>116,784</b>	<b>19,946</b>	<b>4,986</b>	<b>21,495</b>	<b>4,311</b>	<b>5,608</b>	<b>9,214</b>	<b>1,643</b>

## Contribution Schedule

The required contribution rate for each employer is set out in the following table.

The Common Rate of Contribution payable by each employing authority under Regulation 36 for the period 1 April 2011 to 31 March 2014 is 19.7% of pensionable payroll.

Individual Adjustments payable by each employing authority under Regulation 36 for the period 1 April 2011 to 31 March 2014 resulting in Minimum Total Contribution Rates are as set out below.

Each employer shall pay the shown total rate as a percentage of payroll, or future service rate plus additional monetary amounts as agreed between the Administering Authority and the employer.

Code	Employer	Future Service Rate % payroll	Additional monetary amount for deficit recovery			Total Employer Contribution Rates		
			2011/12	2012/13	2013/14	2011/12	2012/13	2013/14
			£			% payroll		
920	London Borough of Hounslow	12.80%	7,795,000	7,795,000	7,795,000	21.20%	21.20%	21.20%
927	Hounslow Racial Equality Council	11.20%	3,200	3,200	3,200	13.10%	13.10%	13.10%
931	West Thames College	13.10%	170,000	175,000	180,000	18.50%	18.70%	18.90%
938	Hounslow Homes	13.10%	910,000	910,000	910,000	19.40%	19.40%	19.40%
950	Apetito	14.50%	1,500	1,500	1,500	17.20%	17.20%	17.20%
951	Fusion	11.80%	55,000	55,000	55,000	15.10%	15.10%	15.10%
952	John Lang	13.50%	10,500	10,500	10,500	18.50%	18.50%	18.50%
953	Hounslow Community Services	14.60%	10,000	10,000	10,000	15.10%	15.10%	15.10%
954	Continental Landscapes	11.60%	60,000	60,000	60,000	17.00%	17.00%	17.00%
955	Scope	13.90%	1,500	1,500	1,500	21.30%	21.30%	21.30%
956	Jewson	19.50%	-	25	45	19.50%	19.60%	19.70%
957	SITA	14.60%	62,000	62,000	62,000	22.10%	22.10%	22.10%
958	Lampton School	13.00%	70,000	70,000	70,000	21.20%	21.20%	21.20%
	Cranford Academy	11.20%	105,000	105,000	105,000	21.20%	21.20%	21.20%

