



# Annual Report

Hammersmith & Fulham Pension Fund **2020/21**





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Preface

# Report from Chair of the Pensions Sub-Committee

## WELCOME TO THE ANNUAL REPORT OF HAMMERMSITH AND FULHAM PENSION FUND

The Pension Fund Committee is responsible for overseeing the governance and management of the London Borough of Hammersmith and Fulham Pension Fund, including investment management and pension administration responsibilities. As the current Chair of this Committee, I am pleased to introduce the Pension Fund's Annual Report for the year 2020/21.

Since the Covid-19 pandemic struck in early 2020, people across the world are still suffering and our thoughts are with those affected. The Pension Fund has experienced a considerable recovery since the March 2020 lows that occurred during the early stages of the pandemic, with asset values bouncing back 21% in value. The Committee continues to monitor the Fund closely at each quarterly committee meeting and challenges the investment advisors and officers as necessary to ensure the Fund's investments are being managed effectively.

The Fund completed a triennial actuarial valuation as at 31 March 2019, with the funding level improving significantly from 88% in 2016, to 97%. This is primarily as a result of strong investment returns over the period. The planning process for the March 2022 valuation is already underway. Recent funding updates shows that the funding level should remain broadly in line with 2019.

The Pension Fund remains conscious of its role in ensuring good environmental, social and governance behaviours from the companies in which it invests. The Fund made a £30m commitment to the construction of new affordable homes during the year. In line with good governance practice, the Fund continues to closely monitor the underlying carbon emissions of its investments, with the latest data showing the Fund has reduced its carbon to value invested of its equity portfolios by approximately 80% since December 2018 (June 2020 data).

The Pension Fund has shown leadership in managing the environmental social and governance (ESG) impacts of its investments. The London CIV showcased the Pension Fund's ESG dashboard as an exemplar, when it was first introduced in 2019, of reporting ESG concerns to members. The Pension Fund has also been recognised by Friends of the Earth in its "Divest Dashboard" as having the second lowest exposure to fossil fuels across all UK LGPS funds and the lowest in London.

I would like to thank all those involved in the governance and management of the Pension Fund during the year, especially those who served on the Pension Fund Committee during this time.



**Councillor Iain Cassidy**  
**Chairman of the Audit, Pensions & Standards Committee & Pensions Sub-Committee**

# Introduction

The London Borough of Hammersmith and Fulham Pension Fund (the Fund) is part of the national Local Government Pension Scheme (LGPS) and is administered locally by Hammersmith and Fulham Council. It is a contributory defined benefit pension scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of the Hammersmith and Fulham Council and the admitted and scheduled bodies in the Fund. These benefits include retirement pensions and early payment of benefits on medical grounds and payment of death benefits where death occurs either in service or in retirement. Teachers are excluded from this scheme as they are administered under the Teachers' Pension Scheme.

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies, and from investment returns on the Fund's investment assets. Contributions rates for employees set in accordance with the Local Government Pension Scheme Regulations 2013. Employer contributions are set based on the triennial actuarial funding valuation. The latest valuation for the fund was carried out as at 31 March 2019, and the new contributions came into effect from 1 April 2020.

The benefits payable from the Fund in respect of service from 1 April 2014 are set out in the Local Government Pension Scheme Regulations 2013, as amended, and in summary consist of:

- Career average revalued earnings (CARE), revalued in line with the Consumer Prices Index.
- Pensionable pay to include non-contractual overtime and additional hours.
- Flexibility for member to pay 50% contributions for 50% of the pension benefit
- Normal pension age to equal the individual member's State Pension Age.
- Option to trade £1 of pension for a £12 tax-free lump sum at retirement.
- Death in service lump sum of three times pensionable pay and survivor benefits
- Early payment of pensions in the event of ill health.

The benefits payable in respect of service prior to 1 April 2014 are based on an employee's final salary and the number of years eligible service. Benefits accrued in the Scheme before 1<sup>st</sup> April 2014 are protected up to that dated based on the scheme member's final year's pay.

The Fund is governed by the Public Service Pensions Act 2013 and the following secondary legislation:

- The LGPS Regulations 2013 (as amended)
- The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and
- The LGPS (Management and Investment of Funds) Regulations 2016.

The content and format of this annual report is prescribed by the LGPS Regulations 2013.

Publication of this report gives the Council the opportunity to demonstrate the high standard of governance and financial management applied to the Fund. It brings together several separate reporting strands into one comprehensive document that enables both the public and employees to see how the Fund is managed and how well it is performing.

It is in the interest of both employees and the public that the Fund is well managed and continues to provide high returns and excellent value for money.

## Introduction (continued)

### THIS ANNUAL REPORT COMPRISES THE FOLLOWING SECTIONS:

- **Management and Financial Performance** which explains the governance and management arrangements for the Fund, as well as summarising the financial position and the approach to risk management.
- **Investment Policy and Performance** which details the Fund's investment strategy, arrangements and performance.
- **Scheme Administration** which sets out how the Scheme's benefits and membership are administered.
- **Actuarial Information** which includes the funding position of the Fund with a statement from the Fund's actuary.

- **The Fund's Annual Accounts** for the year ended 31 March 2020.
- **List of contacts** and a glossary of some of the more technical terms
- **Appendices** setting out the various regulatory policy statements of the Fund:
  - Governance Compliance Statement
  - Statement of Investment Principles
  - Communication Policy
  - Funding Strategy Statement
  - Pension Administration Strategy
  - Report of the Pension Board

Further information about the Local Government Pension Scheme can be found at:  
[www.lbhfpensionfund.org](http://www.lbhfpensionfund.org)

This annual report and the statement of accounts within have been prepared taking careful account of relevant Statutory Guidance.



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# Management and Financial Information



# Governance Arrangements

## PENSION FUND COMMITTEE

The London Borough of Hammersmith & Fulham Council has delegated responsibility for pension matters to the Audit, Pensions and Standards Committee.

The Committee is comprised of six elected representatives of the council – four from the administration and two opposition party representatives. Members of the admitted bodies and representatives of the Trade Unions may attend the committee meetings but have no voting rights. In order to manage the workload of the committee, it has delegated decisions in relation to all pension matters to the Pensions Sub-Committee.

The Sub-Committee obtains and considers advice from the Tri-Borough Director of Treasury and Pensions, the Section 151 Officer and, as necessary, from the Fund's appointed actuary, advisors and investment managers.

### Terms of reference for the Sub-Committee are:

- To agree the investment strategy and strategic asset allocation having regard to the advice of the fund managers and the investment consultant.
- To monitor performance of the Pension Fund, individual fund managers, custodians, actuary and other external advisors to ensure that they remain suitable.

- To determine the Fund's management arrangements, including the appointment and termination of fund managers, actuary, custodians and fund advisors.
- To agree the Statement of Investment Principles, the Funding Strategy Statement, the Business Plan for the Fund, the Governance Policy Statement, the Communications Policy Statement and the Governance Compliance Statement and to ensure compliance with these.
- To approve the final Statement of Accounts of the Pension Fund and to approve the Annual Report.
- To receive actuarial valuations of the Pension Fund regarding the level of employers' contributions necessary to balance the Pension Fund.
- To oversee and approve any changes to the administrative arrangements, material contracts and policies and procedures of the Council for the payment of pensions, and allowances to beneficiaries.
- To make and review an admission policy relating to admission agreements generally with any admission body.
- To ensure compliance with all relevant statutes, regulations and best practice with both the public and private sectors.

- To review the arrangements and managers for the provision of Additional Voluntary Contributions for fund members.
- To receive and consider the Auditor's report on the governance of the Pension Fund.
- To determine any other investment or Pension Fund policies that may be required from time to time to comply with Government regulations and to make any decisions in accordance with those policies

The current membership of the Pensions Sub-Committee is set out below. Jonathan Caleb-Landy and Rowan Ree replaced Rebecca Harvey and PJ Murphy at the beginning of 2021, with the remaining elected members serving for the full year in 2020/21.

| Councillor                | Committee Attendance 2020/21 |
|---------------------------|------------------------------|
| Iain Cassidy (Chair)      | 7/7                          |
| Matt Thorley (Vice Chair) | 7/7                          |
| Rebecca Harvey            | 5/7                          |
| PJ Murphy                 | 5/7                          |
| Jonathan Caleb-Landy      | 2/2                          |
| Rowan Ree                 | 2/2                          |

Councillors may be contacted at Hammersmith Town Hall, King Street, London, W6 9JU

## LOCAL PENSION BOARD

The Council has also established a Pensions Board (the Board) to assist the Pensions Sub-Committee as required by the Public Services Pensions 2013. The purpose of the Pensions Board is to provide oversight of the Pensions Sub-Committee.

The Board does not have a decision-making power in relation to management of the Fund but is able to make recommendations to the Pensions Sub-Committee. It meets at least twice a year.

### Terms of reference for the Local Pension Board are:

- To secure compliance with the LGPS Governance regulations and any other legislation relating to the governance and administration of the Fund.
- To secure compliance with any requirements imposed by the Pensions Regulator in relation to the Scheme
- To ensure effective and efficient governance and administration of the Scheme

### The membership of the Board is as follows:

- Two employer representatives comprising one from an admitted or scheduled body and two nominated by the Council;
- Three scheme member representatives from the Council or an admitted or scheduled body.

The current membership of the Pensions Board is set out below.

| Board Member             | Employer/Employee | Attendance 2019/20 |
|--------------------------|-------------------|--------------------|
| Cllr Rory Vaughn (Chair) | Employer          | 2/2                |
| Cllr Bora Kwon           | Employer          | 2/2                |
| William OConnell         | Employee          | 2/2                |
| Khadija Sekhon           | Employee          | 0/2                |
| Neil Newton              | Employee          | 1/2                |

## MEMBER AND OFFICER TRAINING

The LGPS Governance regulations and other related legislation requires Local Pension Board members to have knowledge and understanding of relevant pension laws, and to have a working knowledge

During 2020/21 knowledge was gained at various meetings with investment managers in addition to individual attendance at conferences and seminars.

Further relevant training is planned for 2021/22 based on self-assessments completed by Sub-Committee and board members in accordance with the policy.

## CONFLICTS OF INTEREST

The Pension Fund is governed by elected members acting as trustees and the Code of Conduct for elected members' sets out how any conflicts of interests should be addressed. The Members Code of Conduct is in Part 5 of the Council Constitution which can be found online at [www.lbhf.gov.uk](http://www.lbhf.gov.uk)

The Code includes general provisions on ethics and standards of behaviour which require elected members to treat others with respect and not to bully, intimidate or do anything to compromise the

impartiality of those who work for or on behalf of the Council.

The Code also contains rules about "disclosable pecuniary interests" and sets out the action an elected member must take when they have such an interest in Council business, for instance withdrawing from the room or chamber when the matter is discussed and decided in committee, unless dispensation has been obtained from the Council's Monitoring Officer.

## GOVERNANCE COMPLIANCE STATEMENT

The LGPS Regulations 2013 require Pension Funds to prepare, publish and maintain a governance compliance statement; and to measure the governance arrangements in place against a set of best practice principles. This measurement should result in a statement of full, partial or non-compliance with a further explanation provided for any non- or partial-compliance.

The key issues covered by the best practice principles are:

- Formal committee structure;
- Committee membership and representation;
- Selection and role of lay members;
- Voting rights;
- Training, facility time and expenses.

The Fund's Governance Compliance statement was updated in June 2015 can be found at Appendix 1.

# Scheme Management and Advisors for 20/21

## EXTERNAL PARTIES

|                              |   |  |
|------------------------------|---|--|
| <b>Investment Advisor</b>    | Deloitte  |  |
| <b>Investment Managers</b>   | <b>Global Equities (Passive)</b><br>Legal & General Investment Management<br>Morgan Stanley Investment Management<br><b>Private Multi-Asset Credit</b><br>Partners Group<br>Aberdeen Standard<br><b>Infrastructure</b><br>Aviva Investors<br>Partners Group | <b>Absolute Return</b><br>London LGPS CIV – Ruffer<br><b>Fixed Income</b><br>Oakhill Advisors<br><b>Long Lease Property</b><br>Aberdeen Standard<br><b>Private Equity</b><br>Invesco<br>Unigestion |
| <b>Custodian</b>             | Northern Trust  |  |
| <b>Banker</b>                | NatWest Bank  |  |
| <b>Actuary</b>               | Barnett Waddingham  |  |
| <b>Auditor</b>               | Grant Thornton LLP  |  |
| <b>Legal adviser</b>         | Eversheds Sutherland  |  |
| <b>Scheme Administrators</b> | Surrey County Council   |  |
| <b>AVC Providers</b>         | Zurich Assurance  | Equitable Life Assurance Society   |

## OFFICERS

|  |  |  |
|--|--|--|
| <b>Strategic Director of Finance and Governance (S151 Officer)</b> | Emily Hill   |  |
| <b>Tri-Borough Pensions Team</b>                                   | Phil Triggs<br>Matt Hopson<br>Mat Dawson<br>Patrick Rowe | Julia Stevens<br>Billie Emery<br>Alastair Paton<br>Gibraan Karim |
| <b>Pensions Manager</b>  | Eleanor Dennis   |  |

Contact details are provided in Section 7 of this report

# Risk Management

The Fund’s primary long-term risk is that its assets fall short of its liabilities such that there are insufficient assets to pay promised benefits to members. The investment objectives have been set with the aim of maximising investment returns over the long term within specified risk tolerances. This aims to optimise the likelihood that the promises made regarding members’ pensions and other benefits will be fulfilled.

The responsibility for the Fund’s risk management strategy rests with the Pensions Sub-Committee. In order to manage the risks a Pension Fund Risk Register is maintained, focusing on investment risks and on administration risk. This document is reviewed quarterly. For the key risks which have been identified, appropriate planned actions have been introduced to minimise their impact. The risk register is managed by the Tri-Borough Director of Treasury and Pensions and risks have been assigned to the appropriate “risk owners”.

The key risks identified within the Pension Fund risk register are:

| Objective Area at Risk | Risk  | Risk Rating | Responsible Officer                           | Mitigating Actions  |
|------------------------|---|-------------|---|---|
| Investment             | The global outbreak of COVID-19 poses economic uncertainty across the global investment markets. Valuations of illiquid assets such as property and infrastructure are increasingly difficult to determine. | High        | Tri-Borough Director of Pensions and Treasury | The Fund’s officers will continue to monitor the impact lockdown measures have on the fund’s underlying investments and the wider economic environment<br><br>The Fund will continue to review its asset allocation and make any changes when necessary |
| Administration         | Changing the fund’s pensions administration provider at the same time as bringing back the retained pensions team in house poses significant operational risk to the fund                                   | High        | Director of Finance                           | A task force of key stakeholders has been assembled. Officers to feed into the internal processes necessary for the setup of an effective retained pensions team  |
| Investment             | Significant volatility and negative sentiment in global investment markets caused by global political uncertainty   | High        | Tri-Borough Director of Pensions and Treasury | The Fund’s officers are in regular dialogue with investment managers with regards to their management of political risk.<br><br>The Fund holds a well-diversified portfolio and the investment strategy is reviewed regularly.                          |
| Administration         | Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.   |             | Director of Finance                           | The Fund’s officers continue to monitor the staffing changes, contract and KPIs of third-party provider.  |

## Risk Management (continued)

Risks arising from financial instruments are outlined in the notes to the Pension Fund Accounts (Note 16).

The Funding Strategy Statement (Appendix 3) sets out the key risks, including demographic, regulatory, governance, to not achieving full funding in line with the strategy. The actuary reports on these risks at each triennial valuation or more frequently as and when required.

| Objective Area at Risk | Risk  | Risk Rating | Responsible Officer                           | Mitigating Actions   |
|------------------------|---|-------------|---|--|
| Funding                | There is insufficient cash available to the Fund to meet pension payments due to reduced income generated from underlying investments, leading to investment assets being sold at sub-optimal prices to meet pension obligations. | Medium      | Director of Finance                           | The Fund's officers maintain a regularly monitored cashflow forecast.<br>The Fund's cash position is reported to sub-committee quarterly.<br>The Fund continually reviews the income it receives from underlying investments |
| Governance             | The asset pool disbands or the partnership fails to produce proposals/solutions deemed sufficiently ambitious.  | Medium      | Tri-Borough Director of Pensions and Treasury | The Fund's officers frequently engage with the pool and partner funds<br>Ongoing fund and pool proposals are monitored regularly   |
| Funding                | Scheme members live longer than expected leading to higher than expected liabilities.   | Medium      | Tri-Borough Director of Pensions and Treasury | The scheme's pension liabilities are reviewed on a quarterly basis and revalued every three years.   |
| Investment             | Volatility caused by uncertainty regarding the withdrawal of the UK from the European Union, including ongoing supply chain issues.   | Medium      | Tri-Borough Director of Pensions and Treasury | Officers regularly consult and engage with advisors and independent managers.  |

## Risk Management (continued)

### THIRD PARTY RISKS

The Council has outsourced the following functions of the Fund:

- Investment management;
- Custodianship of assets;
- Pensions administration.

As these functions are outsourced, the Council is exposed to third party risk. A range of investment managers are used to diversify manager risk.

To mitigate the risks regarding investment management and custodianship of assets, the Council obtains independent internal controls assurance reports from the reporting accountants to the relevant service providers. These independent reports are prepared in accordance with international standards. Any weaknesses in internal controls highlighted by the controls assurance reports are reviewed and reported as necessary to the Pension Committee.

The Council's internal audit service undertakes planned programmes of audits of all the Councils' financial systems on a phased basis, all payments and income/contributions are covered by this process as and when the audits take place.

The results of these reviews are summarised below and cover 99.5% of investment holdings at 31 March 2021.

| Fund Manager      | Type of Assurance | Control Framework    | Compliance with Controls | Reporting Accountant |
|-------------------|-------------------|----------------------|--------------------------|----------------------|
| Aberdeen Standard | ISAE 3402         | Reasonable assurance | Reasonable assurance     | KPMG LLP             |
| Aviva Investors   | ISAE 3402         | Reasonable assurance | Reasonable assurance     | PWC LLP              |
| Invesco           | ISAE 3402         | Reasonable assurance | Reasonable assurance     | PWC LLP              |
| Legal & General   | ISAE 3402         | Reasonable assurance | Reasonable assurance     | KPMG LLP             |
| Morgan Stanley    | ISAE 3402         | Reasonable assurance | Reasonable assurance     | Deloitte             |
| Oak Hill Advisors | SOC10             | Reasonable assurance | Reasonable assurance     | RSM US LLP           |
| Partners Group    | ISAE 3402         | Reasonable assurance | Reasonable assurance     | PWC LLP              |
| Ruffer LLP        | ISAE 3402         | Reasonable assurance | Reasonable assurance     | Ernst Young LLP      |
| Unigestion        | ISAE 3402         | Reasonable assurance | Reasonable assurance     | KPMG LLP             |
| PIMCO             | ISAE 3402         | Reasonable assurance | Reasonable assurance     | PWC LLP              |
| <b>Custodian</b>  |                   |                      |                          |                      |
| Northern Trust    | SOC10             | Reasonable assurance | Reasonable assurance     | KPMG LLP             |

# Financial Performance

The Fund asset value increased by £208m during 2020/21, to £1,219m as at 31 March 2021, after recovering well from a drop in value due to the uncertainty in the global economic outlook as a result of the COVID-19 disease.

A triennial revaluation was completed in 2016/17 showing an improvement in the overall funding level to 88% compared to 83% in 2013. However, funding levels for different employers vary significantly. To improve funding levels, the Council's medium-term financial plan already assumes an increase in employer contributions, which in combination with other employers, will improve the overall funding level over the medium term.

The latest triennial revaluation took place in 2019 and set employer contribution rates from 2020/21 onwards and shows a further funding level of 97%.

## ANALYTICAL REVIEW – FUND ACCOUNT

|   | 2016/17          | 2017/18        | 2018/19         | 2019/20       | 2020/21          |
|---|------------------|----------------|-----------------|---------------|------------------|
| Fund account  | £'000            | £'000          | £'000           | £'000         | £'000            |
| Dealings with members   |                  |                |                 |               |                  |
| Contributions   | (32,274)         | (33,454)       | (36,386)        | (37,869)      | (41,534)         |
| Pensions  | 40,770           | 42,827         | 48,846          | 52,660        | 52,088           |
| <b>Net (additions)/withdrawals from dealings with members</b> | <b>8,496</b>     | <b>9,373</b>   | <b>12,460</b>   | <b>14,791</b> | <b>10,554</b>    |
| Management expenses   |                  |                |                 |               |                  |
| Management expenses   | 6,530            | 4,503          | 6,199           | 5,866         | 8,903            |
| Investment Income   | (12,799)         | (10,283)       | (11,967)        | (14,642)      | (12,327)         |
| Change in market value  | (148,740)        | (10,384)       | (49,142)        | 36,172        | (215,444)        |
| <b>Net (increase)/decrease in the Fund</b>                    | <b>(146,513)</b> | <b>(6,791)</b> | <b>(42,450)</b> | <b>41,187</b> | <b>(208,337)</b> |

Over the five-year period, pensions paid have exceeded contributions received by £56m in total. This reflects the maturity of the Fund membership in that there are fewer contributors than beneficiaries.

Both officers and the Pensions Sub-Committee monitor investment performance closely and refer to independent investment advisers as necessary to ensure the Fund's investments are being managed effectively.

The fund transitioned assets between managers in year which resulted in increased transaction costs. This related to the Fund's divestment from the Majedie UK Equity Fund into the MSIM Global Core Fund.

Additionally, due to new requirements related to the cost transparency initiative, the Fund was able to ascertain its transaction costs more accurately.

## Financial Performance (continued)

### ANALYTICAL REVIEW – NET ASSET STATEMENT

|  | 2016/17          | 2017/18          | 2018/19          | 2019/20          | 2020/21          |
|--|------------------|------------------|------------------|------------------|------------------|
| Net Asset Statement                        | £'000            | £'000            | £'000            | £'000            | £'000            |
| Bonds                                      | -                | -                | -                | -                | -                |
| Equities                                   | 112,475          | 150              | 150              | 150              | 150              |
| Pooled investment vehicles                 | 834,828          | 998,141          | 1,034,851        | 946,792          | 1,214,810        |
| Commodities                                | -                | -                | -                | -                | -                |
| Derivatives                                | -                | -                | -                | -                | -                |
| Cash deposits                              | 7,856            | 6,168            | 12,843           | 59,524           | 8                |
| Other                                      | 486              | 35               | 34               | 26               | 13               |
| <b>Total Investment Assets</b>             | <b>1,002,682</b> | <b>1,004,494</b> | <b>1,047,878</b> | <b>1,006,492</b> | <b>1,214,981</b> |
| Current assets                             | 4,373            | 6,420            | 5,396            | 5,572            | 3,664            |
| Current Liabilities                        | (4,223)          | (1,291)          | (1,201)          | (1,178)          | (1,100)          |
| <b>Net (increase)/decrease in the Fund</b> | <b>1,002,832</b> | <b>1,009,623</b> | <b>1,052,073</b> | <b>1,010,886</b> | <b>1,219,223</b> |

The points to note are:

- 95% of pooled investment vehicles comprise equity shareholdings both domestic and overseas, while the remaining 5% is in property pooled funds.
- The overall value of pooled investment vehicles increased by £268m (28%) during the year.

Further details are given in the Investment Policy and Performance Section.



## Financial Performance (continued)

### ANALYSIS OF DEALINGS WITH SCHEME MEMBERS

|                                 | 2016/17         | 2017/18         | 2018/19         | 2019/20         | 2020/21         |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Contributions receivable</b> | <b>£'000</b>    | <b>£'000</b>    | <b>£'000</b>    | <b>£'000</b>    | <b>£'000</b>    |
| - Members                       | (6,937)         | (6,781)         | (7,157)         | (7,408)         | (8,004)         |
| - Employers                     | (22,494)        | (24,268)        | (25,074)        | (26,135)        | (24,180)        |
| - Transfers in                  | (2,090)         | (3,012)         | (2,934)         | (4,326)         | (9,350)         |
| - Other                         | (753)           | 607             | (1,221)         | -               | -               |
| <b>Total Income</b>             | <b>(32,274)</b> | <b>(33,454)</b> | <b>(36,386)</b> | <b>(37,869)</b> | <b>(41,534)</b> |

|   | 2016/17       | 2017/18       | 2018/19       | 2019/20       | 2020/21       |
|---|---------------|---------------|---------------|---------------|---------------|
| <b>Benefits Payable</b>                   | <b>£'000</b>  | <b>£'000</b>  | <b>£'000</b>  | <b>£'000</b>  | <b>£'000</b>  |
| - Pensions                                | 30,002        | 31,465        | 32,912        | 34,916        | 36,363        |
| - Lump sum retirements and death benefits | 5,685         | 7,256         | 8,167         | 9,400         | 8,672         |
| - Transfers out                           | 5,046         | 4,086         | 7,726         | 7,225         | 7,013         |
| - Refunds                                 | 37            | 20            | 41            | 119           | 40            |
| <b>Total Expenditure</b>                  | <b>40,770</b> | <b>42,827</b> | <b>48,846</b> | <b>51,660</b> | <b>52,048</b> |
| <b>Net Dealings with Members</b>          | <b>8,496</b>  | <b>9,373</b>  | <b>12,460</b> | <b>13,791</b> | <b>10,514</b> |

The key variances were due to the following:

- Lump sums fell due to fewer members retiring than in the prior year.
- Transfers in were higher, reflecting more new starters joining the scheme and choosing to transfer in benefits on commencement of employment, than last year.

## Financial Performance (continued)

### ANALYSIS OF OPERATIONAL EXPENSES

The costs of running the pension fund are shown below.

|   | 2016/17      | 2017/18      | 2018/19      | 2019/20      | 2020/21      |
|---|--------------|--------------|--------------|--------------|--------------|
|   | £'000        | £'000        | £'000        | £'000        | £'000        |
| <b>Administration</b>                       |              |              |              |              |              |
| Employees                                   | 138          | 235          | 214          | 223          | 279          |
| Supplies and services                       | 381          | 165          | 132          | 139          | 254          |
| Other Costs                                 | 1            | 3            | 2            | 3            | 3            |
| <b>Total Administration Costs</b>           | <b>520</b>   | <b>403</b>   | <b>348</b>   | <b>365</b>   | <b>536</b>   |
| <b>Governance and Oversight</b>             |              |              |              |              |              |
| Employees                                   | 103          | 341          | 337          | 447          | 550          |
| Investment advisory services                | 66           | 65           | 93           | 81           | 109          |
| Governance and compliance                   | 43           | 0            | 56           | 134          | 125          |
| External audit                              | 24           | 21           | 16           | 25           | -4           |
| Actuarial fees                              | 31           | 25           | 50           | 79           | 54           |
| <b>Total Governance and Oversight Costs</b> | <b>267</b>   | <b>452</b>   | <b>552</b>   | <b>766</b>   | <b>834</b>   |
| <b>Investment Management</b>                |              |              |              |              |              |
| Management fees                             | 4,310        | 3,223        | 4,763        | 4,250        | 5,446        |
| Performance fees                            | 997          | 343          | 244          | 36           | 257          |
| Transaction costs                           | 382          | 44           | 185          | 421          | 1,764        |
| Custodian fees                              | 54           | 38           | 107          | 28           | 66           |
| <b>Total Investment Management Fees</b>     | <b>5,743</b> | <b>3,648</b> | <b>5,299</b> | <b>4,735</b> | <b>7,553</b> |
| <b>Total Operational Expenses</b>           | <b>6,530</b> | <b>4,503</b> | <b>6,199</b> | <b>5,866</b> | <b>8,903</b> |

In 2020/21, the Fund carried out extensive work related to the moving its administrative function back in-house (to be completed in 2021/22). In order to ensure effective administration for fund members this process was carried out whilst maintaining Surrey as the Funds admin team through 2020/21. This was a key cost driver for the increase in administrative costs for the pension fund. Costs increased by 47%.

The Fund's investment management expenses increased by 60% during the year. The main driver of this increase in cost was the result of the Fund's managers achieving strong returns in year, with fees being based on the value on assets under management and performance fees in some instances.

# Administration Management Performance

The administration of the Fund is managed by Hammersmith and Fulham Council but undertaken by Surrey County Council under a not-for-profit contractual arrangement operational from 1 September 2014.

## PERFORMANCE INDICATORS

The contract with Surrey County Council includes several performance indicators included to ensure that service to members of the pension fund is effective. The targets are set out below, along with actual performance.

| Performance Indicators                          | Target  | 2017/18<br>Performance | 2018/19<br>Performance | 2019/20<br>Performance | 2020/21<br>Performance |
|---|---------|------------------------|------------------------|------------------------|------------------------|
| Letter detailing transfer out quote             | 20 days | 34%                    | 82%                    | 89%                    | 74%                    |
| Process refund and issue payment voucher        | 10 days | 98%                    | 92%                    | 93%                    | 90%                    |
| Letter notifying estimate of retirement benefit | 10 days | 100%                   | 87%                    | 93%                    | 79%                    |
| Letter notifying actual retirement benefit      | 7 days  | 100%                   | 98%                    | 95%                    | 73%                    |
| Letter acknowledging death of member            | 5 days  | 100%                   | 100%                   | 94%                    | 77%                    |
| Letter notifying amount of dependant's benefits | 10 days | 100%                   | 94%                    | 96%                    | 75%                    |
| Calculate and notify deferred benefits          | 20 days | 44%                    | 90%                    | 79%                    | 86.5%                  |

Performance had generally shown improvement across the board due to improvements in staffing and the implementation process of the new online pension systems, however this performance has decreased over the last year following the withdrawal from the arrangement and commitment to a new provider.

## ORBIS

The ORBIS on-line pension system is a secure portal which enables members to:

- Update personal details
- Check membership records and calculate pension projections
- View payslips and P60s
- Nominate beneficiaries

Scheme employers can use the system to:

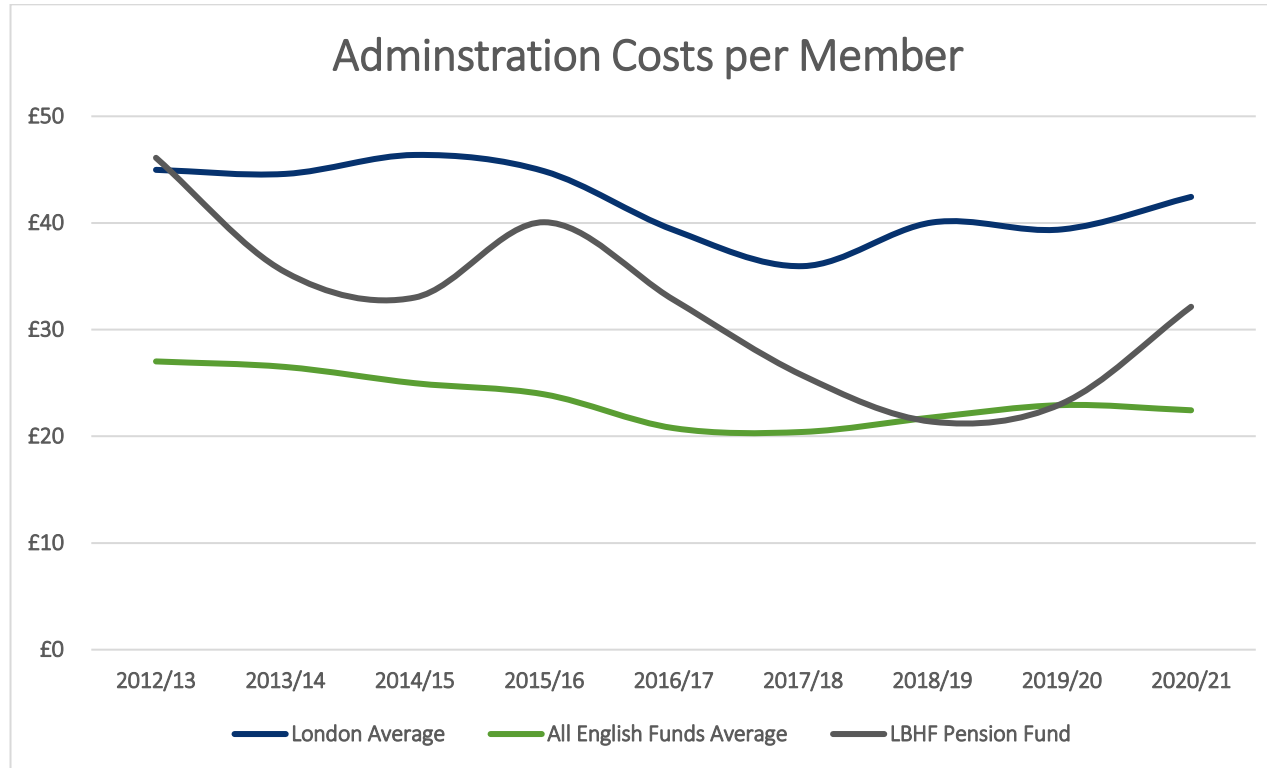
- Submit starter and leaver details and other changes online
- View and update employee details
- Run benefit calculations e.g. early retirements

## COMPLAINTS RECEIVED

The pension administrators occasionally deal with members of the fund who dispute an aspect of their pension benefits. These cases are dealt with by the Internal Dispute Resolution Procedure (see section 4).

One new complaint was lodged with the Ombudsman in 2020/21.

## Administration Management Performance (continued)



## STAFFING INDICATORS

The Pension Fund's cost of administration per member remains below the average for the London borough pension funds as shown in the chart. Administration costs are subject to regular review.

The administration of the Fund comprises of:

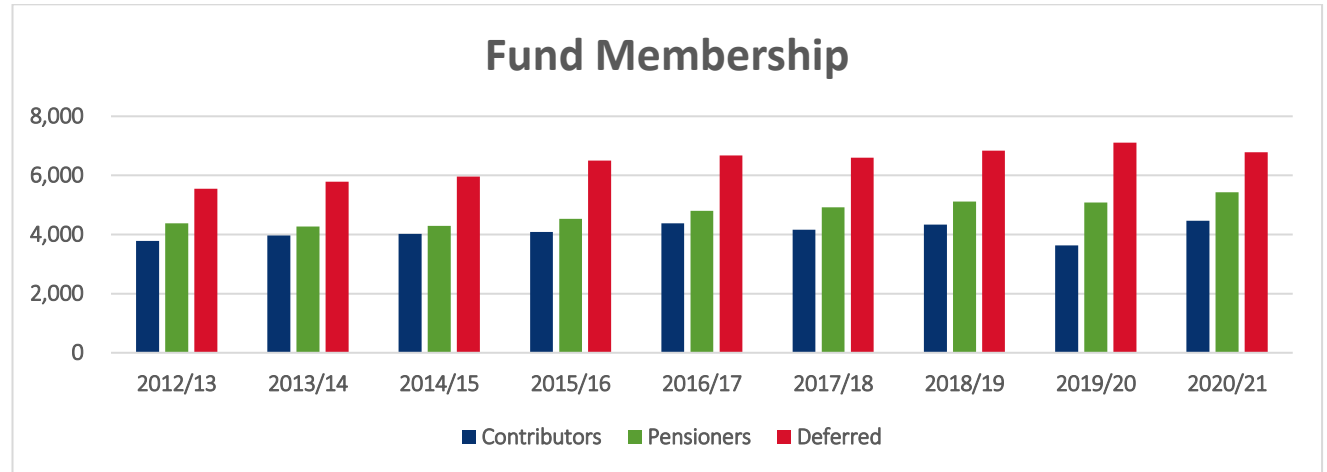
- 3 full-time equivalent (FTE) staff engaged by Surrey CC working directly on pension administration for Hammersmith and Fulham
- 2.8 FTE Hammersmith and Fulham HR staff to deal with internal administration.
- 1.93 FTE Westminster Finance staff assigned to the oversight and governance of the Pension Fund.

## Administration Management Performance (continued)

### MEMBERSHIP NUMBERS AND TRENDS

Overall membership has increased by about 10% over the past 5 years from 15,124 to 16,676.

The introduction of auto-enrolment in 2013 and the increase in admitted employers has led to an increase in members contributing towards the Scheme. Nonetheless, the number of pensioners has been stable over the last several years in common with other local government pension funds, reflecting the maturity of the Fund.



### ENHANCED BENEFITS

The total number of pensioners in receipt of enhanced benefits due to ill health or early retirement on the grounds of redundancy or efficiency of the service is given in the table across as at each year on 31 March.

| Reason for leaving    | 2016/17   | 2017/18   | 2018/19   | 2019/20   | 2020/21   |
|-----------------------|-----------|-----------|-----------|-----------|-----------|
| Ill health retirement | 10        | 6         | 4         | 3         | 6         |
| Early retirement      | 29        | 18        | 20        | 21        | 29        |
|                       | <b>39</b> | <b>24</b> | <b>24</b> | <b>24</b> | <b>35</b> |

## Administration Management Performance (continued)

### CONTRIBUTING EMPLOYERS AND CONTRIBUTIONS RECEIVED

The list below contains a list of the current active contributing employers and the contributions received in 2020/21. The employer's contributions figures include early retirement and deficit funding contributions.

| Administering Authority Employer       | Employees Contributions<br>£000 | Employers Contributions <sup>1</sup><br>£000 | Total Contributions<br>£000 |
|--|---------------------------------|--|-----------------------------|
| London Borough of Hammersmith & Fulham | 5,663                           | 15,874                                       | 21,537                      |
| Addison Primary School                 | 33                              | 120  | 152                         |
| All Saints Primary School              | 13                              | 45   | 58                          |
| Avonmore Primary School                | 25                              | 91   | 115                         |
| Bayonne Nursery School                 | 15                              | 55   | 70                          |
| Brackenbury Primary School             | 27                              | 99   | 126                         |
| Cambridge School (Special)             | 35                              | 121  | 156                         |
| Flora Gardens Primary School           | 21                              | 72   | 92                          |
| Holy Cross RC Primary School           | 36                              | 129  | 165                         |
| Jack Tizard School (Special)           | 53                              | 192  | 245                         |
| James Lee Nursery School               | 10                              | 34   | 44                          |
| John Betts Primary School              | 17                              | 59   | 76                          |
| Kenmont Primary School                 | 16                              | 59   | 75                          |
| Larmenier & Sacred Heart Primary       | 32                              | 117  | 149                         |
| Melcombe Primary School                | 32                              | 114  | 146                         |
| Miles Coverdale Primary School         | 27                              | 97   | 123                         |
| Normand Croft Community School         | 30                              | 106  | 136                         |
| Old Oak Primary School                 | 28                              | 103  | 131                         |
| Queensmill School                      | 140                             | 505  | 646                         |
| Randolph Beresford Early Years         | 42                              | 139  | 181                         |

<sup>1</sup> Includes early retirement and deficit contributions

| Administering Authority Employer                        | Employees Contributions<br>£000 | Employers Contributions <sup>1</sup><br>£000 | Total Contributions<br>£000 |
|---|---------------------------------|--|-----------------------------|
| Sir John Lillie Primary School                          | 26                              | 92   | 118                         |
| St Augustine's Primary School                           | 15                              | 56   | 71                          |
| St John XXIII Catholic Primary                          | 26                              | 99   | 125                         |
| St Johns CE Primary School                              | 20                              | 71   | 92                          |
| St Mary's Primary School                                | 28                              | 104  | 132                         |
| St Paul's Primary School                                | 24                              | 89   | 112                         |
| St Peter's Church of England Primary School             | 17                              | 63   | 80                          |
| St Stephens CoE Primary School                          | 39                              | 141  | 180                         |
| St. Thomas of Canterbury Primary                        | 13                              | 45   | 58                          |
| The Good Shepherd Primary School                        | 18                              | 68   | 86                          |
| Vanessa Nursery School                                  | 14                              | 52   | 66                          |
| Wendall Park Primary School                             | 22                              | 83   | 105                         |
| William Morris Sixth Form School                        | 58                              | 197  | 255                         |
| Wood Lane High School                                   | 27                              | 92   | 118                         |
| Wormholt Park Primary School                            | 34                              | 116  | 150                         |
| <b>Total Contributions from Administering Authority</b> | <b>6,671</b>                    | <b>19,500</b>                                | <b>26,170</b>               |

## Administration Management Performance (continued)

### SCHEDULED BODIES

The Fund provides pensions not only for employees of Hammersmith and Fulham Council, but also for the employees of several scheduled and admitted bodies.

Scheduled bodies are organisations which have a statutory right to be a member of the Local Government Pension Scheme under the regulations e.g. academy schools.

| Scheduled Body                               | Employees Contributions<br>£000 | Employers Contributions <sup>2</sup><br>£000 | Total Contributions<br>£000 |
|--|---------------------------------|--|-----------------------------|
| Mortlake Crematorium Board                   | 23                              | 58   | 81                          |
| London Oratory School                        | 61                              | 148  | 210                         |
| Ark Burlington Danes Academy                 | 67                              | 154  | 221                         |
| Hammersmith Academy                          | 61                              | 223  | 284                         |
| Sacred Heart Academy                         | 61                              | 207  | 268                         |
| Ark Conway Primary Academy                   | 19                              | 88   | 108                         |
| West London Free School                      | 100                             | 334  | 434                         |
| Ark Bentworth Primary Academy                | 13                              | 54   | 67                          |
| Lady Margaret Academy                        | 47                              | 164  | 211                         |
| ARK Swift Primary Academy                    | 21                              | 85   | 106                         |
| Fulham College Academy Trust (Girl's School) | 51                              | 173  | 224                         |
| Hurlingham and Chelsea Academy               | 37                              | 128  | 165                         |
| Fulham Boys Free School                      | 41                              | 142  | 183                         |
| Fulham College Academy Trust (Boy's School)  | 45                              | 167  | 212                         |
| Greenside Academy                            | 16                              | 60   | 76                          |
| Thomas' Academy                              | 17                              | 69   | 87                          |
| Langford Academy                             | 11                              | 39   | 50                          |
| Futures (Phoenix) Academy                    | 25                              | 97   | 122                         |

<sup>2</sup> Includes early retirement and deficit contributions

| Scheduled Body                                   | Employees Contributions<br>£000 | Employers Contributions <sup>2</sup><br>£000 | Total Contributions<br>£000 |
|--|---------------------------------|--|-----------------------------|
| Brightwells Academy                              | 0                               | 0  | 0                           |
| The Bridge AP Academy                            | 58                              | 214  | 272                         |
| Earl's Court Free School                         | 7                               | 34   | 41                          |
| Brightwells Academy Fulham Primary School        | 30                              | 123  | 153                         |
| Brightwells Academy Queens Manor Primary         | 24                              | 94   | 117                         |
| Brightwells Academy Sullivan Primary School      | 19                              | 80   | 99                          |
| <b>Total Contributions from Scheduled Bodies</b> | <b>856</b>                      | <b>2,933</b>                                 | <b>3,789</b>                |

## Administration Management Performance (continued)

### ADMITTED BODIES

Admitted bodies participate in the pension scheme via an admission agreement made between the Council and the employing organisation. Examples of admitted bodies are not-for-profit organisations linked to the Council and contractors who have taken on delivery of services with Council staff also transferred to third parties.

| Admitted Body                   | Employees Contributions<br>£000 | Employers Contributions <sup>3</sup><br>£000 | Total Contributions<br>£000 |
|---------------------------------|---------------------------------|--|-----------------------------|
| 3BM                             | 12                              | 36   | 48                          |
| Disabilities Trust              | 1                               | 4  | 5                           |
| Interserve (Eden Foods Ltd)     | 26                              | 111  | 137                         |
| FM Conway (2009)                | 9                               | 28   | 37                          |
| Fulham Palace Trust             | 3                               | 0  | 3                           |
| Medequip Assistive Technology   | 2                               | 8  | 9                           |
| Pinnacle PSG Ltd                | 61                              | 213  | 273                         |
| Pinnacle PSG Ltd                | 18                              | 61   | 79                          |
| Quadron Services Ltd            | 46                              | 154  | 200                         |
| Serco                           | 161                             | 446  | 606                         |
| Urban Partnership Group         | 15                              | 87   | 102                         |
| Caterlink (2016 Schools)        | 4                               | 15   | 19                          |
| HCT (Jack Tizard School)        | 2                               | 9  | 10                          |
| BT                              | 6                               | 19   | 26                          |
| Abelian UK (Wormholt Primary)   | 0                               | 1  | 2                           |
| Birkin Clean                    | 1                               | 8  | 9                           |
| HCT (CT Plus H&F main contract) | 8                               | 40   | 48                          |
| FM Conway (2012)                | 6                               | 91   | 97                          |
| Quadron Services Ltd (2018)     | 6                               | 18   | 24                          |

<sup>3</sup> Includes early retirement and deficit contributions

| Admitted Body                                   | Employees Contributions<br>£000 | Employers Contributions <sup>3</sup><br>£000 | Total Contributions<br>£000 |
|---|---------------------------------|--|-----------------------------|
| London Hire Community Services                  | 1                               | 8  | 9                           |
| Family Support Service FSS                      | 45                              | 232  | 277                         |
| Peabody Trust                                   | 0                               | 1  | 1                           |
| Peabody Trust South East                        | 10                              | 39   | 50                          |
| Mears Group                                     | 3                               | 9  | 12                          |
| Sure Serve Group (K&T Heating Serv Ltd)         | 5                               | 16   | 22                          |
| Chigwell Group                                  | 1                               | 3  | 4                           |
| Wates Group                                     | 1                               | 7  | 8                           |
| Caterlink (Langford Academy)                    | 1                               | 2  | 3                           |
| Morgan Sindall Group Contract 1                 | 7                               | 27   | 34                          |
| DW Contractors Ltd                              | 3                               | 13   | 16                          |
| Mears Group Contract 2                          | 2                               | 7  | 9                           |
| Morgan Sindall Group Contract 2                 | 8                               | 23   | 31                          |
| Bee Services - Randolph Beresford               | 0                               | 2  | 3                           |
| Bee Services - Vanessa Nursery                  | 0                               | 1  | 1                           |
| Caterlink (Hurlingham & Chelsea                 | 0                               | 3  | 3                           |
| Churchill Group - Brackenbury Primary           | 1                               | 6  | 8                           |
| <b>Total Contributions from Admitted Bodies</b> | <b>477</b>                      | <b>1,749</b>                                 | <b>2,225</b>                |



## Administration Management Performance (continued)

### EMPLOYER ANALYSIS

The following table summarises the number of employers in the fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some outstanding liabilities).

|                               | Active    | Ceased    | Total     |
|-------------------------------|-----------|-----------|-----------|
| Administering Authority       | 1         | -         | 1         |
| Scheduled Bodies              | 21        | 3         | 24        |
| Admitted Bodies               | 30        | 22        | 52        |
| <b>Total number of bodies</b> | <b>52</b> | <b>25</b> | <b>77</b> |



**3.**

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# Investment Policy and Performance

# Investment Policy

The Pensions Sub-Committee has set out a broad statement of the principles it has employed in establishing its investment and funding strategy in the Investment Strategy Statement (ISS).

The ISS sets out responsibilities relating to the overall investment policy of the Fund including:

- asset allocations
- restrictions on investment types
- methods of investment management
- performance monitoring

The ISS also sets out the Fund's approach to responsible investment and corporate governance issues, and how the Fund demonstrates compliance with the "Myners Principles".

These Principles are a set of recommendations relating to the investment of pension funds originally prepared by Lord Myners in 2001 and subsequently endorsed by Government. The current version of the Myners Principles covers the following areas:

- effective decision making
- clear objectives
- risk & liabilities
- performance measurement
- responsible ownership
- transparency and reporting

The Fund's ISS has been included in this report as Appendix 4.

For 2020/21, the LGPS (Management and Investment of Funds) Regulations 2016, requires the Fund to publish an ISS.

The ISS addresses each of the objectives included in the 2016 Regulations, namely:

- The administering requirement to invest fund money in a wide range of instruments.
- The administering authority's assessment of the suitability of particular investments and types of investment.
- The administering authority's approach to risk, including the ways in which risks are to be measured and managed.
- The administering authority's approach to pooling investments, including the use of collective investment vehicles.
- The administering authority's policy on how environmental, social and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.

Any queries relating to the Fund's investment policy should be addressed to:

Tri-Borough Pensions Team  
16<sup>th</sup> Floor  
64 Victoria Street  
London  
SW1E 6QP

Email: [pensionfund@lbhf.gov.uk](mailto:pensionfund@lbhf.gov.uk)

# Asset Allocation

The strategic asset allocation is agreed by the Pensions Sub-Committee and the Fund's advisers. The allocation during the year ended 31 March 2021 was as follows:

| Asset Class                | Actual Allocation | Target Allocation |
|----------------------------|-------------------|-------------------|
| Global Equities            | 45.8%             | 45.0%             |
| Dynamic Asset Allocation   | 32.0%             | 20.0%             |
| Secure Income              | 17.2%             | 20.0%             |
| Total Inflation Protection | 5.0%              | 15.0%             |
| <b>Total</b>               | <b>100.0%</b>     | <b>100.0%</b>     |

The Pensions Sub-Committee holds Fund Managers accountable for decisions on asset allocation within the Fund mandate that they operate under. To follow the Myners' Committee recommendation, Fund Managers are challenged deliberately and formally about asset allocation decisions.

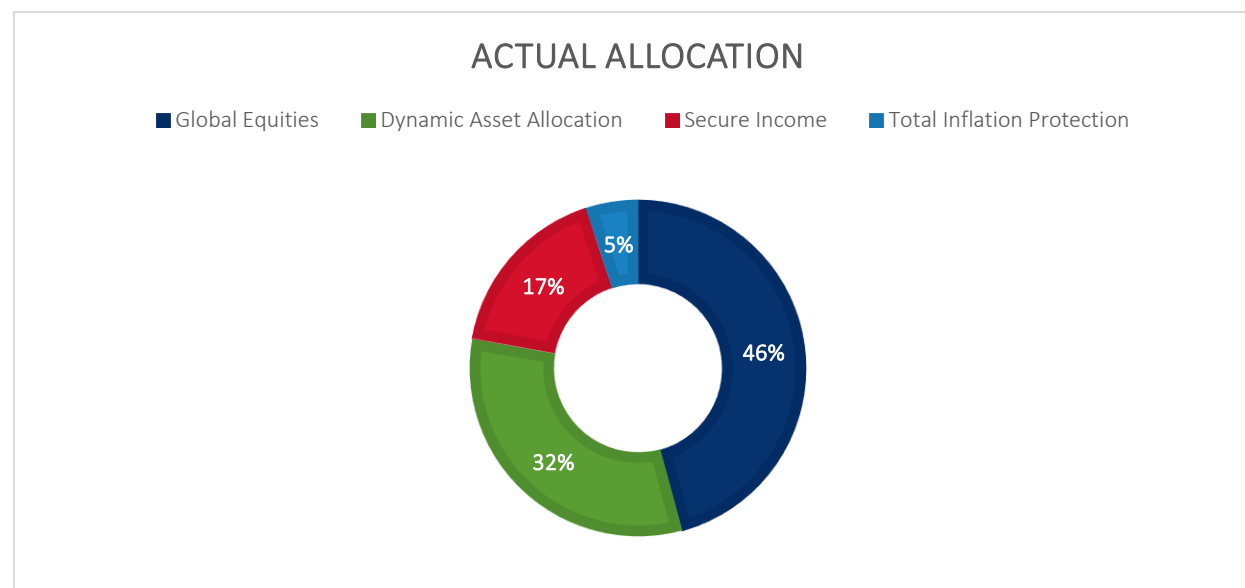
Investment portfolios are reviewed at each Committee meeting in discussion with the Investment Adviser and Officers, and Fund Managers are called to a Sub-Committee meeting if there are issues that need to be addressed. Officers meet Fund Managers regularly and advice is taken from the Investment Advisor on matters relating to fund manager arrangement and performance.

Fund managers provide a rationale for asset allocation decisions based upon their research resource to ensure that they are not simply tracking the peer group or relevant benchmark index. The Fund's asset allocation strategy can be found in the ISS.

The asset allocation of the Pension Fund at the start and end of the financial year are set out below.

These figures are based on market value and reflect the relative performance of investment markets and the impact of tactical asset allocation decisions made by the Pensions Sub-Committee.

At 31 March 2021, the fund had an overweight allocation to cash due to assets in transit. This cash is intended to be allocated to total inflation protection in 2021/22.



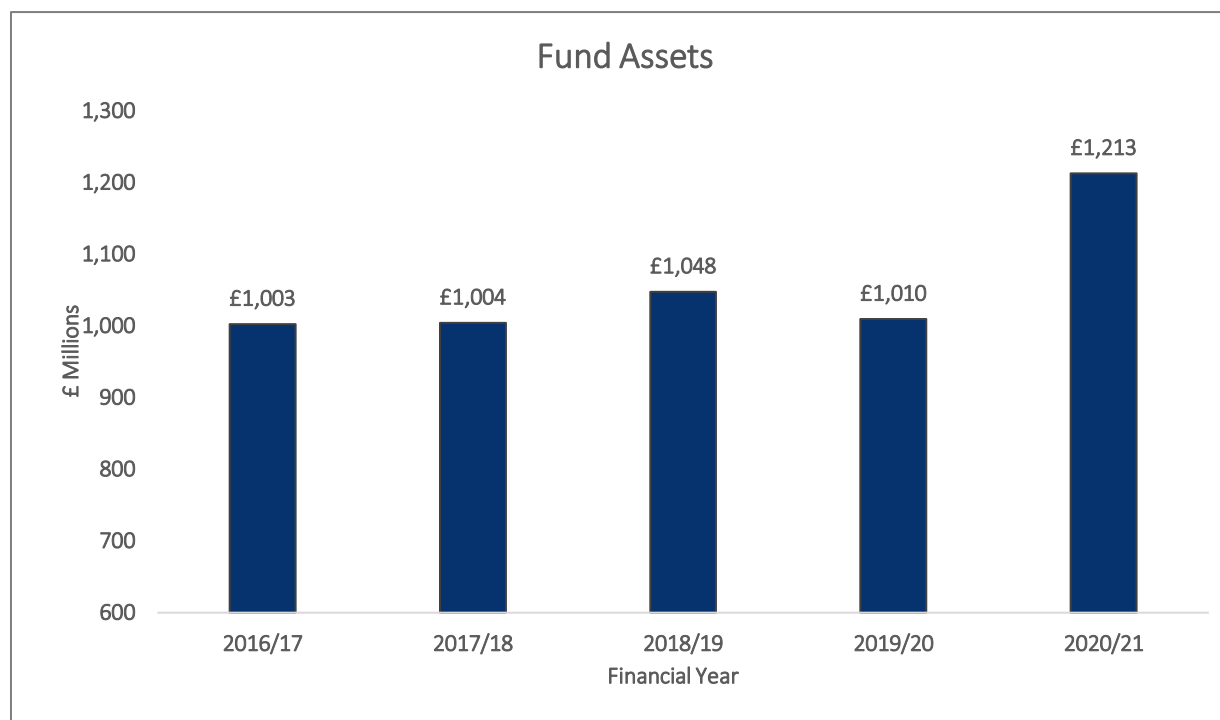
## Asset Allocation (continued)

### FUND VALUE

The net asset value of the Fund has more than doubled over the past ten years with 20.97% of this growth occurring over the last five years.

In 2020/21, the fund's net asset value rose by 21.86% to £1.21bn. This performance was largely due to the positive outcomes of the vaccination programme and its continued success, leading to strong positive sentiment in global markets.

The Fund is invested to meet liabilities over the medium to long-term and therefore its performance should be judged over a corresponding period. Annual returns can be volatile and do not necessarily indicate the underlying health of the Fund.

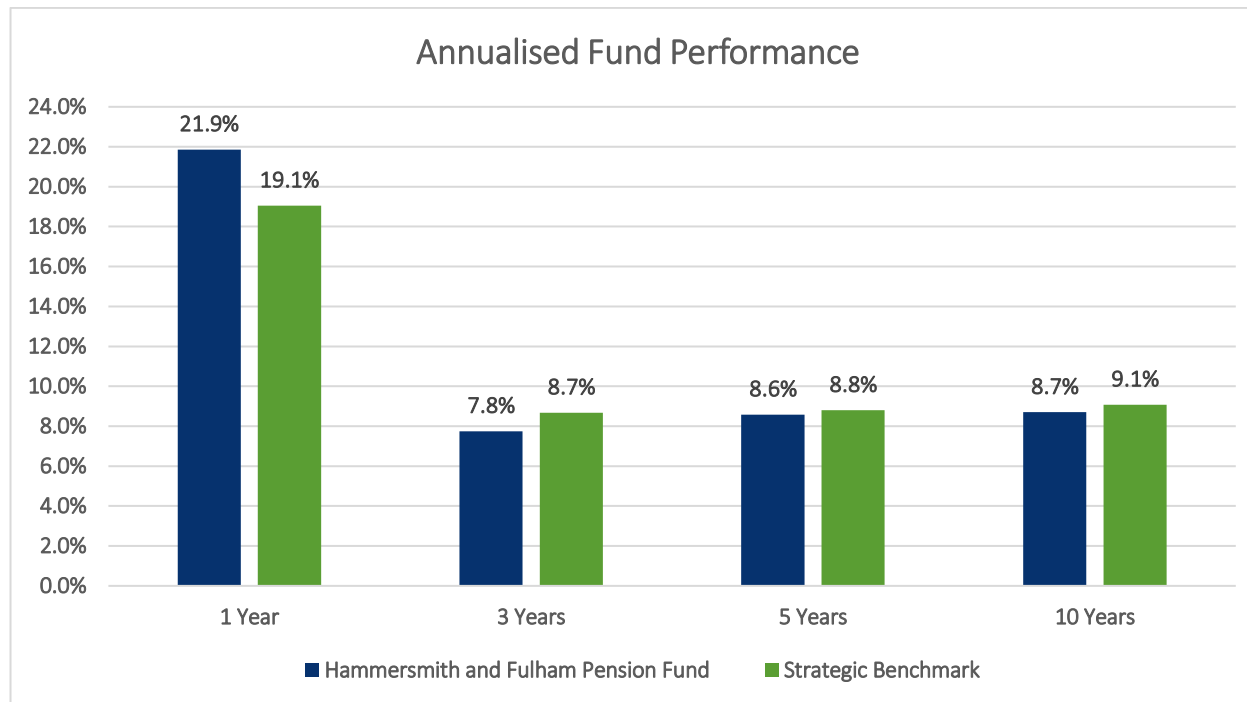


# Investment Performance

In 2020/21, the Fund's investment performance was 21.86% (-2.6% in 2019/20) to £1.21bn. This was below the average LGPS return of 22.80%.

Performance of the Fund is measured against an overall strategic benchmark. Each fund manager is assigned individual performance targets which are linked to index returns for the assets they manage, e.g. FTSE All Share for UK equities. Details of these targets can be found in the Statement of Investment Principles.

The chart below shows the annualised fund performance over different time periods. Overall, the Fund has underperformed its strategic benchmark across the different periods with an overperformance of 2.82% in 2020/21.



2019/20 was a challenging year for the global markets as the response to the global outbreak of the coronavirus disease introduced volatility across various sectors. However; in 2020/21 market's rebounded strongly due to positive sentiment around the mid-term outlook and the recovery prospects of the world's economies post the worst of the coronavirus outbreak.

The Fund's one year performance was bolstered mostly by its position in equities, though returns were positive across all funds within the overall portfolio.

## Investment Performance (continued)

| Active   | Passive  |
|--|--|
| <b>London LGPS CIV Ltd</b><br>LCIV Absolute Return Fund (Ruffer)<br>LCIV Global Bond Fund (PIMCO)<br>LCIV Global Core (MSIM) | <b>Legal &amp; General Investment Management</b><br>MSCI Low Carbon Tracker Fund |
| <b>Partners Group</b><br>Private Multi Asset Credit<br>Infrastructure  |  |
| <b>Aviva Investors</b><br>Infrastructure   |  |
| <b>Oak Hill Advisors</b><br>Multi Asset Credit   |  |
| <b>Aberdeen Standard</b><br>Long Lease Property Fund   |  |
| <b>Aberdeen Standard</b><br>Multi-sector Private Credit  |  |

The overall performance of each manager is measured over rolling three-year or five-year periods,

As there will inevitably there be short-term fluctuations in performance.

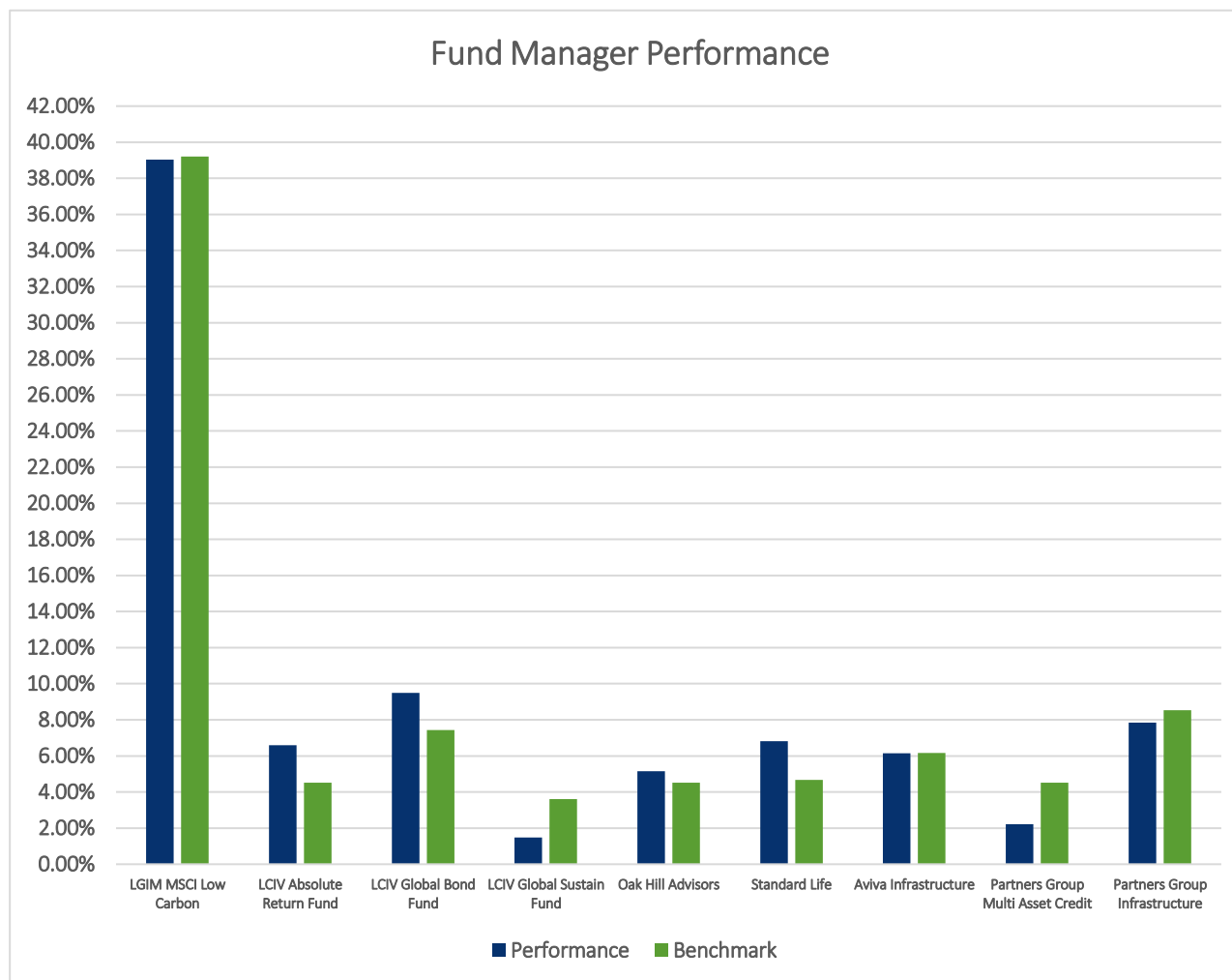
The Fund entered into new strategies during the year. These have been measured on their performance since inception.

The portfolio is a mixture of active and passively managed asset classes:

- Targets for active fund mandates are set to outperform the benchmark by a set percentage through active stock selection and asset allocation.

- Targets for passive funds are set to achieve the benchmark through investment in a stable portfolio.

The table below shows the portfolio mixture of the fund:



# Corporate Governance

## RESPONSIBLE INVESTMENT POLICY

The Council has a paramount fiduciary duty to obtain the best possible financial return on Fund investments without exposing assets to unnecessary risk. It believes that following the best practice in terms of environmental, social and ethical issues has a positive effect on the long-term financial performance of a company and will improve investment returns to its shareholders.

The Fund investment managers, acting in the best financial interests of the Fund, are expected to consider, amongst other factors, the effects of environmental, social and ethical issues on the performance of a company when undertaking the acquisition, retention or realisation of investments for the Fund.

In 2019/20 the Fund drafted its Responsible Investment Statement with a final version expected to be approved later in 2020.

The Fund's investment managers have adopted socially responsible investment policies which are subject to regular review both by officers and by the Council's Pensions Sub-Committee.

## PROFESSIONAL BODIES

The Council is a member of the CIPFA Pensions Network which provides a central coordination point for all LGPS funds and local authority members.

CIPFA staff and the network more generally can advise subscribers on all aspects of pensions and related legislation. Relevant training and seminars are also available to officers and members of participating funds.

While the Fund is a member of the Pensions Lifetime and Savings Association (formerly the National Association of Pension Funds), it does not subscribe to nor is it a member of the Local Authority Pension Fund Forum, UK Sustainable Investment & Finance Association or the Institutional Investors Group on Climate change or any other bodies.

## VOTING

Fund Managers have the delegated authority to vote at shareholder meetings in accordance with their own guidelines, which have been discussed and agreed with the Pensions Sub-Committee. The Committee keeps under close review the various voting reports that it receives from Fund managers.

## COLLABORATIVE VENTURES

The Fund has been working closely with other London LGPS funds in the London Collective Investment Vehicle set up to enable greater buying power, reduced fees and enhanced governance arrangements.

The Hammersmith and Fulham Pension Fund is a shareholder in London LGPS CIV Limited and had about 77% of assets invested with the pool as at 31 March 2021.



## Corporate Governance (continued)

### SEPARATION OF RESPONSIBILITIES

The Fund has appointed Northern Trust as its global custodian, which is independent to the investment managers and responsible for the safekeeping of all the Fund's investments. Northern Trust are also responsible for the settlement of all investment transactions and the collection of income.

The Fund's bank account is held with NatWest Bank. This is used for the operation functions of the Fund which include receiving contributions from employers and paying out benefits to members.

The actuary is responsible for assessing the long-term financial position of the pension fund and issues a Rates and Adjustments statement following their triennial valuation of the Pension Fund, which sets out the minimum contributions which each employer in the Scheme is obliged to pay over the following three years.

### STEWARDSHIP CODE

The Pensions Sub-Committee believes that investor stewardship is a key component of good governance and is committed to exercising this responsibility with the support of its investment managers. In line with this approach, all the Fund's equity investment managers are signatories to the UK Stewardship Code.

The Pensions Sub-Committee believes that companies should be accountable to shareholders and should be structured with appropriate checks and balances so as to safeguard shareholders' interests and deliver long-term returns.

The Pensions Sub-Committee encourages Fund Managers to consider a range of factors before making investment decisions, such as the company's historical financial performance, governance structures, risk management approach, the degree to which strategic objectives have been met and environmental and social issues. Such considerations may also be linked to voting choices at company AGMs.

The Pensions Sub-Committee's role is not to micro-manage companies but provide perspective and share with boards and management our priorities for investment and approach to corporate governance. The aim is to work with management, shareholders and stakeholders to bring about changes that enhance long-term performance.

### FUNDING STRATEGY STATEMENT

The Funding Strategy Statement (Appendix 3) sets out the aims and purpose of the pension fund and the responsibilities of the administering authority regarding funding the scheme.

Its purpose is:

- To establish a clear and transparent fund-specific strategy to identify how employers' pension liabilities are best met going forward;
- To support the regulatory requirement to maintain as nearly constant employer contribution rates as possible;
- To take a prudent longer-term view of funding those liabilities.

A close-up photograph of a stone pillar on the Hammersmith Bridge. The pillar is intricately carved with a figure wearing a long, flowing, pleated dress. At the base of the pillar, a stone face is visible. A dark rectangular plaque is mounted on the pillar, featuring the text 'HAMMERSMITH BRIDGE' in white, serif, all-caps font. The background shows a blurred view of the bridge's suspension cables and a distant building with a spire.

**HAMMERSMITH  
BRIDGE**

# 4.

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## Scheme Administration

A wide-angle photograph of the Hammersmith Bridge, showing its suspension cables and the bridge deck. The image is overlaid with a semi-transparent green filter. The bridge spans across a body of water, and the background shows trees and a cloudy sky.

# Scheme Administration

## SERVICE DELIVERY

Although the LGPS is a national scheme, it is administered locally. The London Borough of Hammersmith and Fulham Council has a statutory responsibility to administer the pension benefits payable from the Pension Fund on behalf of the participating employers and the past and present members and their dependents.

The Council administers the scheme for 83 employers (a complete list of employers is provided in section 2). These employers include not only the Council, but also academy schools within the borough and a small number of organisations linked to the Council which have been “admitted” to the pension fund under agreement with the Council.

A not-for-profit contractual arrangement is in place with Surrey County Council for the provision of pension administration services. Performance of this service against targets within the contract is reported on page 19. The Council’s Human Resources provide oversight of the administration service.

## COMMUNICATION POLICY STATEMENT

The Local Government Pension Scheme Regulations 2013 require Pension Funds to prepare, publish and maintain a communication policy statement, which can be found on page 87. The Communication Policy details the overall strategy for involving stakeholders in the pension fund. A key part of this strategy is a dedicated pension fund website, which includes a great deal more information about the benefits of the pension fund and this can be accessed via the following link:

[www.lbhfpensionfund.org](http://www.lbhfpensionfund.org)

## INTERNAL DISPUTE RESOLUTION PROCEDURE

Members of pension schemes have statutory rights to ensure that complaints, queries and problems concerning pension rights are properly resolved. To facilitate this process, an Internal Disputes Resolution Procedure (IDRP) has been established. While any complaint is progressing, fund members are entitled to contact The Pensions Advisory Service (TPAS), who can provide free advice.

**IDRP Stage 1** involves making a formal complaint in writing. This would normally be considered by the body that made the decision in question. If the fund member is not satisfied with actions taken at Stage 1 the complaint will progress to Stage 2.

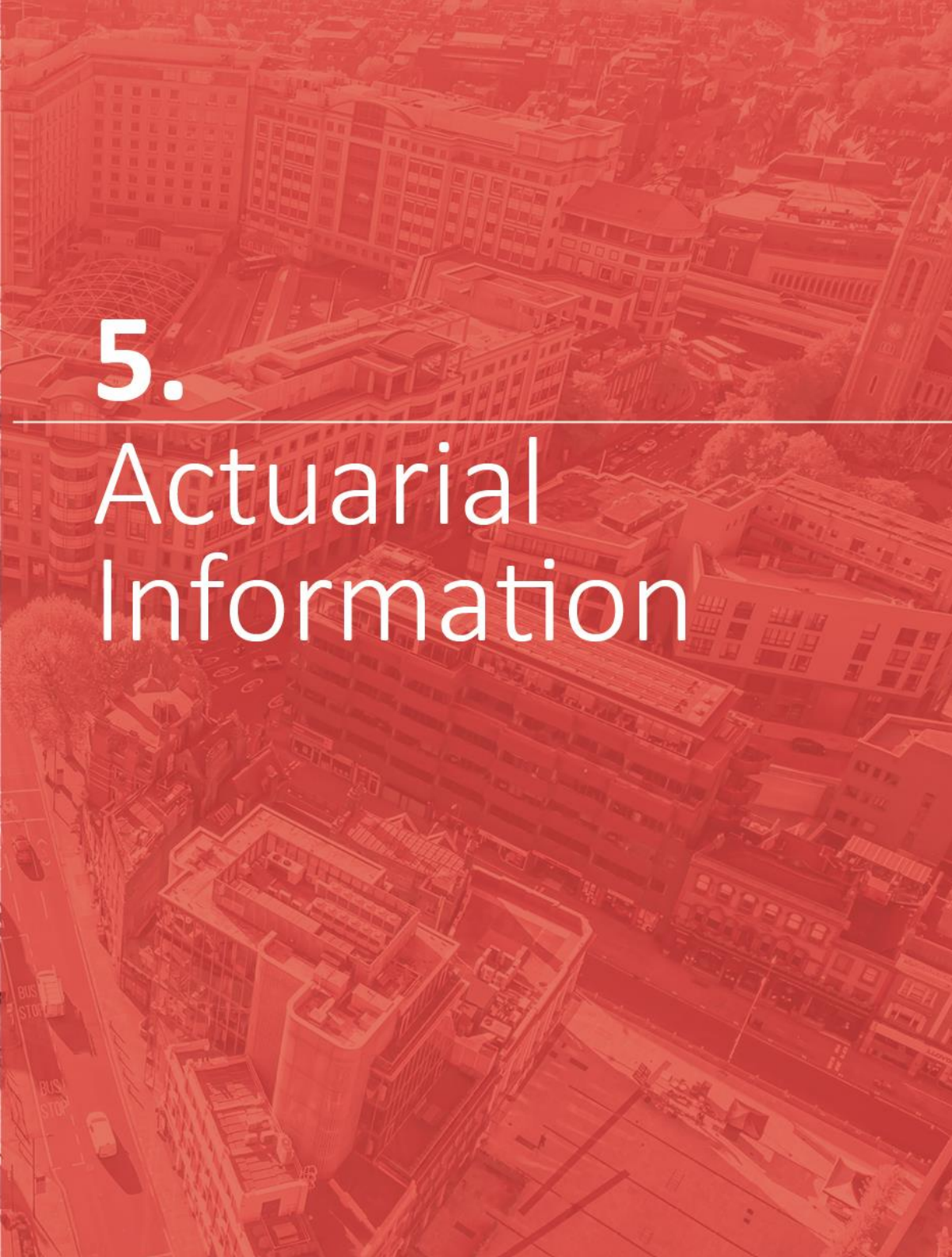
**IDRP Stage 2** involves a referral to the administering authority, Hammersmith and Fulham Council to take an independent view.

**IDRP Stage 3** is a referral of the complaint to the Pension Ombudsman.

One complaint referred to the Pensions Ombudsman in 2020/21.

Both TPAS and the Pensions Ombudsman can be contacted at:

11 Belgrave Road  
Pimlico  
London  
SW1V 1RB



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# Actuarial Information

# Report by Actuary

## INTRODUCTION

The last full triennial valuation of the Hammersmith and Fulham Pension Fund (“the Fund”) was carried out as at 31 March 2019 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated February 2020.

This statement gives an update on the funding position as at 31 March 2021 and comments on the main factors that have led to a change since the full valuation.

## 2019 VALUATION

The results for the Fund at 31 March 2019 were as follows:

- The Fund as a whole had a funding level of 97% i.e. the assets were 97% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £35m which is lower than the deficit at the previous valuation in 2016.
- To cover the cost of new benefits a total contribution rate of 17.4% of pensionable salaries would be needed.
- The contribution rate for each employer was set based on the annual cost of new benefits plus any adjustment required to pay for their share of the deficit.
- Full details of all the assumptions underlying the valuations are set out in our valuation report.

## UPDATED POSITION

Using assumptions consistent with those adopted at the 2019 valuation, we estimate that the funding position at 31 March 2021 is broadly the same as that calculated at 31 March 2019.

The next formal valuation will be carried out as at 31 March 2022 with new contribution rates set from 1 April 2023.

Barry McKay FFA

Partner, Barnett Waddingham LLP



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# Pension Fund Accounts

# Statement of Responsibilities

**Responsibility for the Financial Statements, which form part of this Annual Report, is set out in the following declaration.**

## THE COUNCIL'S RESPONSIBILITIES

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In line with statute, this is the Director of Finance;
- manage its affairs to ensure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

## RESPONSIBILITIES OF THE DIRECTOR OF FINANCE

The Director of Finance is responsible for the preparation of the Pension Fund Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing these Statements of Accounts, the Director of Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgments and estimates that were reasonable and prudent;
- complied with the Code of Practice on Local Authority Accounting.

The Director of Finance has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities;
- assessed the authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- Used the going concern basis of accounting on assumption that the functions of the authority will continue in operational existence for the foreseeable future;
- Maintained such internal control as they determine as necessary to enable the preparation of financial statements free from material misstatement, whether due to fraud or error.

## CERTIFICATE OF THE STRATEGIC DIRECTOR OF FINANCE

I certify that the Statement of Accounts (set out below) present a true and fair view of the financial position of the London Borough of Hammersmith and Fulham Pension Fund as at 31 March 2021 and income and expenditure for the year for the financial year 2020/21.

Sukvinder Kalsi  
Director of Finance  
Section 151 Officer

Date: 26 May 2023

# Independent Auditors Report

**Independent auditor's report to the members of the London Borough of Hammersmith and Fulham on the consistency of the pension fund financial statements of Hammersmith and Fulham Pension Fund included in the Pension Fund Annual Report**

## **PENSION FUND ANNUAL REPORT – PENSION FUND FINANCIAL STATEMENTS**

The Pension Fund Annual Report and the pension fund financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

## **THE AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an opinion on whether the pension fund financial statements in the Pension Fund Annual Report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

## **THE AUDITED FINANCIAL STATEMENTS AND OUR REPORT THEREON**

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 26 May 2023. In the audit opinion we draw attention to Note 4 of the financial statements, and the disclosure that one of the pension fund's infrastructure investment managers is facing legal challenge from a former construction contractor relating to a contractual dispute. The carrying value of the total infrastructure portfolio in the Pension Fund is 26 million. Our opinion is not modified in respect of this matter.

## **THE DIRECTOR OF FINANCE' RESPONSIBILITIES FOR THE PENSION FUND FINANCIAL STATEMENTS IN THE PENSION FUND ANNUAL REPORT**

Under the Local Government Pension Scheme Regulations 2013 the Director of Finance is responsible for the preparation of the pension fund financial statements, which must include the Fund Account, the Net Asset Statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts

and the Pension Fund Annual Report are set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 20120/21.

## **OPINION**

The pension fund financial statements of Hammersmith and Fulham Pension Fund (the 'pension fund') administered by the London Borough of Hammersmith and Fulham (the "Authority") for the year ended 31 March 2021, which comprise the Fund Account, the Net Asset Statement and the notes to the pension fund financial statements, including a summary of significant accounting policies, are derived from the audited pension fund financial statements for the year ended 31 March 2021 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements, in accordance with proper practices as defined in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 and applicable law.



# Independent Auditors Report (Continued)

## USE OF THE AUDITOR'S REPORT

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Paul Dossett*

Paul Dossett, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

26 May 2023

# Pension Fund Accounts and Explanatory Notes

## FUND ACCOUNT

| 2019/20   |   | Notes | 2020/21         |
|---|---|-------|-----------------|
| £'000   |   |       | £'000           |
| <b>Dealings with members, employers and other directly involved in the fund</b> |   |       |                 |
| <b>Contributions</b>  |   |       |                 |
| (26,135)  | From Employers  | 7     | (24,180)        |
| (7,408)   | From Members  | 7     | (8,004)         |
| (4,326)   | Individual Transfers in from Other Pension Funds              |       | (9,350)         |
| -   | Other income  |       | -               |
| <b>(37,869)</b>   | <b>Total Contributions</b>                                    |       | <b>(41,534)</b> |
| <b>Benefits</b>   |   |       |                 |
| 34,916  | Pensions  | 8     | 36,363          |
| 8,502   | Commutation, Lump Sum Retirement and Death Benefits           | 8     | 8,164           |
| 898   | Payment in respect of tax                                     |       | 508             |
| <b>Payments to and on account of leavers</b>                                    |   |       |                 |
| 7,225   | Individual Transfers Out to Other Pension Funds               |       | 7,013           |
| 119   | Refunds to Members Leaving Service                            |       | 40              |
| <b>51,660</b>   | <b>Total Benefits</b>   |       | <b>52,088</b>   |
| <b>13,791</b>   | <b>Net (Additions) Withdrawals from dealings with members</b> |       | <b>10,554</b>   |

## Pension Fund Accounts and Explanatory Notes (continued)

### FUND ACCOUNT

| 2019/20            |  | Notes | 2020/21            |
|--------------------|--|-------|--------------------|
| 5,866              | Management expenses  | 9     | 8,903              |
|                    | <b>Returns on Investment</b>   |       |                    |
| (13,911)           | Investment Income  | 10    | (12,327)           |
| (731)              | Other Income   | 10    | (23)               |
| 36,172             | (Profit) and losses disposal of investments and changes in value of investments  | 12    | (215,444)          |
| <b>21,530</b>      | <b>Net Return on Investments</b>   |       | <b>(227,794)</b>   |
| 41,178             | Net (Increase)/Decrease in the net assets available for benefits during the year |       | (208,337)          |
| <b>(1,052,073)</b> | Opening Net Assets of the Scheme   |       | <b>(1,010,886)</b> |
| <b>(1,010,886)</b> | Closing Net Assets of the Scheme   |       | <b>(1,219,223)</b> |

## Pension Fund Accounts and Explanatory Notes (continued)<sup>4</sup>

### NET ASSETS STATEMENT

| 2019/20                          |  | Notes | 2020/21          |
|----------------------------------|--|-------|------------------|
| £'000                            |  |       | £'000            |
| <b>Investment Assets</b>         |  |       |                  |
| 150                              | Equities   | 11    | 150              |
| 58,881                           | Pooled Property Vehicles   | 11    | 61,161           |
| 817,356                          | Pooled Investment Vehicles   | 11    | 1,081,786        |
| 70,555                           | Private Equity/Infrastructure  | 11    | 71,863           |
| 59,524                           | Cash Deposits  | 11    | 8                |
| <b>Other Investment Balances</b> |  |       |                  |
| 26                               | Investment income due  | 11    | 13               |
| <b>1,006,492</b>                 | <b>Net Investment Assets</b>   |       | <b>1,214,981</b> |
| 3,897                            | <b>Current Assets</b>  | 19    | 3,664            |
| (1,178)                          | <b>Current Liabilities</b>   | 20    | (1,100)          |
| 1,675                            | <b>Cash Balances</b> (held directly by Fund)                               |       | 1,678            |
| <b>1,010,886</b>                 | <b>Net assets of the Fund available to fund benefits at the period end</b> |       | <b>1,219,223</b> |

<sup>4</sup> The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in Note 18a.

# Note 1 Description of Hammersmith and Fulham Pension Fund

## A. GENERAL

The Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Hammersmith and Fulham Council (the Council). It is a contributory defined benefits scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of Hammersmith and Fulham Council and the admitted and scheduled bodies in the Fund. These benefits include retirement pensions and early payment of benefits on medical grounds and payment of death benefits where death occurs either in service or in retirement. Teachers are excluded from this scheme as they are administered under the Teachers' Pension Scheme.

The benefits payable in respect of service from 1 April 2014 are based on an employee's career average revalued earnings (CARE) and the number of years of eligible service. The benefits payable in respect of service prior to 1 April 2014 are based on an employee's final salary and the number of years eligible service. Pensions are increased each year in line with the Consumer Price Index.

The Fund is governed by the Public Service Pensions Act 2013 and the following secondary legislation:

- The LGPS Regulations 2013 (as amended)
- The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and
- The LGPS (Management and Investment of Funds) Regulations 2016.

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and from investment returns on the Fund's investment assets. Contributions from employees are made in accordance with the Local Government Pension Scheme Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2021. Employer contributions are set based on the triennial actuarial funding valuation, as detailed in Note 18.

## B. PENSIONS SUB-COMMITTEE

The Council has delegated the investment arrangements of the scheme to the Audit and Pensions Committee, which in December 2014 formed a Pensions Sub-Committee (the Sub-Committee) and delegated all pensions responsibilities to it. The Sub-Committee decides on the investment strategy most suitable to meet the liabilities of the Fund and has responsibility for the investment strategy. The Sub-Committee is made up of five members, four of whom are elected representatives of the Council with voting rights and one co-opted member. Members of the admitted bodies and representatives of the Trade Unions may attend the Sub-Committee meetings but have no voting rights.

The Sub-Committee reports annually to the Audit and Pensions Committee and has full delegated authority to make investment decisions. The Sub-Committee obtains and considers advice from the Director of Finance, and as necessary from the Fund's appointed actuary, investment managers and adviser.

## C. PENSION BOARD

In line with the provisions of the Public Service Pensions Act 2013, the Council has set up a Local Pension Board to oversee the governance arrangements of the Pension Fund. The Board meets twice a year and has its own Terms of Reference. Board members are independent of the Pensions Sub-Committee.

## Note 1 Description of Hammersmith and Fulham Pension Fund (continued)

### D. INVESTMENT PRINCIPLES

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 the Sub-Committee approved an Investment Strategy Statement on 11 February 2020 (available on the Council's website). The Statement shows the Council's compliance with the Myner's principles of investment management.

The Sub-Committee has delegated the management of the Fund's investments to regulated investment managers (see note 11), appointed in accordance with the regulations, and whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

### E. MEMBERSHIP

Membership of the LGPS is voluntary, and whilst employees are auto enrolled into the scheme, they are free to choose whether to stay in or leave the scheme, or make their own personal arrangements outside the scheme.

Organisations participating in the Hammersmith & Fulham Pension Fund include:

- Scheduled bodies, which are local academies and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies and private contractors undertaking a local authority function following outsourcing to the private sector.

The Deferred member numbers include 890 undecided leavers, who are no longer paying contributions or in receipt of benefits.

| 31 March<br>2020 |                                   | 31 March<br>2021 |
|------------------|-----------------------------------|------------------|
| 50               | <b>Number of active employers</b> | 58               |
| 3,635            | Contributing employees            | 4,467            |
| 5,081            | Pensioners receiving benefit      | 5,425            |
| 7,112            | Deferred pensioners               | 6,784            |
| <b>15,828</b>    | <b>Total members</b>              | <b>16,676</b>    |

Details of the scheduled and admitted bodies are in Section 2 of this report.

## Note 2 Basis of Preparation of Financial Statements

The Statement of Accounts summarise the Fund's transactions for 2020/21 and its position at year end as at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

The accounts have been prepared on an accruals basis, apart from transfer values which have been accounted for on a cash basis.

The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year, nor do they consider the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the Net Asset Statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Council has opted to disclose this information in a note to the accounts (Note 18).

The Hammersmith & Fulham Pension Fund is a statutory, state back Local Government Pension Scheme (LGPS) that is 97% funded on a conservative basis and backed by an administering authority with tax raising powers. As such, the Pension Fund Accounts have been prepared on a going concern basis.

It is recognised that the current environment gives rise to a risk of uncertainty and volatility in investment markets and the Fund has reviewed fund manager assessments and no material uncertainty has been identified. The Fund continues to monitor cashflows and invests in a diverse range of investment vehicles including availability to liquid assets.

# Note 3 Summary of Significant Accounting Policies

## FUND ACCOUNT – REVENUE RECOGNITION

### A. CONTRIBUTION INCOME

Normal contributions, both from active members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the actuary in the payroll period to which they relate. Employer deficit funding contributions are accounted for on the due dates on which they are due under the schedule of contributions set by the actuary or on receipt if earlier than the due date.

### B. TRANSFERS TO AND FROM OTHER SCHEMES

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

### C. INVESTMENT INCOME

Investment income arising from the underlying investments of the Pooled Investment Vehicles is either reinvested within the Pooled Investment Vehicles and reflected in the unit price or taken as a cash dividend to support the Fund's outgoing cash flow requirements.

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset. Where the amount of an income distribution has not been received from an investment manager by the balance sheet date, an estimate based upon the market value of their mandate at the end of the year is used.

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



## Note 3 Summary of significant accounting policies (continued)

### FUND ACCOUNT – EXPENSE ITEMS

#### D. BENEFITS PAYABLE

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Lump sums are accounted for in the period in which the member becomes a pensioner. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

#### E. TAXATION

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. As the Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities including expenditure on investment expenses. Where tax can be reclaimed, investment income in the accounts is shown gross of UK tax. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

#### F. VSP, MSP AND LIFE TIME ALLOWANCE

Members are entitled to request that the Pension Fund pays their tax liabilities due in respect of annual allowance and lifetime allowance in exchange for a reduction in pension. Where the Fund pays member

tax liabilities direct to HMRC, it is treated as an expense in the year in which the payment occurs.

#### G. MANAGEMENT EXPENSES

The fund discloses its pension fund management expenses in accordance with the CIPFA guidance “Accounting for Local Government Pension Scheme Management Expenses 2016”.

- **Administrative expenses** – All staff costs of the pension administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.
- **Oversight and governance** – All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund. The cost of obtaining investment advice from the external advisor is included in oversight and governance costs.
- **Investment management expenses** – The Sub-Committee has appointed external investment managers to manage the investments of the Fund. Managers are paid a fee based on the market value of the investments they manage, and/or a fee based on performance.

Where an investment manager’s fee note has not been received by the Balance Sheet date, an estimate based upon the market value of the mandate as at the end of the year is used for inclusion in the fund account.

## Note 3 Summary of significant accounting policies (continued)

### NET ASSET STATEMENT

#### H. FINANCIAL ASSETS

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net asset statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the value of the asset are recognised in the Fund account.

The values of investments as shown in the net asset statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 14a).

#### I. DERIVATIVES

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes (see Note 14a).

#### J. FOREIGN CURRENCY TRANSACTIONS

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

#### K. CASH AND CASH EQUIVALENTS

Cash comprises cash in hand and deposits with financial institutions which are repayable on demand without penalty.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

#### L. FINANCIAL LIABILITIES

A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. The Fund recognises liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the Change in Value of Investments.

Other financial liabilities classed as amortised costs are carried at amortised cost i.e. the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis and included in administration costs.

#### M. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of International Accounting Standard (IAS) 19 and relevant actuarial standards. As permitted under the Code, the fund has opted to disclose the actuarial present value of retirement benefits by way of a note to the Net Assets Statement (Note 18a).

#### N. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed for information in Note 21. There are also some residual policies with Equitable Life, which are disclosed in Note 21, but it is not open for new members.

#### O. RECHARGES FROM THE GENERAL FUND

The LGPS (Management and Investment of Funds) Regulations 2016 permit the Council to charge administration costs to the Fund. A proportion of the relevant Council costs have been charged to the Fund based on actual time spent on Pension Fund business. Costs incurred in the administration and the oversight and governance of the Fund are set out separately in Note 9.

# Note 4 Critical Judgements in Applying Accounting Policies

The accounts contain certain estimated figures that are based on assumptions made by the Council and other bodies about the future or that are otherwise uncertain. Estimates are made because they are required to satisfy relevant standards or regulations and are based on best judgement at the time, derived from historical experience, current trends and other relevant factors. As a result, actual results may differ materially from those assumptions.

The items for which there is a significant risk of material adjustment are:

## A. AVIVA INFRASTRUCTURE

One of the LBHF Pension Fund's infrastructure investment managers, Aviva, is facing legal challenge from a former construction contractor relating to a contractual dispute on one of their biomass infrastructure projects. The carrying value of the total infrastructure portfolio in the Pension Fund is £26m.

Within the manager's financial statements at 31 December 2019 and 31 December 2020, fund management were unable to quantify the financial impact of the challenge, thus placing a degree of uncertainty on the value of the portfolio overall.

Having carefully considered this fund's financial statements, audit opinion and LBHF Pension Fund's holding in the fund, officers do not consider that this

could result in any material uncertainty in the context of LBHF's total pension fund value. This is because the maximum value of the claims lodged are approximately 8% of the total portfolio value in the worst case scenario that all claims are successful and no counter claims are successful, the Pension Fund would stand to lose approximately £2m. As the estimated maximum impact on the Council's pension fund value is considered to be £2m, officers do not consider that the legal challenge/ claims could result in a material uncertainty in the LBHF pension fund accounts nor the pension related transactions contained within this particular investment and disclosures in the wider financial statements

This matter remains unresolved to date.

# Note 5 Assumptions Made About the Future and Other Major Sources of Uncertainty

Preparing financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end and the amounts reported for income and expenditure during the year. Estimates and assumptions are made considering historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual results could differ from the assumptions and estimates.

| Description of asset  | Uncertainties  | Basis of valuation  |
|---|--|---|
| <b>Actuarial present value of promised retirement benefits (Note 18a)</b> | Estimation of the net liability to pay pensions depends on several complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates and returns on fund assets. Barnet- Waddingham are engaged to provide the fund with expert advice about the assumptions to be applied. | <p>For instance:</p> <ul style="list-style-type: none"> <li>• 0.1% increase in the discount rate assumption would result in a decrease in pension liability of £36m</li> <li>• 0.1% increase in assumed earnings would increase the value of the liabilities by approximated £2m</li> <li>• 0.1% increase in pension increases would increase the liability by about £34m</li> <li>• A one-year increase in life expectancy would increase the liability by about £84m</li> </ul> |

Management has agreed a reasonable set of actuarial assumptions in consultation with the actuary which derives the total pension fund liability. An allowance of £8.8m (0.6% of total liabilities) has been included in the past service cost reflecting the recent McCloud judgement.

## A. PENSION FUND LIABILITY

The Pension Fund liability is calculated every three years by the appointed actuary with annual updates in the intervening years. The methodology used follows generally agreed guidelines and is in accordance with IAS 19. These assumptions are summarised in Note 18a. The estimates of the net liability to pay pensions depends on several judgements and assumptions. In particular, those relating to the discount rate, the rate at which salaries are projected to increase, change in retirement ages, mortality rates and expected returns on the Fund's assets.

## B. COVID 19 IMPACT

The COVID-19 pandemic has caused significant investment volatility throughout 2020 and 2021, causing uncertainty in property valuations due to the fall in observable transactions and subsequent complete lack of liquidity in the market. Following this, in 2020 a material uncertainty clause was provided on all pooled property as advised by the Royal Institute for Charters Surveyors (RICS). Since September however, it has been recommended by RICS to remove this clause from all UK property and as such this material uncertainty valuation clause no longer applies as at 31 March 2021, due to the gradual return to normality for the commercial property markets. As at 31 March 2021, pooled property investments for the Fund totalled £61.2m.

### C. PRIVATE DEBT/INFRASTRUCTURE INVESTMENTS

The fair value of the Partners Group Multi Asset Credit fund and Infrastructure fund is also subject to some valuation uncertainty. Several of the underlying assets are traded in private markets only and therefore judgement needs to be made about value, using factors such as the enterprise value and net debt. As at 31 March 2021, the assets invested with Partners Group were valued at £45.9m (£42.3m in 2019/20).

The same applies to the Aviva Infrastructure which has a quarterly valuation cycle. As at 31 March 2021, the value of the investment was £25.5m (£26.1m in 2019/20). The impact of the uncertainty surrounding these investments has also been included in the sensitivity analysis in Note 14d.

## Note 6 Events After the Balance Sheet Date

In March 2021, the Pension Fund Sub-Committee agreed to appoint Alpha Real Capital as its new ground rents income manager with a commitment of £60m, and to make a subscription into a social housing fund managed by Man Group with a commitment of £30m. As at the balance sheet date, these investments had not been completed.

In November 2021, the Pension Fund Sub-Committee (now called Pension Fund Committee) agreed to appoint Darwin Alternatives with a commitment of £32m. This subscription was fulfilled on January 7<sup>th</sup> 2022.

# Note 7 Contributions Receivable

Employees' contributions are calculated on a sliding scale based on a percentage of their gross pay. The administering body, scheduled bodies and admitted bodies are required to make contributions determined by the Fund's actuary to maintain the solvency of the Fund.

The tables on the right show a breakdown of the total amount of contributions by authority and by type.

## BY AUTHORITY

| 2019/20<br>£000 |                                       | 2020/21<br>£000 |
|-----------------|---------------------------------------|-----------------|
| (27,442)        | Administering authority               | (26,170)        |
| (3,607)         | Scheduled bodies                      | (3,789)         |
| (2,494)         | Admitted bodies                       | (2,225)         |
| <b>(33,543)</b> | <b>Total Contributions Receivable</b> | <b>(32,184)</b> |

## BY TYPE

| 2019/20<br>£000 |                                       | 2020/21<br>£000 |
|-----------------|---------------------------------------|-----------------|
| (7,408)         | Employees' normal contributions       | (8,004)         |
|                 | <b>Employer's contributions:</b>      |                 |
| (16,432)        | Normal contributions                  | (20,050)        |
| (9,703)         | Deficit recovery contributions        | (4,130)         |
| <b>(33,543)</b> | <b>Total Contributions Receivable</b> | <b>(32,184)</b> |

# Note 8 Benefits Payable

The tables on the right below show a breakdown of the total amount of benefits payable.

## BY AUTHORITY

| 2019/20       |                               | 2020/21       |
|---------------|-------------------------------|---------------|
| £000          |                               | £000          |
| 39,593        | Administering authority       | 40,624        |
| 672           | Scheduled bodies              | 715           |
| 3,153         | Admitted bodies               | 3188          |
| <b>43,418</b> | <b>Total Benefits Payable</b> | <b>44,527</b> |

## BY TYPE

| 2019/20       |  | 2020/21       |
|---------------|--|---------------|
| £000          |  | £000          |
| 34,916        | Pensions                                     | 36,363        |
| 7,407         | Commutation and lump sum retirement benefits | 6,919         |
| 1,095         | Lump sum death benefits                      | 1,245         |
| <b>43,418</b> | <b>Total Benefits Payable</b>                | <b>44,527</b> |

# Note 9 Management Expenses

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

## MANAGEMENT EXPENSES

| 2019/20      |                                  | 2020/21      |
|--------------|----------------------------------|--------------|
| £000         |                                  | £000         |
| 365          | Administrative costs             | 536          |
| 4,735        | Investment management expenses   | 7,533        |
| 766          | Oversight and governance costs   | 834          |
| <b>5,866</b> | <b>Total Management Expenses</b> | <b>8,903</b> |

The table on the right provides a breakdown of the Investment Management Expenses.

The fund transitioned assets between managers in year which resulted in increased transaction costs. Additionally, due to new requirements related to the cost transparency initiative, the Fund was able to ascertain its transaction costs more accurately.

## INVESTMENT MANAGEMENT EXPENSES

| 2019/20      |   | 2020/21      |
|--------------|---|--------------|
| £000         |   | £000         |
| 4,250        | Management fees                             | 5,446        |
| 36           | Performance fees                            | 257          |
| 421          | Transaction costs                           | 1,764        |
| 28           | Custody fees                                | 66           |
| <b>4,735</b> | <b>Total Investment Management Expenses</b> | <b>7,533</b> |



# Note 10 Investment Income

The table below shows a breakdown of investment income.

| 2019/20         |  | 2020/21         |
|-----------------|--|-----------------|
| £000            |  | £000            |
| (10,777)        | Pooled investments – unit trusts and other managed funds | (5,930)         |
| (3,009)         | Income from Alternative Investments                      | (6,387)         |
| (125)           | Interest on Cash Deposits                                | (10)            |
| (731)           | Other Investment Income                                  | (23)            |
| <b>(14,642)</b> | <b>Total Investment Income</b>                           | <b>(12,350)</b> |

# Note 11 Investment Strategy

During 2020/21, the Fund's strategy had the following developments:

- In April 2020 the Fund Transferred £55m to its new private credit mandate with Aberdeen Standard Investments (now Abrdn MSPC)
- In August 2020 the Pension Fund transferred £169m from its existing passive MSCI low carbon equity fund with LGIM to the LCIV Global Sustain Fund ran by Morgan Stanley.
- In October 2020, the Pension Fund disinvested its entire holding in the M&G inflation opportunities fund (approx £113m) and has temporarily transferred all assets to the LCIV absolute return mandate managed by Ruffer pending final allocation.

The market value and proportion of investments managed by each fund manager at 31 March 2021 was as follows:

| 31 March 2020<br>£000   | %             | Fund Manager   | Mandate                    | 31 March 2021<br>£000 | %             |
|---|---------------|--|----------------------------|-----------------------|---------------|
| <b>Investment managed by the London CIV asset pool:</b>         |               |  |                            |                       |               |
| 411,304   | 40.9%         | LGIM – MSCI Low Carbon   | Global Equity (Passive)    | 381,252               | 31.4%         |
| 128,526   | 12.8%         | LCIV – Ruffer  | Absolute Return (Active)   | 280,677               | 23.1%         |
| 100,960   | 10.0%         | LCIV – PIMCO   | Global Bonds (Active)      | 107,333               | 8.8%          |
| -   | 0.0%          | LCIV – Morgan Stanley  | Global Sustain Fund        | 174,776               | 14.4%         |
| <b>640,790</b>  | <b>63.7%</b>  | <b>Total assets managed by the London CIV asset pool</b>         |                            | <b>944,038</b>        | <b>77.70%</b> |
| <b>Investment managed outside of the London CIV asset pool:</b> |               |  |                            |                       |               |
| 110,996   | 11.0%         | M&G Investments  | Inflation Opportunities    | -                     | 0.0%          |
| 65,570  | 6.5%          | Oak Hill Advisors  | Secured Income (Active)    | 80,034                | 6.6%          |
| 58,881  | 5.9%          | Aberdeen Standard  | Long Lease Property        | 61,162                | 5.0%          |
| 26,062  | 2.6%          | Aviva Investors  | Infrastructure             | 25,546                | 2.1%          |
| 23,142  | 2.2%          | Partners Group   | Infrastructure             | 31,956                | 2.6%          |
| 19,174  | 1.9%          | Partners Group   | Multi Asset Private Credit | 13,896                | 1.1%          |
| 1,523   | 0.2%          | Invesco  | Private Equity             | 47                    | 0.0%          |
| 653   | 0.1%          | Unigestion   | Private Equity             | 417                   | 0.0%          |
| 59,551  | 5.9%          | Inhouse Cash   | Cash                       | 21                    | 0.0%          |
| 150   | 0.0%          | London CIV Ltd   | UK Equity                  | 150                   | 0.0%          |
| -   | 0.0%          | NT Ultra Short Bond Fund   | UK Equity                  | 1,999                 | 0.2%          |
| -   | 0.0%          | Aberdeen MSPC  | Private Credit             | 55,715                | 4.6%          |
| <b>365,702</b>  | <b>36.3%</b>  | <b>Total assets managed outside of the London CIV asset pool</b> |                            | <b>270,943</b>        | <b>22.30%</b> |
| <b>1,006,492</b>  | <b>100.0%</b> | <b>Total investments</b>   |                            | <b>1,214,981</b>      | <b>100.0%</b> |

## Note 11 Investment Strategy (continued)

In August 2015, the Fund made a commitment to the Partners Group Direct Infrastructure fund. As at 31 March 2021 €19.9m (£16.9m) still remained unfunded.

As shareholders of London LGPS CIV Ltd, (the organisation set up to run pooled LGPS investments in London) the Fund has funded £150,000 of regulatory capital. This is in the form of unlisted UK equity shares. The Fund has been active in the transfer of assets under management to the London Collective Investment Vehicle (LCIV) to gain efficiencies and fee reductions. As at 31 March 2021, the Fund had £944m invested with the London CIV, which accounts for 77.6% of the fund's total assets.

The table below shows the Fund investments which exceed 5% of net assets. These are all pooled investment vehicles, which are made up of underlying investments, each of which represent substantially less than 5%.

| 31 March 2020<br>£000 | %     | Fund Manager           | Mandate                  | 31 March 2021<br>£000 | %     |
|-----------------------|-------|------------------------|--------------------------|-----------------------|-------|
| 411,304               | 40.9% | LGIM – MSCI Low Carbon | Global Equity (Passive)  | 381,252               | 31.4% |
| 128,526               | 12.8% | LCIV – Ruffer          | Absolute Return (Active) | 280,677               | 23.1% |
| 110,996               | 11.0% | M&G Investments        | Inflation Opportunities  | -                     | 0.0%  |
| 100,960               | 10.0% | LCIV – PIMCO           | Global Bonds (Active)    | 107,333               | 8.8%  |
| 65,570                | 6.5%  | Oak Hill Advisors      | Secured Income (Active)  | 80,034                | 6.6%  |
| 58,881                | 5.9%  | Aberdeen Standard      | Long Lease Property      | 61,161                | 5.0%  |
| -                     | -     | Morgan Stanley         | Global Sustain Fund      | 174,776               | 14.4% |

# Note 12 Reconciliation of Movement in Investments

The table below shows a reconciliation of the movement in the total investment assets of the Fund by asset class during 2020/21.

| Fund Manager                  | Value at 1 April 2020<br>£000 | Purchases during the year and derivative payments<br>£000 | Sales during the year and derivative receipts<br>£000 | Change in market value during the year<br>£000 | Value at 31 March 2021<br>£000 |
|-------------------------------|-------------------------------|---|---|--|--------------------------------|
| Equities                      | 150                           |   |   |  | 150                            |
| Pooled equity Investments     | 817,356                       | 172,443   | (122,534)   | 214,521  | 1,081,786                      |
| Pooled property investments   | 58,881                        | 44  | -   | 2,236  | 61,161                         |
| Private equity/infrastructure | 70,555                        | 7,659   | (5,186)   | (1,165)  | 71,863                         |
| <b>Total</b>                  | <b>946,942</b>                | <b>180,146</b>  | <b>(127,720)</b>                                      | <b>215,592</b>                                 | <b>1,214,960</b>               |
| Cash deposits                 | 59,524                        |   |   | (160)  | 8                              |
| Investment income due         | 26                            |   |   |  | 13                             |
| Spot FX contracts             | -                             |   |   | 12   | -                              |
| <b>Net investment assets</b>  | <b>1,006,492</b>              | <b>180,146</b>  | <b>(127,720)</b>                                      | <b>215,444</b>                                 | <b>1,214,981</b>               |

## Note 12 Reconciliation of Movement in Investments (continued)

The equivalent analysis for 2019/20 is provided below:

| Fund Manager                  | Value at 1 April<br>2019<br>£000 | Purchases during the year and<br>derivative payments<br>£000 | Sales during the year and derivative<br>receipts<br>£000 | Change in market value during<br>the year<br>£000 | Value at 31<br>March 2020<br>£000 |
|-------------------------------|----------------------------------|--|--|---|-----------------------------------|
| Equities                      | 150                              | -  | -  | -   | 150                               |
| Pooled equity Investments     | 902,851                          | 107,550  | (156,592)  | (36,453)  | 817,356                           |
| Pooled property investments   | 55,558                           | 39   | -  | 3,284   | 58,881                            |
| Private equity/infrastructure | 76,442                           | 4,654  | (7,316)  | (3,225)   | 70,555                            |
| <b>Total</b>                  | <b>1,035,001</b>                 | <b>112,243</b>   | <b>(163,908)</b>   | <b>(36,394)</b>                                   | <b>946,942</b>                    |
| Cash deposits                 | 12,843                           |  |  | 238   | 59,524                            |
| Investment income due         | 34                               |  |  | -   | 26                                |
| Spot FX contracts             | -                                |  |  | (16)  | -                                 |
| <b>Net investment assets</b>  | <b>1,047,878</b>                 | <b>112,243</b>   | <b>(163,908)</b>   | <b>(36,172)</b>                                   | <b>1,006,492</b>                  |

# Note 13 Fair Value Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

| Description of asset   | Valuation hierarchy | Basis of valuation   | Observable and unobservable inputs  | Key sensitivities affecting the valuations provided   |
|--|---------------------|--|---|---|
| <b>Pooled Investments – Equity Funds UK and Overseas Managed Funds</b> | Level 2             | The NAV for each share class is calculated based on the market value of the underlying equity assets                             | Evaluated price feeds   | Not required  |
| <b>Unquoted Bonds and Unit Trusts</b>                                  | Level 2             | Fixed income securities are priced based on evaluated prices provided by independent pricing services                            | Evaluated price feeds   | Not required  |
| <b>Pooled Long Lease Property Fund</b>                                 | Level 2             | The Aberdeen Standard Long Lease Property Fund is priced on a Single Swinging Price  | In house evaluation of market data  | Not required  |
| <b>Private Equity</b>  | Level 3             | Comparable valuation of similar companies in accordance with International Private and Venture Capital Valuation Guidelines 2012 | Earnings before interest, tax, depreciation and amortisation (EBITDA) multiple<br>Revenue multiple                            | Valuations could be affected by changes to expected cashflows, cost of replacing key business assets, or by any differences between the audited and unaudited accounts  |
| <b>Infrastructure funds</b>  | Level 3             | Valued by Fund Managers at the lower of cost and fair value  | Managers use their judgement having regard to the Equity and Venture Capital Valuation Guidelines 2012 guidelines noted above | Upward valuations are only considered where there is validation of the investment objectives and such progress can be demonstrated<br><br>Downward valuations are enacted where the manager considers there is an impairment to the underlying investment |

# Note 14a Valuation of Financial Instruments Carried at Fair Value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values. The definitions of the levels are detailed below.

## LEVEL 1

Fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Examples are quoted equities, quoted index linked securities and unit trusts. All level 1 investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

## LEVEL 2

Quoted prices are not available for financial instruments at this level. The valuation techniques used to determine fair value use inputs that are based significantly on observable market data.

## LEVEL 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data e.g. private equity investments.

The values of the private equity investments are based on valuations provided by the General Partners to the private equity funds. The Partners Group multi asset credit and the infrastructure funds are closed ended and therefore not tradable. The valuation is based on market prices where available for some

underlying assets and on estimates of prices in secondary markets for others.

| 31 March 2020           |                         |                                      | 31 March 2021                                    |                         |                                      |
|-------------------------|-------------------------|--------------------------------------|--|-------------------------|--------------------------------------|
| Quoted Market Price     | Using Observable Inputs | With Significant Unobservable Inputs | Quoted Market Price                              | Using Observable Inputs | With Significant Unobservable Inputs |
| Level 1                 | Level 2                 | Level 3                              | Level 1  | Level 2                 | Level 3                              |
| £000                    | £000                    | £000                                 | £000   | £000                    | £000                                 |
| <b>Financial Assets</b> |                         |                                      |  |                         |                                      |
| -                       | 876,237                 | 70,555                               | -  | 1,142,947               | 72,013                               |
|                         |                         |                                      | Designated at fair value through profit and loss |                         |                                      |
| -                       | <b>876,237</b>          | <b>70,555</b>                        | -  | <b>1,142,947</b>        | <b>72,013</b>                        |
|                         |                         |                                      | <b>Net Financial Assets</b>                      |                         |                                      |
|                         |                         |                                      | <b>946,792</b>                                   |                         |                                      |
|                         |                         |                                      | <b>1,214,960</b>                                 |                         |                                      |

## Note 14b Transfers Between Levels 1 and 2

In 2020/21, the Fund's operational activity resulted in no transfers between Levels 1 and 2.

## Note 14c Reconciliation of Fair Value Measurements Within Level 3

|                         | Market Value as<br>at 31 March 2020 | Purchases    | Sales          | Unrealised<br>Gains/(losses) | Realised<br>Gains/(losses) | Market Value as<br>at 31 March 2021 |
|-------------------------|-------------------------------------|--------------|----------------|------------------------------|----------------------------|-------------------------------------|
|                         | £000                                | £000         | £000           | £000                         | £000                       | £000                                |
| Overseas infrastructure | 25,319                              | 7,659        | (1,834)        | 294                          | 983                        | 32,421                              |
| UK Infrastructure       | 26,062                              | -            | -              | (516)                        | -                          | 25,546                              |
| Private Credit          | 19,174                              | -            | (3,352)        | (1,926)                      | -                          | 13,896                              |
| London LGPS CIV         | 150                                 | -            | -              | -                            | -                          | 150                                 |
| <b>Total</b>            | <b>70,705</b>                       | <b>7,659</b> | <b>(5,186)</b> | <b>(2,148)</b>               | <b>983</b>                 | <b>72,013</b>                       |

## Note 14d Sensitivity of Assets Valued at Level 3

The Pension Fund has analysed historical data and current trends in consultation with independent investment advisors to determine the accuracy of the valuations of its Level 3 investments. Due to the uncertainty caused by the global response to the COVID-19 pandemic, the Fund's pooled property, infrastructure and private credit mandates' valuations may materially differ. The potential impact on the reported valuations as at 31 March 2020 has been estimated to be accurate within the following ranges:

|                                   | Assessed Valuation Range<br>(+/-) | Valuation at 31<br>March 2021 | Valuation on<br>increase | Valuation on<br>decrease |
|-----------------------------------|-----------------------------------|-------------------------------|--------------------------|--------------------------|
| Aviva Infrastructure              | 8.50%                             | 25,546                        | 27,717                   | 23,375                   |
| Partners Group Infrastructure     | 10.00%                            | 31,956                        | 35,151                   | 28,760                   |
| Partners Group Multi Asset Credit | 10.00%                            | 13,896                        | 15,286                   | 12,507                   |
| <b>Total</b>                      |                                   | <b>71,398</b>                 | <b>78,154</b>            | <b>64,642</b>            |

\* Pooled property includes the Aberdeen Standard Long Lease property (£58.9m) and approximately 40% of the M&G Inflation Protection Fund (£43.8m).



# Note 15a Classification of Financial Instruments

The following table analyses the carrying amounts of financial assets and liabilities split by UK and Overseas, by category and net assets statement heading as at the balance sheet date. All investments are quoted unless stated.

| Designated at fair value through profit & loss | Financial assets at amortised cost | 31 March 2020                           |                                    | Designated at fair value through profit & loss | Financial assets at amortised cost | 31 March 2021                           |                |
|--|------------------------------------|---|------------------------------------|--|------------------------------------|---|----------------|
|  |                                    | Financial liabilities at amortised cost |                                    |  |                                    | Financial liabilities at amortised cost |                |
| £000   | £000                               | £000                                    |                                    | £000   | £000                               | £000                                    |                |
| <b>Financial Assets</b>                        |                                    |   |                                    |  |                                    |   |                |
| <i>Pooled Investment Vehicles:</i>             |                                    |   |                                    |  |                                    |   |                |
| 650,817  |                                    |   |                                    | 836,705  |                                    |   |                |
| 120,144  |                                    |   |                                    | 178,943  |                                    |   |                |
| 58,881   |                                    |   |                                    | 61,162   |                                    |   |                |
| 26,062   |                                    |   |                                    | 25,546   |                                    |   |                |
| 65,570   |                                    |   |                                    | 80,034   |                                    |   |                |
| 23,142   |                                    |   |                                    | 31,956   |                                    |   |                |
| 2,176  |                                    |   |                                    | 464  |                                    |   |                |
| 150  |                                    |   |                                    | 150  |                                    |   |                |
| -  |                                    |   |                                    | -  |                                    |   |                |
| 26   |                                    |   |                                    |  | 13                                 |   |                |
|  | 59,524                             |   |                                    |  |                                    | 8                                       |                |
|  | 3,897                              |   |                                    |  |                                    | 3,664                                   |                |
|  | 1,675                              |   |                                    |  |                                    | 1,678                                   |                |
| <b>946,968</b>                                 | <b>65,096</b>                      |   |                                    | <b>1,214,960</b>                               |                                    | <b>5,363</b>                            |                |
| <b>Financial Liabilities</b>                   |                                    |   |                                    |  |                                    |   |                |
| -  |                                    | (1,178)                                 |                                    | -  | -                                  |   | (1,100)        |
| <b>946,968</b>                                 | <b>65,096</b>                      | <b>(1,178)</b>                          | <b>Total Financial Liabilities</b> | <b>1,214,960</b>                               | <b>5,363</b>                       |   | <b>(1,100)</b> |
|  |                                    | <b>1,010,886</b>                        | <b>Total Net Assets</b>            |  |                                    | <b>1,219,223</b>                        |                |

# Note 15b Net Gains and Losses on Financial Statements

This table summarises the net gains and losses on financial instruments classified by type of instrument.

| 31 March 2020                |   | 31 March 2021  |
|------------------------------|---|----------------|
| <b>Financial Assets</b>      |   |                |
| (36,393)                     | Fair value through profit and loss                  | 215,592        |
| 238                          | Loans and receivables                               | 12             |
| <b>Financial Liabilities</b> |   |                |
| (17)                         | Fair value through profit and loss                  | (160)          |
| <b>(36,172)</b>              | <b>Net Gains /(losses) on Financial Instruments</b> | <b>215,444</b> |

# Note 16 Nature and Extent of Risks Arising from Financial Instruments

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities. The Fund's liabilities are sensitive to inflation through pension and pay increases, interest rates and mortality rates. The assets that would most closely match the liabilities are a combination of index-linked gilts, as the liabilities move in accordance with changes in the relevant gilt yields and changes in inflation.

The Pension Fund Sub-Committee maintains a Pension Fund risk register and reviews the risks and appropriate mitigating actions at every meeting.

## A. MARKET RISK

In order to meet the Fund's objective of being fully funded within 22 years of the 2016 actuarial valuation, the fund managers have been set differing targets appropriate to the types of assets they manage. The ongoing economic uncertainty that has been caused by the global response to COVID-19 presents an increased risk to the Fund achieving these targets. As such, the Fund continues to invest its assets in a broad range of asset classes in terms of geographical and industry sectors and individual securities which are expected to produce returns above their benchmarks over the long term, albeit with greater volatility. This diversification reduces exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level.

The aim of the investment strategy is to maximise the opportunity for gains across the whole Fund's portfolio within a tolerable level of risk of an overall reduction in the value of the Fund. Responsibility for the Fund's

investment strategy rests with the Pensions Sub-Committee and is reviewed on a regular basis.

## B. PRICE RISK

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer, or factors affecting all such instruments in the market.

The Fund is exposed to price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities represent a risk of loss of capital. The maximum risk resulting from financial instruments (with the exception of the derivatives where the risk is currency related) is determined by the fair value of the financial instruments. The Fund's investment managers aim to mitigate this price risk through diversification and the selection of securities and other financial instruments.

All assets except for cash, forward foreign exchange contracts, other investment balances, debtors and creditors are exposed to price risk. The table below shows the value of these assets at the balance sheet date (and the prior year) and what the value would have been if prices had been 10.9% higher or 10.9% lower for 2020/21 and 10% higher or lower in 2019/20.

| Assets exposed to price risk | Value<br>£000    | +%<br>£000       | -%<br>£000       |
|------------------------------|------------------|------------------|------------------|
| At 31 March 2020             | 950,071          | 1,045,079        | 855,064          |
| <b>At 31 March 2021</b>      | <b>1,214,960</b> | <b>1,347,392</b> | <b>1,082,530</b> |

## C. INTEREST RATE RISK

The Fund invests in financial assets for the primary purpose of obtaining a return on its investments. Fixed interest securities and cash are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits.

Index linked gilts, cash and some elements of the pooled investment vehicles are exposed to interest rate risk. The table below shows the value of these assets at the balance sheet date (and the prior year) and what the value would have been if interest rates had been 1% higher or 1% lower.

| Assets exposed to interest rate risk | Value<br>£000  | +1%<br>£000    | -1%<br>£000    |
|--------------------------------------|----------------|----------------|----------------|
| At 31 March 2020                     | 247,290        | 235,493        | 259,086        |
| <b>At 31 March 2021</b>              | <b>363,074</b> | <b>348,918</b> | <b>377,231</b> |

## Note 16 Nature and Extent of Risks Arising from Financial Instruments (continued)

### D. CURRENCY RISK

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than pounds sterling.

The Fund recognises that a strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits.

In order to mitigate the risk, one of the Fund's investment managers enters into forward foreign exchange contracts (accounted for as derivatives) to hedge the currency risk which arises from undertaking non-sterling transactions. In addition, several of the pooled investment vehicles partially or fully hedge the currency back into sterling. These actions reduce the overall currency risk the Fund is exposed to. The table below shows the value of these assets at the balance sheet date (and the prior year) and what the value would have been if prices had been 5.18% higher or 10.9% lower for 2020/21 and 10% higher or lower in 2019/20

| Assets exposed to currency risk | Value<br>£000  | +1%<br>£000    | -1%<br>£000    |
|---------------------------------|----------------|----------------|----------------|
| At 31 March 2020                | 464,646        | 511,111        | 418,182        |
| <b>At 31 March 2021</b>         | <b>869,126</b> | <b>914,155</b> | <b>824,097</b> |

### E. CREDIT RISK

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence, the Fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high-quality fund managers, counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

### F. LIQUIDITY RISK

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that there are adequate cash resources to meet its commitments. This will particularly be the case for cash to meet the pensioner payroll costs; and cash to meet investment commitments. The Fund has immediate access to its cash holdings.

The only assets in the Fund which cannot be liquidated within a month are detailed in the table below. These amounted to 8.85% of the Fund's Net Assets at 31 March 2021 (10.23% at 31 March 2020). The remaining can all be liquidated within days.

| Manager           | Portfolio          | 31 March 2020  | 31 March 2021  |
|-------------------|--------------------|----------------|----------------|
| Aberdeen Standard | Property           | 58,881         | 61,162         |
| Partners Group    | Infrastructure     | 23,142         | 31,956         |
| Partners Group    | Multi Asset Credit | 19,174         | 13,896         |
| Invesco           | Private Equity     | 1,523          | 47             |
| Unigestion        | Private Equity     | 653            | 417            |
| <b>Total</b>      |                    | <b>103,373</b> | <b>107,478</b> |

# Note 17 Contingent Liabilities and Contractual Commitments

The Fund had the following commitments at the balance sheet date:

|  | 31 March 2020 | 31 March 2021 |
|--|---------------|---------------|
|  | £000          | £000          |
| Aberdeen Standard Multi Sector Private Credit  | 55,000        | -             |
| Partners Group Direct Infrastructure Fund 2015 | 23,623        | 16,936        |
|  | <b>78,623</b> | <b>16,936</b> |

# Note 18 Funding Arrangements

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the London Borough of Hammersmith & Fulham Pension Fund is able to meet its liabilities to past and present contributors and to review employer contribution rates.

The latest full triennial valuation of the London Borough of Hammersmith and Fulham Pension Fund was carried out by Barnett Waddingham, the Fund's actuary, as at 31 March 2019 in accordance with the Funding Strategy Statement of the Fund and the Local Government Pension Scheme Regulations 2013. The results were published in the triennial valuation report dated 29 January 2020. This valuation set the employer contribution rates from 1 April 2020 through to 31 March 2023.

The 2019 valuation certified a common contribution rate of 17.4% of pensionable pay (15.5% as at March 2016) to be paid by each employing body participating in the Fund, based on a funding level of 97% (88% as at March 2016). In addition, each employing body must 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 Statement to the Rates and Adjustment Certificate in the triennial valuation report..

The actuary's smoothed market value of the scheme's assets at 31 March 2019 was £1,043m (£851m 2016) and the actuary assessed the present value of the funded obligation at £1,079m indicating a net liability of £35m (£965m 2016).

The actuarial valuation, carried out using the projected unit method, is based on economic and statistical assumptions, the main ones being:

| Financial Assumptions                | 31 March<br>2016<br>£000 | 31 March<br>2019<br>£000 |
|--------------------------------------|--------------------------|--------------------------|
| Consumer Price Index (CPI) increases | 2.40%                    | 2.60%                    |
| Salary Increases                     | 3.90%                    | 3.60%                    |
| Pensions Increases                   | 2.40%                    | 2.40%                    |
| Discount Rate                        | 5.40%                    | 5.00%                    |

Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by Barnett Waddingham LLP, an independent firm of actuaries. Estimates for the Pension Fund are based on the full valuation of the scheme as at 31 March 2019. The next actuarial valuation of the Fund will be carried out as at 31 March 2022 and will set contribution rates for the period 1 April 2023 to 31 March 2026..

The contribution rate is set on the basis of the cost of future benefit accrual, increased to bring the funding level back to 100% over a period of 19 years, as set out in the Funding Strategy Statement. It is set to be sufficient to meet the additional annual accrual of benefits allowing for future pay increases and increases to pension payments 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 in respect of service to the valuation date.

# Note 18a Actuarial Present Value of Promised Retirement Benefits

The table below shows the total net liability of the Fund as at 31 March 2021. The figures have been prepared by Barnett Waddingham, the Fund's actuary, only for the purposes of providing the information required by IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

In calculating the required numbers, the actuary adopted methods and assumptions that are consistent with IAS19.

|  |   | 31 March<br>2020<br>£000 |  | 31 March<br>2021<br>£000 |
|--|---|--------------------------|--|--------------------------|
|  | Present value of promised retirement benefits | (1,527,085)              |  | (1,923,604)              |
|  | Fair value of scheme assets (bid value)       | 1,013,015                |  | 1,216,634                |
|  | <b>(514,070) Net Liability</b>                |                          |  | <b>(706,970)</b>         |

Present Value of Promised Retirement Benefits comprises of £1,900.5m (£1,509.4m at 31 March 2020) and £23.1m (£17.7m at 31 March 2020) in respect of vested benefits and non-vested benefits respectively as at 31 March 2021.

The assumptions applied by the actuary are set out below:

## FINANCIAL ASSUMPTIONS

|                   | 31 March 2020 | 31 March 2021 |
|-------------------|---------------|---------------|
| Salary increases  | 2.90%         | 3.80%         |
| Pension increases | 1.90%         | 2.80%         |
| Discount rate     | 2.35%         | 2.00%         |

## DEMOGRAPHIC ASSUMPTIONS

The post mortality tables adopted are the S3PA tables with multiplier of 110% for males and 105% for females. The base tables are projected using the CMI\_2020 Model, allowing for a long-term rate of improvement of 1.25% p.a. The assumed life expectancies from age 65 are:

|                      |         | 31 March<br>2020 | 31 March<br>2021 |
|----------------------|---------|------------------|------------------|
| Retiring today       | Males   | 21.8             | 21.6             |
|                      | Females | 24.4             | 24.3             |
| Retiring in 20 years | Males   | 23.2             | 22.9             |
|                      | Females | 25.8             | 25.7             |

## OTHER ASSUMPTIONS

- Members will exchange half of their commutable pension for cash at retirement;
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age;
- 5% of active members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits.

# Note 19 Current Assets

## DEBTORS

| 31 March 2020 |  | 31 March 2021 |
|---------------|--|---------------|
| £000          |  | £000          |
| 1,073         | Contributions due – employers          | 1,370         |
| 486           | Contributions due – employees          | 549           |
| 941           | London Borough of Hammersmith & Fulham | 941           |
| 1,397         | Sundry Debtors                         | 804           |
| <b>3,897</b>  | <b>Total Current Assets</b>            | <b>3,664</b>  |

## ANALYSIS OF DEBTORS

| 31 March 2020 |                                | 31 March 2021 |
|---------------|--------------------------------|---------------|
| £000          |                                | £000          |
| 941           | Local authorities              | 941           |
| 2,956         | Other entities and individuals | 2,560         |
| -             | Central Government             | 163           |
| <b>3,897</b>  | <b>Total Current Assets</b>    | <b>3,664</b>  |



# Note 20 Current Liabilities

## CREDITORS

| 31 March 2020  |                                  | 31 March 2021  |
|----------------|----------------------------------|----------------|
| £000           |                                  | £000           |
| (541)          | Unpaid benefits                  | (589)          |
| (375)          | Management expenses              | (426)          |
| (262)          | Sundry creditors                 | (85)           |
| <b>(1,178)</b> | <b>Total Current Liabilities</b> | <b>(1,100)</b> |

## ANALYSIS OF CREDITORS

| 31 March 2020  |                                  | 31 March 2021  |
|----------------|----------------------------------|----------------|
| £000           |                                  | £000           |
| (1,178)        | Other entities and individuals   | (1,100)        |
| <b>(1,178)</b> | <b>Total Current Liabilities</b> | <b>(1,100)</b> |

# Note 21 Additional Voluntary Contributions (AVCS)

The Fund's AVC providers are Zurich Assurance and the Equitable Life Assurance Society. AVCS are invested separately from the Pension Fund and their valuations are shown in the table below. The same valuations as at 31 March 2020 have been carried forward to this year due to uncertainty in obtaining accurate valuations as at 31 March 2021.

| 31 March 2020 |   | 31 March 2021 |
|---------------|---|---------------|
| £000          |   | £000          |
| 908           | Zurich Assurance                                | 908           |
| 191           | Equitable Life Assurance                        | 191           |
| <b>1,099</b>  | <b>Total Additional Voluntary contributions</b> | <b>1,099</b>  |

In accordance with Regulation 4(1)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009 the contributions paid, and the investments are not included in the Pension Fund Accounts.

The AVC providers secure benefits on a money purchase basis for those members electing to pay AVCS. Members of the AVC schemes each receive an annual statement confirming the amounts held in their account and the movements in the year. The Fund relies on individual contributors to check that deductions are accurately reflected in the statements provided by the AVC provider

# Note 22 Related Party Transactions

## LONDON BOROUGH OF HAMMERSMITH AND FULHAM

The Pension Fund is administered by the London Borough of Hammersmith and Fulham. The Council incurred costs of £0.542m in 2020/21 (£0.447m in 2019/20) in relation to the administration of the Fund and were reimbursed by the Fund for the expenses. The Council made £19.5m of contributions in year (£21.4m in 2019/20)..

## KEY MANAGEMENT PERSONNEL

The key management personnel of the Fund are the Members of the Pensions Sub-Committee, the Strategic Director of Finance and Governance, the Tri-borough Director of Pensions and Treasury and the Director of Corporate Services. Total remuneration payable to key management personnel in respect of the pension fund is set out below:

|                          | 31 March<br>2020 | 31 March<br>2021 |
|--------------------------|------------------|------------------|
| Short-term benefits      | 30               | 30               |
| Post-employment benefits | 255              | 95               |
| <b>Total</b>             | <b>285</b>       | <b>125</b>       |

## Note 25 External Audit Costs

The external audit fee payable to Fund's external auditors, Grant Thornton LLP, was £33,000 (£25,000 in 2019/20).



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# Glossary and Contacts

# Glossary of Terms

## ACCOUNTING POLICIES

The rules and practices adopted by the authority that determine how the transactions and events are reflected in the accounts.

## ACCRUALS

Amounts included in the accounts for income or expenditure in relation to the financial year but not received or paid as at 31 March.

## ACTIVE MANAGEMENT

Active management or active fund management is where the fund manager makes specific investments with the aim of outperforming an investment benchmark.

## ACTIVE MEMBER

Current employee who is contributing to a pension scheme.

## ACTUARIAL GAINS AND LOSSES

These arise where actual events have not coincided with the actuarial assumptions made for the last valuations (known as experience gains and losses) or the actuarial assumptions have been changed.

## ACTUARY

An independent professional who advises the Council on the financial position of the Fund. Every three years the actuary values the assets and liabilities of the Fund and determines the funding level and the employers' contribution rates.

## ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)

An option available to active scheme members to secure additional pension benefits by making regular contributions to separately held investment funds managed by the Fund's AVC provider.

## ADMITTED BODY

An organisation, whose staff can become members of the Fund by virtue of an admission agreement made between the Council and the organisation. It enables contractors who take on the Council's services with employees transferring, to offer those staff continued membership of the Fund.

## ASSET ALLOCATION

The apportionment of a Fund's assets between different types of investments (or asset classes). The long-term strategic asset allocation of a Fund will reflect the Fund's investment objectives.

## BENCHMARK

A measure against which the investment policy or performance of an investment manager can be compared.

## BONDS

Investments, mainly in government stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date but which can be traded on a recognised stock exchange in the meantime.

## CIPFA (CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTING)

CIPFA is the professional institute for accountants working in the public services. CIPFA publishes the Code.

## CREDITORS

Amounts owed by the Council for goods and services received but not paid for as at 31 March.

## DEBTORS

Amounts owed to the Council for goods and services provided but where the associated income was not received as at 31 March.

## DEFERRED MEMBERS

Scheme members, who have left employment or ceased to be active members of the scheme whilst remaining in employment but retain an entitlement to a pension from the scheme.

## DEFINED BENEFIT SCHEME

A type of pension scheme, where the pension that will ultimately be paid to the employee is fixed in advance, and not impacted by investment returns. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the pension promised.

## Glossary of Terms (continued)

### DERIVATIVE

A derivative is a financial instrument which derives its value from the change in price (e.g. foreign exchange rate, commodity price or interest rate) of an underlying investment (e.g. equities, bonds, commodities, interest rates, exchange rates and stock market indices), which no net initial investment or minimal initial investment and is settled at a future date

### EMPLOYER CONTRIBUTION RATES

The percentage of the salary of employees that employers pay as a contribution towards the employees' pension.

### EQUITIES

Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

### EXCHANGE TRADED

This describes a financial contract which is traded on a recognised exchange such as the London Stock Exchange or the London International Financial Futures Exchange.

### FINANCIAL ASSETS

Financial assets are cash, equity instruments within another entity (e.g. shares) or a contractual right to receive cash or another asset from another entity (e.g. debtors) or exchange financial assets or financial liabilities under potentially favourable conditions (e.g. derivatives).

### FINANCIAL INSTRUMENT

Any contract giving rise to a financial asset in one entity and a financial liability or equity in another entity.

### FINANCIAL LIABILITIES

Financial assets are contractual obligations to deliver cash or another financial asset (e.g. creditors) or exchange financial assets or financial liabilities under potentially unfavourable conditions (e.g. derivatives).

### FORWARD FOREIGN EXCHANGE DERIVATIVE

Forward foreign exchange derivatives are over the counter contracts whereby two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange.

### INDEX

A calculation of the average price of shares, bonds, or other assets in a specified market to provide an indication of the average performance and general trends in the market.

### OVER THE COUNTER

This describes a financial contract which is potentially unique as they are not usually traded on a recognised exchange

### PASSIVE MANAGEMENT

Passive management is where the investments mirror a market index.

### POOLED INVESTMENT VEHICLES

Funds which manage the investments of more than one investor on a collective basis. Each investor is allocated units which are revalued at regular intervals. Income from these investments is normally returned to the pooled fund and increases the value of the units.

### PROJECTED UNIT METHOD – PENSION FUND VALUATION

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependents, allowing where appropriate for future increases, and
- the accrued benefits for members in service on the valuation date.

## Glossary of Terms (continued)

### RELATED PARTIES

Two or more parties are related parties when at any time during the financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same source; or
- one party has influence over the financial and operational policies of the other party, to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
- the parties, in entering a transaction, are subject to influence from the same source, to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Advice from CIPFA is that related parties to a local authority include Central Government, bodies precepting or levying demands on the Council Tax, members and chief officers of the authority and its pension fund.

### RELATED PARTY TRANSACTION

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party, irrespective of whether a charge is made. Examples of related party transactions include:

- the purchase, sale, lease, rental or hire of assets between related parties;
- the provision by a pension fund to a related party of assets of loans, irrespective of any direct economic benefit to the pension fund;
- the provision of services to a related party, including the provision of pension fund administration services; and
- transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as Council Tax, rents and payments of benefits.

### RETURN

The total gain from holding an investment over a given period, including income and increase or decrease in market value.

### SCHEDULED BODY

An organisation that has the right to become a member the Local Government Pension Scheme under the scheme regulations. Such an organisation does not need to be admitted, as its right to membership is automatic.

### THE CODE

The Code incorporates guidance in line with IFRS, IPSAS and UK GAAP Accounting Standards. It sets out the proper accounting practice to be adopted for the Statement of Accounts to ensure they 'present fairly' the financial position of the Council. The Code has statutory status via the provision of the Local Government Act 2003.

### UNREALISED GAINS/LOSSES

The increase or decrease in the market value of investments held by the fund since the date of their purchase.

NOTE: values throughout these accounts are presented rounded to whole numbers. Totals in supporting tables and notes may not appear to cast, cross-cast, or exactly match to the core statements or other tables due to rounding differences.



# Contact Information

## FOR FURTHER DETAILS CONTACT:

### FINANCE ENQUIRIES

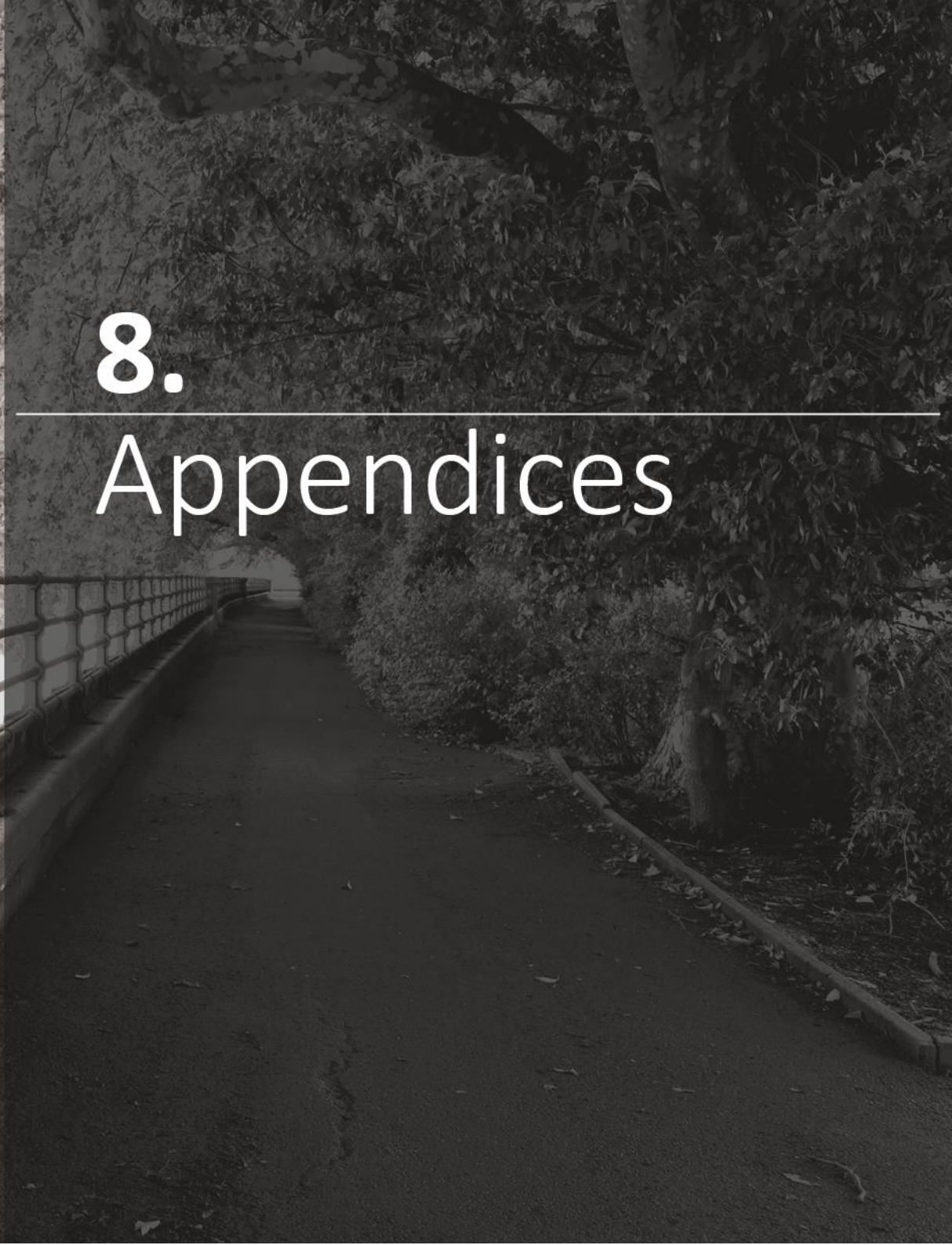
Tri-Borough Pensions Team  
16<sup>th</sup> Floor  
64 Victoria Street  
London  
SW1E 6QP  
*[pensionfund@lbhf.gov.uk](mailto:pensionfund@lbhf.gov.uk)*

### HR ENQUIRIES

Pensions Manager  
Hammersmith & Fulham Council  
The Town Hall  
King Street  
London  
W6 9JU  
*[pensions@lbhf.gov.uk](mailto:pensions@lbhf.gov.uk)*

### ADMINISTRATIVE ENQUIRIES

Pension Services  
Surrey County Council  
Room 243 County Hall  
Penrhyn Road  
Kingston upon Thames  
Surrey, KT1 2DN



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# Appendices

# Appendix 1. Governance Compliance Statement

## BACKGROUND

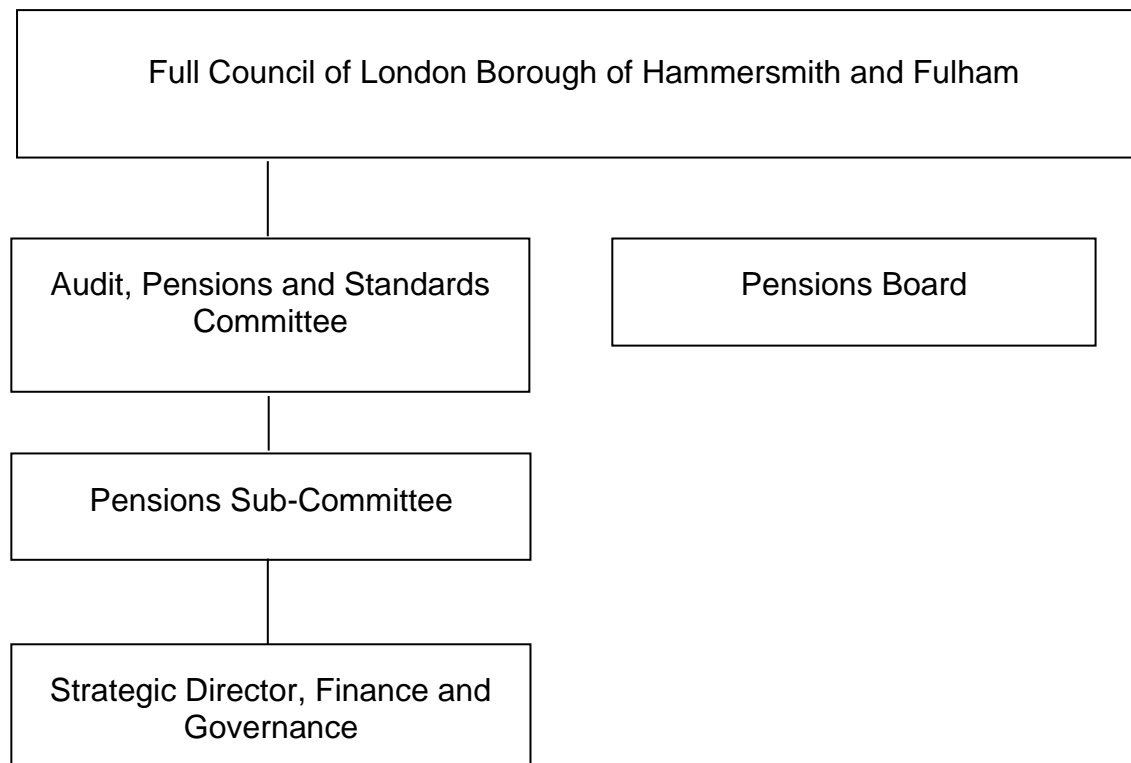
The London Borough of Hammersmith and Fulham Council is the administering authority for the London Borough of Hammersmith and Fulham (“the Fund”) and it administers the Local Government Pension Scheme on behalf of the participating employers.

Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires all administering authorities for local government pension schemes to publish a Governance Compliance Statement setting out the Fund’s governance arrangements. Information on the extent of the Fund’s compliance with guidance issued by the Secretary of State for Communities and Local Government is also a requirement of this regulation.

## GOVERNANCE STRUCTURE

The diagram on the right shows the governance structure in place for the Fund.

Full Council has delegated its functions in relation to the pension fund regulations, as shown in the diagram. The sections below explain the role of each party and provide the terms of reference.



## Governance Compliance Statement (continued)

### AUDIT, PENSIONS AND STANDARDS COMMITTEE

Full Council has delegated all decisions in relation to the Public Service Pensions Act 2013 to the Audit, Pensions and Standards Sub-Committee. In order to manage the workload of the committee, the committee has delegated decisions in relation to all pensions' matters to the Pensions Sub-committee.

### PENSIONS SUB-COMMITTEE

The role of the Pensions Sub-Committee is to have responsibility for all aspects of the investment and other management activity of the Fund.

The sub-committee is made up of four elected members of the Audit, Pensions and Standards Committee and one co-opted member. Three members of the committee are administration councillors and one member represents the opposition. The sub-committee is chaired by the Chair of the Audit, Pensions and Standards Committee. The Sub Committee may co-opt non-voting independent members, including Trade Unions and representatives from the admitted and scheduled bodies in the Pension Fund.

All Councillors on the sub-committee have voting rights. In the event of an equality of votes, the Chair of the Sub-committee shall have a second casting vote. Where the Chair is not in attendance, the Vice-Chair has the casting vote.

The Sub-committee meets four times a year and may convene additional meetings as required. Three members of the Sub-committee are required to attend for a meeting to be quorate.

The terms of reference for the sub-committee are:

1. To agree the investment strategy and strategic asset allocation having regard to the advice of the fund managers and the investment consultant.
2. To monitor performance of the Pension Fund, individual fund managers, custodians, actuary and other external advisors to ensure that they remain suitable;
3. To determine the Fund management arrangements, including the appointment and termination of the appointment of the fund managers, actuary, custodians and fund advisers.
4. To agree the Statement of Investment Principles, the Funding Strategy Statement, the Business Plan for the Fund, the Governance Policy Statement, the Communications Policy Statement and the Governance Compliance Statement and to ensure compliance with these.
5. To approve the final Statement of Accounts of the Pension Fund and to approve the Annual Report.
6. To receive actuarial valuations of the Superannuation Fund regarding the level of employers' contributions necessary to balance the Superannuation Fund.
7. To oversee and approve any changes to the administrative arrangements, material contracts and policies and procedures of the Council for the payment of pensions, and allowances to beneficiaries.
8. To make and review an admission policy relating to admission agreements generally with any admission body.
9. To ensure compliance with all relevant statutes, regulations and best practice with both the public and private sectors.
10. To review the arrangements and managers for the provision of Additional Voluntary Contributions for fund members.
11. To receive and consider the auditor's report on the governance of the Pension Fund.
12. To determine any other investment or pension fund policies that may be required from time to time so as to comply with government regulations and to make any decisions in accordance with those policies.

## **Governance Compliance Statement (continued)**

### **PENSION BOARD**

With effect from 1st April 2015, all administering authorities are required by the Public Services Pensions Act 2013 to establish a Pension Board to assist them. The London Borough of Hammersmith and Fulham Pension Board was established by full Council on 25th February 2015.

The role of the Pension Board is to assist the administering authority with securing compliance with Local Government Pension Scheme regulations and other legislation relating to the governance and administration of the scheme. The Board does not have a decision making role in relation to management of the Fund, but is able to make recommendations to the Pension Fund Committee.

The membership of the Board is as follows:

- Three employer representatives comprising one from an admitted or scheduled body and two nominated by the Council;
- Three scheme member's representatives from the Council or an admitted or scheduled body.

All Board members are entitled to vote, but it is expected that as far as possible Board members will reach a consensus. Three Board members are required to attend for a meeting to be quorate. The Board will meet a minimum of twice a year but is likely to meet on a quarterly basis to reflect the same frequency as the Pension Fund Committee.

### **COMPLIANCE WITH STATUTORY GUIDANCE**

It is a regulatory requirement that the Fund publishes the extent to which it complies with statutory guidance issued by the Secretary of State for Communities and Local Government. The guidance and compliance levels are set out in Annex 1.

### **REVIEW OF STATEMENT**

This statement will be kept under review and updated as required. Consultation with the admitted and scheduled bodies of the Fund will take place before the statement is finalised at each change.

## Annex 1: Governance Compliance Statement

| Compliance Requirement   | Compliance          | Notes  |
|--|---------------------|--|
| <b>Structure</b>   |                     |  |
| The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.  | Compliant           | As set out in terms of reference of the Pensions Sub-Committee.  |
| 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.  | Not fully compliant | Representatives of the employers and scheme members are Pension Board members, rather than members of the Pensions Sub-Committee.  |
| That where a secondary committee or panel has been established, the structure ensures effective communication across both levels   | Not applicable      | All Pension Fund matters are considered by the Pensions Sub-Committee  |
| 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  | Not applicable      | All Pension Fund matters are considered by the Pensions Sub-Committee  |
| <b>Committee membership and representation</b>   |                     |  |
| That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: - <ul style="list-style-type: none"> <li>i) employing authorities (including non-scheme employers, e.g. admitted bodies);</li> <li>ii) scheme members (including deferred and pensioner scheme members),</li> <li>iii) where appropriate, independent professional observers, and</li> <li>iv) expert advisors (on an <i>ad hoc</i> basis).</li> </ul> | Not fully compliant | Representatives of the employers and scheme members are Pension Board members, rather than members of the Pensions Sub-Committee. Expert advisers attend the Sub-Committee as required |
| 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   | Not applicable      | All Pension Fund matters are considered by the Pensions Sub-Committee  |
| <b>Selection and role</b>  |                     |  |
| 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           | As set out in terms of reference of the Pensions Sub-Committee   |
| That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda   | Compliant           | This is a standing item on the Pensions Sub-Committee agendas  |
| <b>Voting</b>  |                     |  |
| 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           | As set out in terms of reference of the Pensions Sub-Committee   |

## Annex 1: Governance Compliance Statement (continued)

| Compliance Requirement  | Compliance     | Notes  |
|---|----------------|--|
| <b>Training, facility time and expenses</b>   |                |  |
| 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      | As set out in the Council's allowances policy and the Pension Fund Knowledge and Skills policy |
| 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      | As set out in the Council's constitution   |
| <b>Meetings</b>   |                |  |
| That an administering authority's main committee or committees meet at least quarterly.   | Compliant      | As set out in terms of reference of the Pensions Sub-Committee                                 |
| 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   | Not applicable | All Pension Fund matters are considered by the Pensions Sub-Committee.                         |
| 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      | Represented on the Pensions Board  |
| <b>Access</b>   |                |  |
| 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      | As set out in the Council's constitution   |
| <b>Scope</b>  |                |  |
| That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements  | Compliant      | as set out in terms of reference of the Pensions Sub-Committee                                 |
| <b>Publicity</b>  |                |  |
| 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      | All meeting minutes, reports and Pension Fund policies are published on the Council's website  |

# Appendix 2. Communication Policy

## 1. BACKGROUND

Regulation 61 of the Local Government Pension Scheme Regulations 2013 requires administering authorities to prepare, publish and maintain a policy statement setting out its communication strategy for communicating with:

- Scheme Members
- Members' representatives
- Prospective members
- Employers participating in the Fund

This is the Local Government Pension Scheme (LGPS) Communications Policy Statement for the London Borough of Hammersmith & Fulham (LBHF).

LBHF in its capacity as the Administering Authority engages with other employers (under their status as Admitted and Scheduled Bodies) and has 3,635 active members, 7,112 deferred members and 5,081 pensioners as at 31st March 2019

This policy document sets out the mechanisms that LBHF uses to meet their communication responsibilities.

## 2. ROLES AND RESPONSIBILITIES

### Retained team within HR

The Retained Team are responsible for setting the pensions administration management strategy which includes the drafting of this document and the allocation of communication responsibilities, including those to third parties.

They are also responsible for the monitoring of the quality, timeliness and accuracy of pensions communications from third parties and for the periodic review of this document.

The Retained Team will approve significant communications prior to them being issued that have been drafted on behalf of LBHF by Surrey County Council (SCC) and Hampshire County Council (HCC).

### Surrey County Council

SCC are responsible for the day to day transactional pensions administration service under a section 101 agreement with LBHF.

Under this agreement SCC are responsible for the quality, timeliness and accuracy of pensions communications within their normal business activities.

They are also responsible for communications within specific projects and tasks agreed and allocated to them by the Retained Team.



### 3. HOW INFORMATION IS COMMUNICATED

The table below shows the LBHF communication methods, the frequency of issue and the intended audiences.

| Communication Type                     |             |         |          |              |            | Frequency of issue                              | Communication method  |               |                 |           |                     |           |            |                        |               |                         |       |                    |  |
|--|-------------|---------|----------|--------------|------------|---|---|---------------|-----------------|-----------|---------------------|-----------|------------|------------------------|---------------|-------------------------|-------|--------------------|--|
|  | Paper Based | Website | Intranet | Face to face | Electronic |   |   | Active member | Deferred member | Pensioner | Prospective members | Employers | Union Reps | Pension fund committee | Pension Board | Residents and taxpayers | Media | Other stakeholders |  |
| Joiner information with Scheme details | ✓           | ✓       |          |              |            | During the recruitment process and upon request | Sent to home address/via employers  |               |                 |           | ✓                   | ✓         | ✓          |                        |               |                         |       |                    |  |
| Newsletters                            | ✓           | ✓       |          |              |            | Annually and/or when the scheme changes         | Sent to home address/via employers  | ✓             | ✓               | ✓         | ✓                   | ✓         | ✓          |                        |               |                         |       |                    |  |
| Fund Reports and Accounts              |             |         | ✓        |              |            | Continually available                           | Link publicised   | ✓             |                 |           |                     |           |            |                        |               |                         |       |                    |  |
| Annual Benefit Statements              | ✓           |         |          |              |            | Annually and on request                         | Sent to home address and/or via employers for active members. Sent to home address for deferred members | ✓             | ✓               |           |                     |           |            |                        |               |                         |       |                    |  |
| Factsheets                             | ✓           | ✓       |          |              |            | On request                                      | On request  | ✓             | ✓               | ✓         | ✓                   | ✓         | ✓          |                        |               |                         |       |                    |  |
| Roadshows                              |             |         |          | ✓            |            | When major scheme changes occur                 | Advertised in newsletters, via posters  | ✓             |                 |           |                     |           |            |                        |               |                         |       |                    |  |
| Personal discussions                   |             |         |          | ✓            |            | When required                                   | Displayed in the workplace  | ✓             | ✓               | ✓         | ✓                   |           |            |                        |               |                         |       |                    |  |
| Posters                                | ✓           |         |          |              |            | Continually available                           | On request  | ✓             |                 |           | ✓                   |           |            |                        |               |                         |       |                    |  |
| Employers Guide                        |             | ✓       |          |              |            | Annually  | Annually  |               |                 |           |                     | ✓         |            |                        |               |                         |       |                    |  |

| Communication Type                   |             |         |          |              |            | Frequency of issue                 | Communication method             |               |                 |           |                     |           |            |                        |               |                         |       |                    |   |
|--------------------------------------|-------------|---------|----------|--------------|------------|------------------------------------|----------------------------------|---------------|-----------------|-----------|---------------------|-----------|------------|------------------------|---------------|-------------------------|-------|--------------------|---|
|                                      | Paper Based | Website | Intranet | Face to face | Electronic |                                    |                                  | Active member | Deferred member | Pensioner | Prospective members | Employers | Union Reps | Pension fund committee | Pension Board | Residents and taxpayers | Media | Other stakeholders |   |
| Employers meetings                   |             |         |          | ✓            |            | Annually                           | Notifications sent               |               |                 |           |                     | ✓         |            |                        |               |                         |       |                    |   |
| Briefing papers                      | ✓           |         |          |              | ✓          | When required                      | Within Committee papers dispatch |               |                 |           |                     |           | ✓          | ✓                      |               |                         |       |                    |   |
| Committee Reports                    | ✓           |         |          |              | ✓          | With the committee cycle           | Within Committee papers dispatch |               |                 |           |                     |           | ✓          | ✓                      |               |                         |       |                    |   |
| Training and Development             |             |         |          | ✓            | ✓          | Available and/or as when requested | On request                       | ✓             |                 |           |                     | ✓         |            | ✓                      | ✓             |                         |       |                    |   |
| Press releases                       |             |         |          |              | ✓          | As required                        | Email                            |               |                 |           |                     |           |            |                        |               |                         |       | ✓                  |   |
| Other employers joining the fund     |             |         |          |              | ✓          | As required                        | Email                            |               |                 |           |                     |           |            |                        |               |                         |       |                    | ✓ |
| Pension disputes IDRPs               |             |         |          |              | ✓          | As required                        | Email                            |               |                 |           |                     |           |            |                        |               |                         |       |                    | ✓ |
| Statutory returns and questionnaires |             |         |          |              | ✓          | As required                        | Email                            |               |                 |           |                     |           | ✓          | ✓                      |               |                         |       |                    | ✓ |

## Communication Policy (continued)

### 4. DETAILS OF WHAT IS COMMUNICATED

#### Joiner information with Scheme details

A document providing an overview of the LGPS, including who can join, the contribution rates, the retirement and death benefits and how to increase the value of benefits.

#### Newsletters

An annual newsletter which provides updates on changes to the LGPS as well as other related news, such as national changes to pensions regulations, forthcoming roadshows and contact details.

#### Fund Report and Accounts

Details of the value of the Pension Fund during the financial year, income and expenditure etc.

#### Annual Benefit Statements

For active members these include the value of current and projected benefits. The associated death benefits are also shown along with details of any individuals nominated to receive the lump sum death grant.

In relation to deferred members, the benefit statement includes the current value of the deferred benefits and the earliest payment date of the benefits as well as the associated death benefits.

#### Factsheets

Information that provides a summary in relation to specific topics, such as topping up pension rights, transfer values in and out of the scheme, death

benefits and, for pensioners, annual pensions increases.

#### Roadshows

As required a representative from SCC and/or the Retained Team will visit a particular location to provide a presentation on a particular topic of interest.

#### Face to face/personal discussions.

Face to face discussions with a representative from SCC and/or the Retained Team to discuss personal circumstances.

#### Posters

These are to engage with staff that are not in the LGPS, to help them to understand the benefits of participating in the scheme and to provide guidance on how to join.

#### Employers' Guide

A detailed guide that provides guidance on the employer responsibilities including the forms and other necessary communications.

#### Employers meeting

A seminar style event with a number of speakers covering topical LGPS issues.

#### Briefing papers

Formal briefings that highlight key issues or developments relating to the LGPS and the Fund,

these are used by senior managers when attending committee meetings.

#### Committee papers

Formal documents setting out relevant issues in respect of the LGPS, in many cases seeking specific decisions or directions from elected members.

#### Training and Development.

Pension issues are included in appropriate training and development events – specific pension training and development events are run at significant times such as when the scheme changes.

#### Press releases

Bulletins providing briefing commentary on LBHF's opinion on various matters relating to the Pension Fund, for example. the actuarial valuation results.

#### Other employers joining the fund

A legal requirement to notify both organisations of the name and type of employer entered into the Fund (e.g. following the admission of third party service providers into the scheme).

#### Pension disputes IDR

Formal notification of pension dispute resolutions to the complainant, together with any additional correspondence relating to the dispute.

#### Statutory returns and questionnaires

Statutory and various questionnaires that are received, requesting specific information in relation to the structure of the LBHF fund or the composition of the Fund.

## Communication Policy (continued)

### FURTHER INFORMATION

If you need more information about the Scheme you should contact Surrey County Council at the following address:

Surrey County Council

Pension Services (LBHF Team)

Surrey County Council

Room G59, County Hall

Penrhyn Road

Kingston upon Thames

Surrey KT1 2DN

Email: [myhelpdeskpensions@surreycc.gov.uk](mailto:myhelpdeskpensions@surreycc.gov.uk)

### General enquiries and complaints:

Helpdesk: 0208 231 2802

General enquiries and complaints: 0208 541 9293

### RETAINED HR TEAM

Pensions Manager

Hammersmith & Fulham Council

The Town Hall

King Street

London

W6 9JU

[pensions@lbhf.gov.uk](mailto:pensions@lbhf.gov.uk)

# Appendix 3. Funding Strategy Statement

## INTRODUCTION

This is the Funding Strategy Statement for the London Borough of Hammersmith and Fulham Pension Fund (the Fund). It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 as amended (the Regulations) and describes the London Borough of Hammersmith and Fulham's strategy, in its capacity as administering authority, for the funding of the London Borough of Hammersmith and Fulham Pension Fund.

The Fund's employers and the Fund Actuary, Barnett Waddingham LLP, have been consulted on the contents of this statement.

This statement should be read in conjunction with the Fund's Investment Strategy Statement (ISS) and has been prepared with regard to the guidance (*Preparing and Maintaining a funding strategy statement in the LGPS 2016 edition*) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

## PURPOSE OF THE FUNDING STRATEGY STATEMENT

The purpose of this Funding Strategy Statement (FSS) is to:

- Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as required by Regulation 62(6) of the Regulations;
- Ensure that the regulatory requirements to set contributions to meet the future liability to provide Scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the Fund are met; and
- Take a prudent longer-term view of funding those liabilities.

## AIMS AND PURPOSE OF THE FUND

The aims of the Fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- Enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to all relevant parties (such as the taxpayers, scheduled, resolution and admitted bodies), while achieving and maintaining Fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the administering authority and employers alike; and
- Seek returns on investment within reasonable risk parameters.

The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits to Scheme members as provided for under the Regulations;
- Meet the costs associated in administering the Fund; and
- Receive and invest contributions, transfer values and investment income.

## Funding Strategy Statement (continued)

### 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:

- Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- Ensure the solvency of the Fund;
- Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
- Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and
- Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

In developing the funding strategy, the administering authority should also have regard to the likely outcomes of the review carried out under Section 13(4)(c) of the Public Service Pensions Act 2013. Section 13(4)(c) requires an independent review of the actuarial valuations of the LGPS funds; this involves reporting on whether the rate of employer contributions set as part of the actuarial valuations

are set at an appropriate level to ensure the solvency of the Fund and the long-term cost efficiency of the Scheme so far as relating to the pension Fund. The review also looks at compliance and consistency of the actuarial valuations.

### KEY PARTIES

The key parties involved in the funding process and their responsibilities are set out below.

#### The administering authority

The administering authority for the Fund is the London Borough of Hammersmith and Fulham. The main responsibilities of the administering authority are to:

- Operate the Fund in accordance with the LGPS Regulations;
- Collect employee and employer contributions, investment income and other amounts due to the Fund as stipulated in the Regulations;
- Invest the Fund's assets in accordance with the Fund's Investment Strategy Statement;
- Pay the benefits due to Scheme members as stipulated in the Regulations;
- Ensure that cash is available to meet liabilities as and when they fall due;
- Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain this FSS and also the ISS after consultation with other interested parties;

- Monitor all aspects of the Fund's performance;
- Effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and Scheme employer; and;
- Enable the Local Pension Board to review the valuation process as they see fit.

#### Scheme employers

In addition to the administering authority, a number of other Scheme employers participate in the Fund.

The responsibilities of each employer that participates in the Fund, including the administering authority, are to:

- 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;
- Notify the administering authority of any new Scheme members and any other membership changes promptly;
- Develop a policy on certain discretions and exercise those discretions as permitted under the Regulations;
- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures; and
- Pay any exit payments due on ceasing participation in the Fund.

## Funding Strategy Statement (continued)

### Scheme members

Active Scheme members are required to make contributions into the Fund as set by the Ministry of Housing, Communities and Local Government (MHCLG).

### Fund Actuary

The Fund Actuary for the Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- Prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the Regulations;
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill-health retirement costs, compensatory added years costs, etc;
- Provide advice and valuations on the exiting of employers from the Fund;
- Provide advice and valuations relating to new employers, including recommending the level of bonds or other forms of security required to protect the Fund against the financial effect of employer default;
- Assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the Regulations;
- Ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of

relevance to their role in advising the Fund; and;

- Advise on other actuarial matters affecting the financial position of the Fund.

### KEY PARTIES

The factors affecting the Fund's finances are constantly changing, 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 most recent valuation of the Fund was as at 31 March 2019. The individual employer contribution rates are set out in the Rates and Adjustments Certificate which forms part of the Fund's 2019 valuation report.

The actuarial valuation involves 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. A summary of the methods and assumptions adopted is set out in the sections below.

### FUNDING METHOD

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

The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund.

For all employers, the method adopted is to consider separately the benefits accrued before the valuation date (past service) and benefits expected to be accrued after the valuation date (future service).

These are evaluated as follows:

- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay and pensions. A funding level in excess of 100% indicates a surplus of assets over liabilities; while a funding level of less than 100% indicates a deficit; and
- The future service funding rate (also referred to as the primary rate as defined in Regulation 62(5) of the Regulations) is the level of contributions required from the individual employers which, in combination with employee contributions is expected to cover the cost of benefits accruing in future.

The adjustment required to the primary rate to calculate an employer's total contribution rate is referred to as the secondary rate, as defined in Regulation 62(7). Further details of how the secondary rate is calculated for employers is given below in the Deficit recovery/surplus amortisation periods section.

## Funding Strategy Statement (continued)

The approach to the primary rate will depend on specific employer circumstances and in particular may depend on whether an employer is an “open” employer – one which allows new recruits access to the Fund, or a “closed” employer – one which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the total contribution rate.

For open employers, the actuarial funding method that is adopted is known as the Projected Unit Method. The key feature of this method is that, in assessing the future service cost, the primary rate represents the cost of one year’s benefit accrual only.

For closed employers, the actuarial funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over a specific period, such as the length of a contract or the remaining expected working lifetime of active members.

The approach by employer may vary to reflect an employer’s specific circumstance, however, in general the closed employers in the Fund are admission bodies who have joined the Fund as part of an outsourcing contract and therefore the Attained Age Method is used in setting their contributions. All other employers (for example councils, higher education bodies and academies) are generally open employers and therefore the Projected Unit Method is used. The administering authority holds details of the open or closed status of each employer.

## VALUATION ASSUMPTIONS AND FUNDING MODEL

In completing the actuarial valuation, it is necessary to formulate assumptions about the factors affecting the Fund’s future finances such as price inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

The assumptions adopted at the valuation can therefore be considered as:

- The demographic (or statistical) assumptions which are essentially estimates of the likelihood or timing of benefits and contributions being paid, and
- The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current (or present) value.

### Future price inflation

The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities, as measured by the Retail Price Index (RPI). This is derived using the 20-year point on the Bank of England implied Retail Price Index (RPI) inflation curve, with consideration of the market conditions over the six months straddling the valuation date. The 20-year point on the curve is taken as 20 years is consistent with the average duration of an LGPS Fund.

### Future pension increases

Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. A deduction of 1.0% p.a. is therefore made to the RPI assumption to derive the CPI assumption.

### Future pay increases

As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay increases. Historically, there has been a close link between price inflation and pay increases with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2019 was CPI plus 1.0% p.a. which includes allowance for promotional increases.

### Future investment returns/discount rate

To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.

The discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the Fund’s long-term investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the “ongoing” discount rate.



## Funding Strategy Statement (continued)

A summary of the financial assumptions adopted for the 2019 valuation is set out in the table below:

| Financial assumptions as at 31 March 2019               |                            |
|---|----------------------------|
| RPI inflation   | 3.6% p.a.                  |
| CPI inflation   | 2.6% p.a.                  |
| Pension/deferred pension increases and CARE revaluation | In line with CPI inflation |
| Pay increase  | CPI inflation + 1.0% p.a.  |
| Discount rate   | 5.0% p.a.                  |

### Asset valuation

For the purpose of the valuation, the asset value used is the market value of the accumulated fund at the valuation date, adjusted to reflect average market conditions during the six months straddling the valuation date. This is referred to as the smoothed asset value and is calculated as a consistent approach to the valuation of the liabilities.

The Fund's assets are allocated to employers at an individual level by allowing for actual Fund returns achieved on the assets and cashflows paid into and out of the Fund in respect of each employer (e.g. contributions received, and benefits paid).

### Demographic assumptions

The demographic assumptions incorporated into the valuation are based on Fund-specific experience and national statistics, adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

Further details of the assumptions adopted are included in the Fund's 2019 valuation report.

### McCloud/Sargeant judgements

The McCloud/Sargeant judgements were in relation to two employment tribunal cases which were brought against the government in relation to possible age and gender discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. These judgements were not directly in relation to the LGPS, however, do have implications for the LGPS.

In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounted to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

Further details of this can be found below in the Regulatory risks section.

At the time of drafting this FSS, it is still unclear how this will affect current and future LGPS benefits. As part of the Fund's 2019 valuation, in order to mitigate the risk of member benefits being uplifted and becoming more expensive, the potential impact of

McCloud was covered by the prudence allowance in the discount rate assumption. As the remedy is still to be agreed the cost cannot be calculated with certainty, however, the Fund Actuary expects it is likely to be less than, the impact of reducing the discount rate assumption by 0.05%.

### Guaranteed Minimum Pension (GMP) indexation and equalisation

As part of the restructuring of the state pension provision, the government needs to consider how public service pension payments should be increased in future for members who accrued a Guaranteed Minimum Pension (GMP) from their public service pension scheme and expect to reach State Pension Age (SPA) post December 2018. In addition, a resulting potential inequality in the payment of public service pensions between men and women needs to be addressed. Information on the current method of indexation and equalisation of public service pension schemes can be found [here](#).

On 22 January 2018, the government published the outcome to its *Indexation and equalisation of GMP in public service pension schemes* consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching SPA before 6 April 2021. HMT published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016. Details of this outcome and the Ministerial Direction can be found [here](#).

## Funding Strategy Statement (continued)

The 2019 valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the government providing the remainder of the inflationary increase. For members that reach SPA after this date, it is assumed that the Fund will be required to pay the entire inflationary increase.

### 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 accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. This theory applies down to an individual employer level; each employer in the Fund has their own share of deficit or surplus attributable to their section of the Fund.

Where the valuation for an employer discloses a deficit then the level of required employer contributions includes an adjustment to fund the deficit over a maximum period of 17 years. The adjustment will usually be set as a fixed monetary amount.

Where the valuation for an employer discloses a surplus then the level of required employer contribution may include an adjustment to amortise a proportion of the surplus.

The deficit recovery period or amortisation period that is adopted, and the proportion of any surplus that is amortised, for any particular employer will depend on:

- The significance of the surplus or deficit relative to that employer's liabilities;
- The covenant of the individual employer (including any security in place) and any limited period of participation in the Fund;
- The remaining contract length of an employer in the Fund (if applicable); and
- The implications in terms of stability of future levels of employers' contribution.

### 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, academy employers are pooled for the purposes of determining contribution rates to recognise the common characteristics of these employers.

The main purpose of pooling is to produce more stable employer contribution levels, although recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

Pooling of other individual employers may be considered in exceptional circumstances if deemed appropriate by the administering authority and Fund Actuary.

#### Forming/disbanding a funding pool

Where the Fund identifies a group of employers with similar characteristics and potential merits for

pooling, it is possible to form a pool for these employers. Advice should be sought from the Fund Actuary to consider the appropriateness and practicalities of forming the funding pool.

Conversely, the Fund may consider it no longer appropriate to pool a group of employers. This could be due to divergence of previously similar characteristics or an employer becoming a dominant party in the pool (such that the results of the pool are largely driven by that dominant employer). Where this scenario arises, advice should be sought from the Fund Actuary.

Funding pools should be monitored on a regular basis, at least at each actuarial valuation, in order to ensure the pooling arrangement remains appropriate.

### NEW EMPLOYERS JOINING THE FUND

When a new employer joins the Fund, the Fund Actuary is required to set the contribution rates payable by the new employer and allocate a share of Fund assets to the new employer as appropriate. The most common types of new employers joining the Fund are admission bodies and new academies. These are considered in more detail below.

## Funding Strategy Statement (continued)

### ADMISSION BODIES

New admission bodies in the Fund are commonly a result of a transfer of staff from an existing employer in the Fund to another body (for example as part of a transfer of services from a council or academy to an external provider under Schedule 2 Part 3 of the Regulations). Typically, these transfers will be for a limited period (the contract length), over which the new admission body employer is required to pay contributions into the Fund in respect of the transferred members.

#### Funding at start of contract

Generally, when a new admission body joins the Fund, they will become responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. This is known as a full risk transfer. In these cases, it may be appropriate that the new admission body is allocated a share of Fund assets equal to the value of the benefits transferred, i.e. the new admission body starts off on a fully funded basis. This is calculated on the relevant funding basis and the opening position may be different when calculated on an alternative basis (e.g. on an accounting basis).

However, there may be special arrangements made as part of the contract such that a full risk transfer approach is not adopted. In these cases, the initial assets allocated to the new admission body will reflect the level of risk transferred and may therefore not be on a fully funded basis or may not reflect the full value of the benefits attributable to the transferring members.

#### Contribution rate

The contribution rate may be set on an open or a closed basis. Where the funding at the start of the contract is on a fully funded basis then the contribution rate will represent the primary rate only; where there is a deficit allocated to the new admission body then the contribution rate will also incorporate a secondary rate with the aim of recovering the deficit over an appropriate recovery period.

Depending on the details of the arrangement, for example if any risk sharing arrangements are in place, then additional adjustments may be made to determine the contribution rate payable by the new admission body. The approach in these cases will be bespoke to the individual arrangement.

#### Security

To mitigate the risk to the Fund that a new admission body will not be able to meet its obligations to the Fund in the future, the new admission body may be required to put in place a bond in accordance with Schedule 2 Part 3 of the Regulations, if required by the letting authority and administering authority.

If, for any reason, it is not desirable for a new admission body to enter into a bond, the new admission body may provide an alternative form of security which is satisfactory to the administering authority.

### NEW ACADEMIES

When a school converts to academy status, the new academy (or the sponsoring multi-academy trust) becomes a Scheme employer in its own right.

#### Funding at start

On conversion to academy status, the new academy will become part of the Academies funding pool and will be allocated assets based on the funding level of the pool at the conversion date.

#### Contribution rate

The contribution rate payable when a new academy joins the Fund will be in line with the contribution rate certified for the Academies funding pool at the 2019 valuation.

### CESSATION VALUATIONS

When a Scheme employer exits the Fund and becomes an existing employer, as required under the Regulations the Fund Actuary will be asked to carry out an actuarial valuation in order to determine the liabilities in respect of the benefits held by the exiting employer's current and former employees. The Fund Actuary is also required to determine the exit payment due from the exiting employer to the Fund or the exit credit payable from the Fund to the exiting employer.

## Funding Strategy Statement (continued)

Any deficit in the Fund in respect of the exiting employer will be due to the Fund as a single lump sum payment, unless it is agreed by the administering authority and the other parties involved that an alternative approach is permissible. For example:

- It may be agreed with the administering authority that the exit payment can be spread over some agreed period;
- the assets and liabilities relating to the employer may transfer within the Fund to another participating employer; or
- the employer's exit may be deferred subject to agreement with the administering authority, for example if it intends to offer Scheme membership to a new employee within the following three years.

Similarly, any surplus in the Fund in respect of the exiting employer may be treated differently to a payment of an exit credit, subject to the agreement between the relevant parties and any legal documentation.

In assessing the value of the liabilities attributable to the exiting employer, the Fund Actuary may adopt differing approaches depending on the employer and the specific details surrounding the employer's cessation scenario.

For example, if there is no guarantor in the Fund willing to accept responsibility for the residual liabilities of the exiting employer, then those liabilities are likely to be assessed on a "minimum risk" basis leading to a higher exit payment being required from (or lower exit credit being paid to) the employer, in order to extinguish their liabilities to the Fund and to

reduce the risk of these liabilities needing to be met by other participating employers in future.

If it is agreed that another employer in the Fund will accept responsibility for the residual liabilities, then the assumptions adopted will be consistent with the current ongoing funding position, but additional prudence will be included in order to take potential uncertainties and risk into account e.g. due to market changes, additional liabilities arising from regulatory or legislative change and political/economic uncertainties. The additional level of prudence will be set by considering the distribution of funding levels under a large number of economic scenarios, with the aim being to gain a reasonable level of confidence that the Fund will be able to meet its benefits obligations to the relevant members in future.

### REGULATORY FACTORS

At the date of drafting this FSS, the government is currently consulting on potential changes to the Regulations, some which may affect the regulations surrounding an employer's exit from the Fund. This is set out in the *Local government pension scheme: changes to the local valuation cycle and the management of employer risk* consultation document.

Further details of this can be found in the Regulatory risks section below.

### BULK TRANSFERS

Bulk transfers of staff into or out of the Fund can take place from other LGPS Funds or non-LGPS Funds. In either case, the Fund Actuary for both Funds will be

required to negotiate the terms for the bulk transfer – specifically the terms by which the value of assets to be paid from one Fund to the other is calculated.

The agreement will be specific to the situation surrounding each bulk transfer but in general the Fund will look to receive the bulk transfer on no less than a fully funded transfer (i.e. the assets paid from the ceding Fund are sufficient to cover the value of the liabilities on the agreed basis).

A bulk transfer may be required by an issued Direction Order. This is generally in relation to an employer merger, where all the assets and liabilities attributable to the transferring employer in its original Fund are transferred to the receiving Fund.

### LINKS WITH THE INVESTMENT STRATEGY STATEMENT (ISS)

The main link between the Funding Strategy Statement (FSS) and the ISS 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 long-term investment strategy as set out in the ISS.

As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the long-term investment strategy. This ensures consistency between the funding strategy and investment strategy.

## Funding Strategy Statement (continued)

### 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 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, 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 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 (i.e. the difference between the discount rate assumption and the price inflation assumption). Broadly speaking an increase/decrease of 0.1% p.a. in the real discount rate will decrease/increase the valuation of the liabilities by around 2% and decrease/increase the required employer contribution by around 0.5% of payroll p.a.

However, the Investment and Pension Fund Committee regularly monitors the investment returns achieved by the fund managers and receives advice from the independent advisers and officers 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 the funding strategy continues to meet the funding objectives.

### DEMOGRAPHIC RISKS

Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase in the long-term rate of mortality improvement of 0.25% p.a. will increase the liabilities by around 1%.

The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review. For the past two funding valuations, the Fund has commissioned a bespoke longevity analysis by Barnett Waddingham's specialist longevity team in order to assess the mortality experience of the Fund and help set an appropriate mortality assumption for funding purposes.

The liabilities of the Fund can also increase by more than has been planned as a result of the additional financial costs of early retirements and ill-health

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

The London Borough of Hammersmith and Fulham Council do not pay additional amounts to cover any strain costs arising from early retirements at the retirement date but instead allow for the additional liability at the next formal valuation and pay additional contributions to meet these strains as part of their secondary rate contributions. The Fund is comfortable with this approach due the strong covenant of the Council.

The administering authority is currently implementing an ill-health self-insurance pool within the Fund whereby a portion of all employers' contributions into the Fund are allocated to a segregated ill-health section of the Fund. When an ill-health retirement occurs, a funding strain (i.e. the difference between the value of the benefits payable to the ill-health member and the value that was assumed as part of the actuarial valuation) is generated in the employer's section of the Fund. As part of the self-insurance policy, assets equal to the funding strain are transferred from the segregated ill-health assets section of the Fund to the employer's section of the Fund to cover the funding strain.

## Funding Strategy Statement (continued)

### MATURITY RISK

The maturity of a Fund (or of an employer in the Fund) is an assessment of how close on average the members are to retirement (or already retired). The more mature the Fund or employer, the greater proportion of its membership that is near or in retirement. For a mature Fund or employer, the time available to generate investment returns is shorter and therefore the level of maturity needs to be considered as part of setting funding and investment strategies.

The cashflow profile of the Fund needs to be considered alongside the level of maturity: as a Fund matures, the ratio of active to pensioner members falls, meaning the ratio of contributions being paid into the Fund to the benefits being paid out of the Fund also falls. This therefore increases the risk of the Fund having to sell assets in order to meet its benefit payments.

The government has published a consultation (*Local government pension scheme: changes to the local valuation cycle and management of employer risk*) which may affect the Fund's exposure to maturity risk. More information on this can be found in the Regulatory risks section below.

### REGULATORY RISKS

The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by the 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 may affect the cost to individual employers participating in the Scheme.

However, the administering authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

There are a number of general risks to the Fund and the LGPS, including:

- If the LGPS was to be discontinued in its current form it is not known what would happen to members' benefits.
- The potential effects of GMP equalisation between males and females, if implemented, are not yet known.
- More generally, as a statutory scheme the benefits provided by the LGPS or the structure of the scheme could be changed by the government.
- The State Pension Age is due to be reviewed by the government in the next few years.

At the time of preparing this FSS, specific regulatory risks of particular interest to the LGPS are in relation to the McCloud/Sargeant judgements, the cost cap mechanism and the timing of future funding valuations consultation. These are discussed in the sections below.

### McCloud/Sargeant judgements and cost cap

The 2016 national Scheme valuation was used to determine the results of HM Treasury's (HMT) employer cost cap mechanism for the first time. The HMT cost cap mechanism was brought in after Lord Hutton's review of public service pensions with the aim of providing protection to taxpayers and employees against unexpected changes (expected to be increases) in pension costs. The cost control mechanism only considers "member costs". These are the costs relating to changes in assumptions made to carry out valuations relating to the profile of the Scheme members; e.g. costs relating to how long members are expected to live for and draw their pension. Therefore, assumptions such as future expected levels of investment returns and levels of inflation are not included in the calculation, so have no impact on the cost management outcome.

The 2016 HMT cost cap valuation revealed a fall in these costs and therefore a requirement to enhance Scheme benefits from 1 April 2019. However, as a funded Scheme, the LGPS also had a cost cap mechanism controlled by the Scheme Advisory Board (SAB) in place and HMT allowed SAB to put together a package of proposed benefit changes in order for the LGPS to no longer breach the HMT cost cap. These benefit changes were due to be consulted on with all stakeholders and implemented from 1 April 2019.

## Funding Strategy Statement (continued)

However, on 20 December 2018 there was a judgement made by the Court of Appeal which resulted in the government announcing their decision to pause the cost cap process across all public service schemes. This was in relation to two employment tribunal cases which were brought against the government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. Transitional protection enabled some members to remain in their pre-2015 schemes after 1 April 2015 until retirement or the end of a predetermined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July

2019 statement that it expects to have to amend all public service schemes, including the LGPS.

At the time of drafting this FSS, it is not yet known what the effect on the current and future LGPS benefits will be.

### **CONSULTATION: LOCAL GOVERNMENT PENSION SCHEME: CHANGES TO THE LOCAL VALUATION CYCLE AND MANAGEMENT OF EMPLOYER RISK**

On 8 May 2019, the government published a consultation seeking views on policy proposals to amend the rules of the LGPS in England and Wales. The consultation covered:

- amendments to the local fund valuations from the current three year (triennial) to a four year (quadrennial) cycle;
- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle;
- proposals for flexibility on exit payments;
- proposals for further policy changes to exit credits; and
- proposals for changes to the employers required to offer LGPS membership.

The consultation is currently ongoing: the consultation was closed to responses on 31 July 2019 and an outcome is now awaited. This FSS will be revisited once the outcome is known and reviewed where appropriate.

### **TIMING OF FUTURE ACTUARIAL VALUATIONS**

LGPS valuations currently take place on a triennial basis which results in employer contributions being reviewed every three years. In September 2018 it was announced by the Chief Secretary to HMT, Elizabeth Truss, that the national Scheme valuation would take place on a quadrennial basis (i.e. every four years) along with the other public sector pension schemes. These results of the national Scheme valuation are used to test the cost control cap mechanism and HMT believed that all public sector scheme should have the cost cap test happen at the same time with the next quadrennial valuation in 2020 and then 2024.

### **MANAGING EMPLOYER EXITS FROM THE FUND**

The consultation covers:

- Proposals for flexibility on exit payments. This includes:
  - Formally introducing into the Regulations the ability for the administering authority to allow an exiting employer to spread the required exit payment over a fixed period.
  - Allowing employers with no active employees to defer payment of an exit payment in return for an ongoing commitment to meeting their existing liabilities (deferred employer status).

## Funding Strategy Statement (continued)

- Proposals for further policy changes to exit credits. The proposed change would require the exiting employer's exposure to risk to be taken into account in calculating any exit credit due (for example a pass through employer who is not responsible for any pensions risk would likely not be due an exit credit if the amendments are made to the Regulations).

### CHANGES TO EMPLOYERS REQUIRED TO OFFER LGPS MEMBERSHIP

At the time of drafting this FSS, under the current Regulations further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

With consideration of the nature of the LGPS and the changes in nature of the further education and higher education sectors, the government has proposed to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS. This could impact on the level of maturity of the Fund and the cashflow profile for these employers. For example, increased risk of contribution income being insufficient to meet benefit outgo, if not in the short term then in the long term as the payroll in respect of these types of employers decreases with fewer and fewer active members participating in the Fund.

This also brings an increased risk to the Fund in relation to these employers becoming exiting

employers in the Fund. Should they decide not to admit new members to the Fund, the active membership attributable to the employers will gradually reduce to zero, triggering an exit under the Regulations and a potential significant exit payment. This has the associated risk of the employer not being able to meet the exit payment and thus the exit payment falling to the other employers in the Fund.

There are very few employers of this type currently participating in the Fund and so the risks are considered relatively low at present.

### EMPLOYER RISKS

Many different employers participate in the Fund. Accordingly, it is recognised that 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; and
- 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 which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required. In particular, the Fund regularly commissions an employer risk review from the Fund Actuary, to help identify the employers in the Fund that might be considered as high risk. In the case of admitted bodies, the Fund has a policy of requiring some form of security from the employer,

in the form of a guarantee or a bond, in case of employer default where the risk falls to the Fund. Where the risk of default falls on the liabilities of an original letting authority, the Fund provides advice to the letting authority to enable them to make a decision on whether a guarantee, some other form of security or a bond should be 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. It also keeps individual employers briefed on funding and related issues.

### GOVERNANCE RISKS

Accurate data is necessary to ensure that members ultimately receive their correct benefits. The administering authority is responsible for keeping data up to date and results of the actuarial valuation depend on accurate data. If incorrect data is valued, then there is a risk that the contributions paid are not adequate to cover the cost of the benefits accrued.

### 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.

The most recent valuation was carried out as at 31 March 2019, certifying the contribution rates payable by each employer in the Fund for the period from 1 April 2020 to 31 March 2023.



## Funding Strategy Statement (continued)

The timing of the next funding valuation is due to be confirmed as part of the government's *Local government pension scheme: changes to the local valuation cycle and management of employer risk* consultation which closed on 31 July 2019. At the time of drafting this FSS, it is anticipated that the next funding valuation will be due as at 31 March 2022 but the period for which contributions will be certified remains unconfirmed.

The administering authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.

# Appendix 4. Investment Strategy Statement

## PURPOSE OF THE INVESTMENT STRATEGY STATEMENT

This is the Investment Strategy Statement (ISS) adopted by the London Borough of Hammersmith & Fulham Pension Fund (“the Fund”), which is administered by the London Borough of Hammersmith & Fulham Council (“the Administering Authority”).

Under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the London Borough of Hammersmith & Fulham Pension Fund is required to publish this ISS. The regulations require administering authorities to outline how they meet each of the six objectives, aimed at improving the investment and governance processes of the Fund.

This statement addresses each of the objectives included in the 2016 Regulations:

- a) A requirement to invest fund money in a wide range of instruments;
- b) The authority’s assessment of suitability of particular investments and types of investment;
- c) The authority’s approach to risk, including the way in which risks are to be measured and managed;
- d) The authority’s approach to pooling investments, including the use of collective investment vehicles;
- e) The authority’s policy on how environmental, social or governance (ESG)

considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

- f) The authority’s policy on the exercise of rights (including voting rights) attaching to investments.

The Pension Fund Sub-Committee (“the Sub-Committee”) of the London Borough of Hammersmith & Fulham Pension Fund oversees the management of the Fund’s assets. Although not trustees, the Members of the Sub-Committee owe a fiduciary duty similar to that of trustees to the council taxpayers, who ultimately have to meet any shortfall in the assets of the Fund, as well as to the contributors and beneficiaries of the Fund.

The relevant terms of reference for the Sub-Committee within the Council’s Constitution are:

- To make all decisions under Regulations made pursuant to Sections 7, 12 or 24 of the Superannuation Act not otherwise falling to the Director of Finance to determine as set out in the officers’ scheme of delegation.
- The consideration and approval of the authority statement of accounts and annual report in accordance with the relevant Accounts & Audit Regulations made from time to time.
- To receive and consider the Auditor’s report on the governance of the Fund.
- To receive actuarial valuations of the Fund regarding the level of employers’

contributions necessary to balance the Fund.

- To have responsibility for all aspects of the investment and other management activity of the Fund.
- To agree the investment strategy and strategic asset allocation having regard to the advice of the fund managers and the investment consultant.
- To monitor performance of the Pension Fund, individual fund managers, custodians, actuary and other external advisors to ensure that they remain suitable.
- To determine the Fund management arrangements, including the appointment and termination of the investment managers, actuary, custodians and fund advisers.
- To agree the Investment Strategy Statement, the Funding Strategy Statement, the Business Plan for the Fund, the Governance Policy Statement, the Communications Policy Statement and to ensure compliance with these.
- To oversee and approve any changes to the administrative arrangements, material contracts and policies and procedures of the Council for the payment of pensions, and allowances to beneficiaries.
- To make and review an admission policy relating to admission agreements generally with any admission body.

## Investment Strategy Statement (continued)

- To ensure compliance with all relevant statutes, regulations and best practice with both the public and private sectors.
- To review the arrangements and managers for the provision of Additional Voluntary Contributions for fund members.
- To determine any other investment or pension fund policies that may be required from time to time, so as to comply with Government regulations and to make any decisions in accordance with those policies.

The Sub-Committee has responsibility for:

- Determining an overall investment strategy and strategic asset allocation, with regard to diversification and the suitability of asset classes to the Fund.
- Appointing the investment managers, an independent custodian, the actuary, the investment advisor(s) and any other external consultants considered necessary.
- Reviewing on a regular basis the investment managers' performance against benchmarks, portfolio risk and satisfying themselves as to the managers' expertise and the quality of their internal systems and controls.
- Monitoring compliance with the ISS & Funding Strategy Statement (FSS) and reviewing its contents.
- Reviewing social, environmental, governance (ESG) and ethical considerations policies, and the exercise of voting rights.

The Director of Finance, officers and the appointed consultants and actuaries support the Sub-Committee. The day-to-day management of the Fund's assets is delegated to the investment managers.

This ISS will be reviewed at least annually, or more frequently as required, in particular, following valuations, future asset/liability studies and performance reviews, which may indicate a need to change investment policy, or significant changes to the Funding Strategy Statement (FSS).

Under the previous Regulations the Statement of Investment Principles required administering authorities to state how they complied with the revised six investment principles as outlined within the CIPFA Pensions Panel Principles. Although not formally required under the 2016 Regulations, this information is given in Appendix A.

### OBJECTIVE 7.2 (A) – A REQUIREMENT TO INVESTMENT FUND MONEY IN A WIDE RANGE OF INSTRUMENTS

Funding and investment risks are discussed in more detail later in this document. However, at this stage, it is important to state that the Sub-Committee is aware of the risks it runs within the Fund and the consequences associated with these risks.

In order to control risk, the Sub-Committee recognises that the Fund should have an investment strategy that has:

- Exposure to a diverse range of sources of return; such as the financial markets, the manager's skill and the use of alternative investments which are less liquid.
- A diverse range of investible asset classes.
- A diverse range of approaches to the management of the underlying assets.

This approach to diversification has seen the Fund dividing its assets into six broad categories as shown in the table below:

| Asset Category              | Asset Allocation | Review Range    |
|-----------------------------|------------------|-----------------|
| <b>Global Equities</b>      | <b>45.0%</b>     | <b>+/- 3.0%</b> |
| <b>Fixed Income</b>         | <b>22.5%</b>     | <b>+/- 2.0%</b> |
| Global Bonds                | 10.0%            |                 |
| Multi Asset Credit          | 7.5%             |                 |
| Private Credit              | 5.0%             |                 |
| <b>Alternatives</b>         | <b>12.5%</b>     | <b>+/- 0.5%</b> |
| Infrastructure              | 7.5%             |                 |
| Illiquid Strategies         | 5.0%             |                 |
| <b>Inflation Protection</b> | <b>10.0%</b>     | <b>+/- 1.0%</b> |
| <b>Multi-Asset</b>          | <b>5.0%</b>      | <b>+/- 1.0%</b> |
| <b>Property</b>             | <b>5.0%</b>      | <b>+/- 1.0%</b> |

It is important to note that within each category, the Fund's underlying investments are not concentrated to one particular sector, thereby providing further diversification benefits. The asset allocation is regularly reviewed and subject to change depending on the prevalent investment conditions.

## Investment Strategy Statement (continued)

The Sub-Committee is mainly concerned about ensuring the Fund's long-term ability to meet pension and other benefit obligations, as and when they fall due. To this end, the Sub-Committee places a high degree of importance on ensuring the expected return on the assets is sufficient to do so and does not have to rely on a level of risk which the Sub-Committee considers to be excessive.

The Sub-Committee regularly reviews both the performance and expected returns from the Fund's investments to measure whether it has met, and is likely to meet in the future, its return objectives. The Fund currently has a negative cash flow position. This means that the contributions paid in by active members are less than the pension obligations paid out on a monthly basis. The Sub-Committee regularly monitors the Fund's cash flow position and the impact investment income has towards mitigating this risk.

In addition to keeping its investment strategy and policy under regular review, the Sub-Committee will keep this ISS under review to ensure that it reflects the approaches being taken. At all times, the Sub-Committee takes the view that its investment decisions, including those involving diversification, are in the best long-term interest of the Fund's beneficiaries and seeks appropriate advice from investment advisors.

### **OBJECTIVE 7.2 (B) THE AUTHORITY'S ASSESSMENT OF THE SUITABILITY OF PARTICULAR INVESTMENTS AND TYPES OF INVESTMENT**

When assessing the suitability of investments, the Fund considers several factors:

- Expected return
- Risk profile
- Market concentration
- Risk management qualities provided by the asset when the whole portfolio is considered
- Geographic and currency exposures
- The extent to which the management of the asset meet the Fund's ESG criteria

Suitability is a critical test for whether or not a particular investment should be made. Each of the Fund's investments has an individual performance benchmark, against which their reported performance is measured.

The Sub-Committee monitors the suitability of the Fund's assets on a quarterly basis. This includes the monitoring of investment returns and the volatility of the individual investments, together with the Fund's expected level of returns and acceptable risk. This latter point being to ensure that risks caused by interactions between investments within the portfolio are properly understood. When comparative statistics are available, the Sub-Committee will also compare the Fund asset performance with those of similar funds.

The Sub-Committee relies on external advice in relation to the collation of the statistics for review.

### **OBJECTIVE 7.2 (C) THE AUTHORITY'S APPROACH TO RISK, INCLUDING WAYS IN WHICH RISKS ARE TO BE MEASURED AND MANAGED**

The Sub-Committee recognises that there are several risks involved in the investment of fund assets, which include:

#### **Geopolitical and currency risks:**

- are measured by the value assets (concentration risk) in any one market, leading to the risk of an adverse influence on investment values arising from political intervention; and
- are managed by regular reviews of the actual investments relative to policy and through regular assessment of levels of diversification.

#### **Manager risk:**

- is measured by the expected deviation of the prospective risk and return as set out in the manager(s) investment objectives, relative to the investment policy; and
- is managed by monitoring the actual deviation of returns relative to the objective and factors inherent in the manager(s) investment process.

## Investment Strategy Statement (continued)

### Solvency and mismatching risks:

- are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies and;
- are managed by assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

### Liquidity risk:

- is measured by the level of cash flow required over a specified period; and
- managed by assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment cash policy.

### Custodial risk:

- Is measured by assessing the creditworthiness of the global custodian and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody.

Employer contributions are based upon financial and demographic assumption determined by the actuary. The main risks to the Fund are highlighted within the Funding Strategy Statement (FSS). The risks to the Fund are controlled in the following ways:

- the adoption and monitoring of asset allocation benchmarks, ranges and performance targets constrain the investment managers from deviating significantly from the intended approach

while permitting the flexibility for managers to enhance returns.

- the appointment of more than one manager with different mandates and approaches provides for the diversification of manager risk.

The investment management agreements constrain the manager's actions in areas of particular risk and set out the respective responsibilities of both the manager and the Fund.

The Sub-Committee is aware that investment risk is only one aspect of the risks facing the Fund. The other key risk relates to the Fund's ability to meet the future liabilities, support the investment risk (i.e. the level of volatility of investment return) and underwrite actuarial risk, namely, the volatility in the actuarial funding position and the impact this has on contributions.

The Sub-Committee is of the view that the diversification of the Fund assets is sufficiently broad to ensure the investment risk is low and will continue to be low. When putting in place the investment strategy, the Sub-Committee carefully considers both the individual asset risk characteristics and those of the combined portfolio to ensure the risks are appropriate.

Estimating the likely volatility of future investment returns is difficult as it relies on both estimates of individual asset class returns and the correlation between them. These can be based on historic asset class information for some of the listed asset classes

in which the Fund invests. However, for other private market and less liquid assets, it is much more difficult.

The Sub-Committee is mindful that correlations change over time and at time of stress, it can be significantly different from when they are in more benign market conditions.

To help manage risk, the Sub-Committee uses an external investment adviser to monitor the portfolio risk level. In addition, when carrying out their investment strategy review, the Sub-Committee can appoint different investment advisors to assess the level of risk involved.

The Fund targets a return of 5.0%, in line with the latest triennial actuarial valuation provided by the fund's actuary. This investment strategy is considered to have a low degree of volatility.

When reviewing the investment strategy on a quarterly basis, the Sub-Committee considers advice from their advisers and the need to take additional steps to protect the value of the assets that may arise or capitalise on opportunities if they are deemed suitable. In addition to this, the risk registers are also reviewed and updated on a quarterly basis.

At each review of the Investment Strategy Statement, the assumptions on risk and return, and their impact on asset allocation will be reviewed.

## Investment Strategy Statement (continued)

### OBJECTIVE 7.2 (D) THE AUTHORITY'S APPROACH TO POOLING INVESTMENTS, INCLUDING THE USE OF COLLECTIVE INVESTMENT VEHICLES

The Fund recognises the Government's requirement for LGPS funds to pool their investments and is committed to pursuing a pooling solution that ensures maximum cost effectiveness for the Fund, both in terms of return and management cost. The Fund's pooling arrangements meet the criteria set out in the Local Government Pension Scheme: Investment Reform Criteria and Guidance.

The Fund is a member of the London Collective Investment Vehicle (CIV) and joined the asset pool as part of the Government's pooling agenda. The London CIV was launched in December 2015 by the 32 local authorities within London and has about £19.5 billion of assets under management, of which £8.8 billion is managed directly with 14 active funds as of 30 September 2019.

As at the 31st December 2019, the Fund had transitioned assets into the London CIV with a value of £788 million, equivalent to 71% of the fund's assets. The Fund continues to monitor the ongoing development of investment strategies available on the London CIV platform and will look to transition further assets as and when there are suitable investment strategies available on the platform that are compatible with the Fund's investment strategy and objectives.

The table below details the investment assets held by the Fund, the availability of similar mandates on the London CIV platform and how much of the assets are invested with the pool as at 31 December 2019:

| Asset Category   | Availability on LCIV                          | Investment with LCIV |
|--|---|----------------------|
| <b>Global Equities</b>   |   |                      |
| MSCI Low Carbon (LGIM)   | Contract negotiated on behalf of LCIV Clients | £546.2m              |
| <b>Multi Asset</b>   |   |                      |
| LCIV Absolute Return (Ruffer)                                  | Yes   | £132.9m              |
| <b>Fixed Income</b>  |   |                      |
| LCIV Global Bonds (PIMCO)                                      | Yes   | £108.8m              |
| Private Multi Asset Credit (Partners Group, Aberdeen Standard) | No  | -                    |
| Multi Asset Credit (Oakhill)                                   | No  | -                    |
| <b>Infrastructure</b>  |   |                      |
| Renewable Infrastructure (Aviva)                               | No  | -                    |
| Global Infrastructure (Partners Group)                         | Yes   | -                    |
| <b>Inflation Strategies (M&amp;G)</b>                          | Yes   |                      |
| <b>Long Lease Property (Aberdeen Standard)</b>                 | No  |                      |

The Fund has committed capital to alternative investment strategies such as property, infrastructure and illiquid debt. The cost of exiting these strategies early would present a material negative financial impact for the Fund. As such, the Fund will continue to hold these investments outside of the London CIV pooling structure to maturity, at which point, the Fund will assess the viability of making such investments within the pool, subject to availability and the Fund's asset allocation.

The Sub-Committee is aware that transitioning certain investment assets to the London CIV could incur significant costs. Whilst it is the expectation of the Fund to make use of the London CIV for the management of most of the Fund's assets in the longer term, the Sub-Committee recognises that transitioning from the current structure to the London CIV will be a protracted exercise spread over several years to ensure that unnecessary costs are not incurred.

The Fund reviews its investment strategy at least once every three years, an exercise which considers the suitability of each investment within the portfolio, including an assessment of transition and investment opportunities with the London CIV.

## Investment Strategy Statement (continued)

### Governance structure of the London CIV

The London CIV is an authorised company by the Financial Conduct Authority (FCA), which was established by the London Local Authorities (LLAs) to provide a collaborative vehicle for pooling LGPS pension fund assets. The current Corporate Governance and Controls Framework was approved by London CIV shareholders in 2018. This framework details the governance arrangements for approving the London CIV's annual budget, business plan and objectives, governance structures and appointments, shareholder agreement and transparency of information and reporting.

The London CIV Company Board (the Board) comprises of an independent chair, seven non-executive directors (NEDs) of which two are nominated by the LLAs, three executive directors and the London CIV Treasurer. The Board has a duty to act in the best interests of the shareholders and have collective responsibility for:

- Strategy and oversight
- Budget and forward plans
- Performance reviews
- Major contracts and significant decisions, including decisions relating to funds
- Financial reporting and controls
- Compliance, risk and internal controls
- Governance and key policies

The London CIV has four committees responsible for investment oversight, audit and risk, remuneration and nominations and day to day operations of the company. These comprise of executive and non-executive members.

The role of the Investment Oversight Committee is to:

- Determine, maintain and monitor the company's investment strategy, investment performance and investment risks of the portfolios in accordance with the company's strategy and business plan.

The responsibilities of the Compliance, Audit and Risk Committee include:

- overseeing compliance obligations;
- developing and monitoring a risk management framework; and
- ensuring the integrity of financial statements and reporting.

The responsibilities of the Remuneration & Nomination Committee include:

- developing and monitoring a remuneration policy;
- overseeing the remuneration of key staff; and
- handling nominations and succession planning of key staff and board members.

The Executive Directors acting collectively as the Executive Committee have a number of specific delegated responsibilities for the day-to-day operations of the company, supported by the wider executive leadership team. The role of the Executive Committee in summary is to:

- execute board-approved strategic objectives and business plan in line with risk appetite and financial limits;

- identify, discuss and formulate effective solutions to address issues and opportunities facing the company;
- ensure the day-to-day operations meet the relevant legal requirements and compliance obligations of the company; and
- ensure the Board and Committee members receive timely, accurate and transparent management information and reporting to fulfil their duties and responsibilities.

The London CIV's Shareholder Committee is responsible for scrutinising the actions of the Board, reporting and transparency, consultation on the strategy and business plan, matters reserved to shareholders, responsible investment and emerging issues. The Shareholder Committee meets on a quarterly basis and comprises of 12 members, including Councillors and Treasurers from the LLAs.

The London CIV hosts an AGM on a semi-annual basis, to which all 32 members are invited. This allows members the opportunity to exercise shareholder power, approve the annual budget and hold the Board to account.

External independent oversight and assurance of the pool company is provided to the FCA, depositary, external auditors and the Ministry of Housing, Communities and Local Government (MHCLG).

## Investment Strategy Statement (continued)

### **OBJECTIVE 7.2 (E) HOW ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CONSIDERATIONS ARE TAKEN INTO ACCOUNT IN THE SELECTION, NON-SELECTION AND RETENTION AND REALISATION OF INVESTMENTS**

The Fund recognises environmental, social and governance (ESG) factors as central themes in measuring the sustainability and impact of its investment decisions. Failure to appropriately manage these factors is considered to be a key risk for the fund as this can have an adverse impact on the fund's overall investment performance, which ultimately affects the scheme members, employers and local council taxpayers.

The United Nations (UN) has established 17 Sustainable Development Goals (SDGs) as a blueprint to achieving a better and more sustainable future for all. These goals aim to address the challenges of tackling climate change, supporting industry, innovation and infrastructure, and investing in companies that are focused on playing a key role in building that sustainable future.

Whilst it might not be practical for any organisation to achieve all the SDGs solely by itself, the Fund has developed a Responsible Investment policy that targets several of the UN's SDGs that are aligned with the Fund's investment values.

The Fund, alongside its administering authority employer, has committed itself to achieving carbon neutrality by the year 2030. This commitment demonstrates the Fund's intention to act as a responsible investor and will increasingly play a fundamental role in fund's asset allocation and investment manager selection processes.

The Fund maintains a policy of engagement with all its stakeholders, including those operating in the investment industry. It is broadly recognised that in the foreseeable future, the global economy will transition from its reliance on fossil fuels to the widespread adoption of renewables as the main source of energy production. The impact of this transition on the sustainability of investment returns will be continually assessed.

The Sub-Committee is committed to playing an active role in the transition to a sustainable economic and societal environment. To that end, the Fund will continue to seek investments that match its pension liability profile, whilst having a positive impact on society. The Fund is of the view that greater impact can be achieved through active ownership and lobbying for firms to change and utilise their resources sustainably.

The Sub-Committee recognises that it has a fiduciary duty to act in the best interests of the scheme's members to ensure that their benefits are honoured in retirement. Such responsibility extends also to making a positive contribution to the long-term sustainability of the global environment. ESG integration into the Fund's investment decision processes aims to mitigate the associated investment

risks, whilst enhancing investment returns for the Fund, thereby safeguarding members' futures.

#### **Policy implementation – Selection process**

The Sub-Committee delegates the individual investment selection decisions to its investment managers. In doing so, the Fund maintains a policy of non-interference with the day-to-day decision-making processes of the investment managers. However, as part of its investment manager appointment process, the Sub-Committee assesses the investment managers' abilities to integrate ESG factors into their investment selection process. This includes, but is not limited to:

- evidence of the existence of a responsible investment policy;
- evidence of ESG integration in the investment process;
- evidence of sign up to relevant responsible investment frameworks such as the United Nations Principles of Responsible Investment (UNPRI);
- commitment to addressing the challenges posed by climate change;
- a track record of actively engaging with stakeholders to influence best practice;
- an ability to appropriately disclose, measure and report on the overall impact of ESG decisions made

As part of its investment manager selection process, the Sub-Committee will obtain proper advice from the Fund's internal and external advisers with the requisite knowledge and skills; this will be supplemented by regular training.



## Investment Strategy Statement (continued)

Investment managers are expected to follow industry best practice and use their influence as major institutional investors and long-term stewards of capital to promote best practice in the companies/projects in which they invest. Investable companies will be expected to comply with all the applicable laws and regulations in their respective markets as a minimum.

### Policy Implementation – Ongoing engagement

Whilst it is still quite difficult to quantify the impact of the less tangible non-financial factors on the economic performance of an organisation, this is an area that continues to see significant improvements. Several benchmarks and disclosure frameworks exist to measure the difference aspects of available ESG data which includes carbon emissions, diversity on company boards and social impact. It is apparent that poor scoring on these ESG factors can have an adverse impact on an organisation's financial performance. It is therefore important for the appointed investment managers to effectively assess the impact such factors may have on the underlying investments.

The Fund's officers will continue to engage with the investment managers on an ongoing basis to monitor overall investment performance, including ESG considerations. This can be implemented in several forms which include but are not limited to:

- regular meetings with investment managers to assess investment performance and the progress made towards achieving ESG targets;

- reviewing reports issued by investment managers and challenging performance where appropriate;
- working with investment managers to establish appropriate ESG reporting and disclosures in line with pension fund's objectives;
- contribution to various working groups that seek to positively influence the reporting of industry standards on ESG metrics;
- actively contributing to the efforts of engagement groups such as the Local Authority Pension Fund Forum (LAPFF), of which the fund is a member.

The Fund's officers will work closely with the London CIV (through which the Fund will increasingly invest) in developing and monitoring its internal frameworks and policies on all issues which could present a material financial risk to the long-term performance of the Fund. This will include the London CIV's ESG frameworks and policies for investment analysis and decision making.

Fund officers will report on the Fund's investment performance, including an update on the ongoing ESG performance, to the Sub-Committee at least once every quarter. This will include a review into the Fund's progress towards achieving its ESG targets.

In preparing and reviewing its Investment Strategy Statement, the Fund will consult with the relevant stakeholders including, but not limited to:

- pension fund employers;
- local pension board;
- advisers/consultants to the fund;
- investment managers.

### Policy Implementation - Training

The Sub-Committee and the Fund's officers will receive regular training on responsible investment. A review of training requirements and needs will be carried out at least annually. Training is intended to cover the latest updates in legislation and regulations, as well as best practice with regards to ESG integration into the Fund's investment process.

## OBJECTIVE 7.2 (F) THE EXERCISE OF RIGHTS (INCLUDING VOTING RIGHTS) ATTACHED TO INVESTMENTS

The Fund recognises the importance of its role as good stewards of capital and the need to ensure the highest standards of governance, promoting corporate responsibility in the underlying companies in which it holds its investments. The Sub-Committee has delegated the Fund's voting rights to its investment managers who are required and expected, where practical, to make considered use of voting in the interests of the Fund.

## Investment Strategy Statement (continued)

Through its participation as a member of the London CIV, the Fund continues to work closely with other LGPS funds in London to enhance the level of engagement with both the investment managers and the underlying companies in which it invests.

The Fund is a member of the LAPFF, a leading collaborative shareholder engagement group in the UK. The LAPFF regularly issues voting alerts to investment managers on behalf of its members. Investment managers are encouraged to vote in accordance with these alerts where possible or provide an explanation as to why they are unable to do so. The Fund's membership in the LAPFF and the Pensions and Lifetime Savings Association (PSLA) helps in magnifying the voice and influence of pension fund assets owners.

### Feedback on this statement

Any feedback on this Investment Statement is welcomed. If you have any comments or wish to discuss any issues, please contact:

Tri-Borough Pensions Team

*pensionfund@lbhf.gov.uk*

## Investment Strategy Statement (continued)

### COMPLIANCE WITH CIPFA PENSIONS PANELS PRINCIPLES

#### DECISION MAKING

Regulation 12(3) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires an administering authority to report on its compliance with the six Myners' Principles, in accordance with guidance given by the Secretary of State. The guidance for the Local Government Pension Scheme is set out in the CIPFA publication *"Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012"*.

The Fund aims to comply with all of the Myners' Principles, recognising it is in all parties' interests if the Fund operates to standards of investment decision-making and governance identified as best practice. It is therefore important for the Fund to demonstrate how it meets principles and intends to achieve best practice.

The Secretary of State has previously highlighted the principle contained in *Roberts v. Hopwood*, for pension funds whose administering bodies exercise their duties and powers under regulations governing the investment and management of funds:

"A body charged with the administration for definite purposes of funds contributed in whole or in part by persons other than members of that body owes, in my view, a duty to those latter persons to conduct that administration in a fairly business-like manner with reasonable care, skill and caution, and with a due and alert regard to

the interest of those contributors who are not members of the body. Towards these latter persons the body stands somewhat in the position of trustees or managers of others".

The Myners' Principles are widely accepted to be in support of this approach. The principles, together with the Fund's position on compliance, are set out below.

#### PRINCIPLE 1 – EFFECTIVE DECISION MAKING

Administering authorities should ensure that:

- decisions are taken by persons or organisations with the skills, knowledge 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 whilst also managing any conflicts of interest.

#### Full compliance

The Hammersmith & Fulham Council (the Council) has delegated the management and administration of the Fund to the Pension Fund Sub-Committee (the Sub-Committee). The Sub-Committee meets at least quarterly. The responsibilities of the Sub-Committee are described in section 1 of the Investment Strategy Statement (ISS).

The Sub-Committee is made up of elected members of the Council who each have voting rights. Representatives from the admitted and scheduled

bodies, as well as the trade unions may attend as observers.

The Sub-Committee obtains and considers advices from the Fund's officers, appointed actuary, investment managers and advisors. Investment managers are appointed in accordance with the scheme's regulations and the scope of their activities are specified in detailed investment management agreements and regularly monitored. Business plans are presented to the Sub-Committee annually and progress is monitored on a quarterly basis.

Several of the Sub-Committee members have extensive experience of dealing with investment matters and training is made available to new members when they are appointed to the committee.

#### PRINCIPLE 2 – CLEAR OBJECTIVES

The Fund should set investment objectives that consider the following factors:

- the funds overall pension liabilities
- the potential impact of investment risks on local council tax players
- the strength of the covenant for non-local authority employers
- the attitude towards risk of both the administering authority and the scheme employers

These should be clearly communicated to advisors and investment managers.

## Investment Strategy Statement (continued)

### Full compliance

The aims and objectives of the Fund are set out within the Funding Strategy Statement and the Investment Strategy Statement. The main objective of the fund is to meet the cost of pension liabilities whilst minimising the fluctuations in the employer contribution rates, thereby keeping costs to taxpayers and admitted bodies at a reasonable level.

In order to ensure that the Fund's assets are sufficient to meeting its short-term and long-term pension liabilities, the Fund's investment strategy has been set to include a combination of income yielding and growth assets. The Fund's investment performance is measured against this objective on a quarterly basis. The Fund's investment strategy is also reviewed regularly.

### PRINCIPLE 3 – RISK AND LIABILITIES

The Fund should consider the form and structure of its liabilities. This includes:

- the implications for local council taxpayers;
- the strength of the covenant for non-local authority employers;
- the risk of their default; and
- longevity risk.

### Full compliance

The Sub-Committee, in conjunction with its advisers, agrees an investment strategy that is appropriate to meet the Fund's liabilities. A fund actuarial valuation is carried out every three years, with the most recent triennial valuation having been conducted in 2019. The investment strategy is designed to be well

diversified, achieving the optimal risk adjusted return for the Fund.

An appropriate asset allocation has been agreed, which aims to maximise the potential to close the funding deficit over future years. This is included as an appendix to the ISS.

### PRINCIPLE 4 – PERFORMANCE ASSESSMENT

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. Administering authorities should periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to the scheme members.

### Full compliance

The Sub-Committee has appointed investment managers with clear index strategic benchmarks as a means of monitoring the investment manager's skill. Investment managers are held accountable to any under performance against the appropriate agreed upon benchmark.

Manager performance is monitored on a quarterly basis and independent detailed monitoring of the Fund's investments is carried out by the Fund's investment adviser and custodian. Portfolio risk is measured on a quarterly basis and the risk/return implications of the different strategic options are fully evaluated.

The investment adviser is assessed on the appropriateness of the quality of the advice given which include the asset allocation recommendations

and the performance of the funds on their rated list. The actuary is assessed on the quality and consistency of the actuarial advice received. Both the advisor and the actuary have fixed term contracts which when expired are tendered for under the Official Journal of the European Union (OJEU) procedures.

### PRINCIPLE 5 – RESPONSIBLE OWNERSHIP

Administering authorities should:

- adopt, or ensure their investment managers adopt, the Institutional Shareholders Committee 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.

### Full compliance

The Fund is committed to making full use of its shareholder rights. The approach used is outlined in Section 7 of the ISS. Authority has been delegated to investment managers to exercise voting rights on behalf of the Fund. Investment managers are required to report how they have voted in their quarterly reports.

The Fund intends on using its influence as a shareholder to promote corporate social responsibility and high standards of corporate governance in the companies in which it invests. The Fund's approach to this is outlined in the ISS.

## Investment Strategy Statement (continued)

### PRINCIPLE 6 – TRANSPARENCY AND REPORTING

Administering authorities should:

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

#### Full compliance

The Fund publishes an annual report each year which communicates the Fund's strategy and performance to stakeholders. Copies of the Investment Strategy Statement, Funding Strategy Statement and other policy documents are also made publicly available online on the Council's website.

All Pension Fund Sub-Committee meetings are open to members of the public, and agendas and minutes are also published on the Council's website.

### COMPLIANCE WITH THE STEWARDSHIP CODE

The Stewardship Code is a set of principles or guidelines released in 2010 and updated in 2020 by the Financial Reporting Council (FRC), directed at institutional investors who hold rights in United Kingdom companies. Its principal aim is to make shareholders who manage other people's money actively engage in corporate governance in the interests of their beneficiaries.

The Code applies to pension funds and adopts the same "comply or explain" approach used in the UK Corporate Governance Code. This means that it does not require compliance with principles but if fund managers and institutional investors do not comply with any of the principles set out, they must explain why they have not done so. The Committee has not formally adopted the latest version of the Stewardship Code, however, expects any directly appointed fund managers and the pool company (London CIV, in this Fund's case) to comply and this is monitored on an annual basis.

# Investment Strategy Statement: Appendix B

INVESTMENT AND ADMINISTRATION  
RISK REGISTER

























# Appendix 5. Pension Administration Strategy

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## 1. Introduction

The delivery of a high quality, cost effective pensions administration service is not just the responsibility of the Administering Authority (London Borough of Hammersmith and Fulham), it also depends upon collaborative working with all stakeholders to ensure that Scheme members, and other interested parties, receive the appropriate level of service and ensure that statutory requirements are met.

The aim of this Pension Administration Strategy (PAS) is to ensure that the Administering Authority along with their Admitted and Scheduled body employers are aware of their responsibilities under the Local Government Pension Scheme (LGPS).

This document also shows the relationship and details the split of responsibilities between the Administering Authority and the Admitted and Scheduled body employers (Employers).

For clarity Hammersmith and Fulham acting as Administering Authority (WAA) for the pension fund will treat Hammersmith and Fulham the main fund employer (WFE) exactly the same as all the other fund employers.

It should be noted that the Administering Authority is working with Surrey County Council (SCC) to provide the main pension administration service to all fund employers under a 101 shared service arrangement.

Throughout this document contractual and best practice levels of performance are referenced with the aim of incrementally improving the provision of timely accurate data and levels of pension administrative services.

Failure to comply with the standards shown in this document could result in charges being levied by the Administering Authority to Employers in accordance

with the terms set out in the schedule of charging in Section 6.

## 2. Pension Administration Strategy Statement

This statement sets out the aims and objectives of the PAS and references other documents which together make up the overall pensions administration management system.

### Statutory background

Regulation 59 of the Local Government Pension Scheme Regulations 2013 (LGPS 2013) enables an Administering Authority to prepare a document detailing administrative standards, performance measurement, data flows and communication vehicles with Employers.

Regulation 70 of the LGPS 2013 allows an Administering Authority to recover costs from an Employer where costs have been incurred because of an Employer's non-compliant level of performance in carrying out its functions under the Regulations.

### Aims & Objectives

In creating this strategy, the aim of the Administering Authority is to have in place a pension management system that meets the needs of the stakeholders by:

- clarifying the roles and responsibilities of all the major stakeholders
- ensuring the services provided by all the major stakeholders are accessible, equitable and transparent
- assisting Employers to provide the effective provision of timely and accurate data

To support these aims this PAS document introduces:

- the standard of expected service between the Administering Authority and Employers

- a schedule of charges that apply when standards of service fall below expectations
- a strategy in place to develop web enabled services for Employers and employees.

### Other documents which make up the overall strategy

- Local Government Pension Scheme Communications Policy

## 3. Roles and responsibilities

### Administering Authority

The responsibilities of the Administering Authority are:

1. To decide how any previous service or employment of an employee is to count for pension purposes, and whether such service is classed as a 'period of membership'.
2. To notify each member regarding the counting of membership in the scheme following notification from the member's employer of the relevant service details.
3. To set up and maintain a record for each member of the scheme which contains all the information necessary to produce an accurate benefit calculation following the employer providing useable and accurate financial data.
4. To calculate and pay the appropriate benefits at the correct time, based on membership details held the termination date and the final pay details provided by the employer when an employee ceases employment, or ceases membership of the Scheme.

5. To supply beneficiaries with details of their entitlements including the method of calculation.
6. To set up and maintain a record for each pensioner member.
7. To increase pensions periodically in accordance with the provisions of Pensions Increase Acts and Orders.
8. To pay benefits to the correct beneficiaries only and to take steps to reduce the possibility of fraud taking place.
9. To ensure that sufficient information is issued to satisfy the requirements of Regulation 61 of the LGPS 2013. This relates to fund communication more details are contained within section 4 of this document or alternatively see the communications policy which is also available on the Hammersmith and Fulham Pension fund website.
10. To maintain an appointed person for the purposes of the scheme internal dispute resolution procedure (IDRP). The appointed person will in general be the Director of People Services or where the Director had previously been involved in the case an officer of equivalent level will be asked to make a determination. The appointed person will be able to access advice from the funds appointed legal advisors where necessary.
11. To appoint all necessary advisors to enable the appointed person to perform the duties required by the IDRP.
12. To appoint an actuary for the purposes of the triennial valuation of the Pension Fund and

provide periodical actuarial advice when required.

13. To arrange and manage the triennial valuation of the pension fund.
14. To ensure compliance with the Data Protection Act 1998.
15. The Administering Authority and it's agents will respond to queries from employers external or internal auditors within 5 working days or advise when a full response can be sent if not possible within that time frame.
16. The Administering Authority and it's agents will respond to relevant Freedom of Information requests within 14 working days if possible or advise when a full response can be sent if not possible within that time frame.
17. The Administering Authority will reply to any Pension Ombudsman query within 30 days of receipt or advise of reason for further delay.

#### Employers

The main duties of the Employer are:

1. To decide who is eligible to become a member of the Scheme. The employer must abide by any admission agreement entered into with the administering authority if applicable. If there is a closed admission agreement only the named employees can be entered into the LGPS
2. To decide whether that person is employed in a full time, part time, variable time or casual capacity. If the employee is part time the employer must determine the proportion

which the employees' contractual hours relate to the hours of a comparable full time, employee.

3. To determine the pay of employees for the purposes of calculating the pension contributions.
4. To determine final pay for the purposes of calculating benefits due from the Scheme.
5. To issue a notification to any employees who cannot become members of the Scheme explaining the reason(s) why.
6. Where, after reasonable efforts, an employee fails to provide information relating to previous service, provide basic information to the Administering Authority.
7. At cessation of membership of the Scheme, to determine the reason for leaving and entitlement to benefit and notify the Administering Authority and the Scheme member of the decision.
8. To supply timely and accurate information to the Administering Authority to ensure the correct calculation of benefits payable from the Scheme.
9. To deduct Additional Voluntary Contributions (AVCs) from a member's pay and pay over to the provider within the statutory deadlines.
10. To be responsible for exercising the discretionary powers given to Employers by the regulations. These regulations also require the Employer to publish its policy in respect of these key discretions.

11. To provide a notice, drawing the employee's attention to their right of appeal under the LGPS, with any statement issued to an employee relating to any decision made about the Scheme.
12. To use an Independent Registered Medical Practitioner qualified in Occupational Health medicine that has been approved by the Adminstrating Authority in determining ill health retirement.
13. To repay to the Scheme member any incorrectly deducted employee's contributions.
14. To provide the Adminstrating Authority with Monthly and Year-end information as at 31 March each year in an approved format.
15. To provide the Adminstrating Authority with an audited copy of the final statement which shall also contain the name and pensionable pay of each employee who is an active member, the amounts which represent pension deductions from pay for each of those employees and the periods covered by the deductions and any other information requested. The information should also distinguish those amounts representing deductions for voluntary contributions and the employees paying those voluntary contributions.
16. To be responsible for complying with the requirements for funding early retirement for whatever reason as required by the Administering Authority using actuary factors.
17. To cover any professional costs for legal or actuarial services that are incurred by the

administering authority on behalf of any employer investigating any amendment in relation to its members of the scheme. An example of this would be where an (transferee) employer wishes to tupe eligible staff to another employer (transferor) and the transferor wishes to become an admitted body within our fund. The transferee employer would be expected to meet the actuarial and legal costs associated with the process and will be invoiced for this. Costs may occur in other circumstances where employers require an individual response on either a legal or actuarial matter.

18. Pay the Adminstrating Authority interest on payments due from the Employer which are overdue by more than one month.
19. Where a member leaves the Scheme and full contributions have not been deducted for whatever reason, immediately make payment of outstanding member's and Employer's contributions to the Adminstrating Authority.
20. To ensure compliance with Data Protection Act 1998.
21. The employer and it's agents will respond to queries from the Administering Authorities external or internal auditors within 5 working days or advise when a full response can be sent if not possible within that time frame.
22. The employer will reply to the Administering Authority on any query relating to a Pension Ombudsman issue with 14 days of request to allow the Administering Authority to respond to the Pension Ombudsman.

23. The employer must advise the Administering Authority of any change of contact details for the payroll or finance functions for communication purposes.
24. The employer is responsible for all Auto enrolment functions and must advise the Administering Authority of anyone auto enrolled as per the normal new starter process. Employers are advised to contact the pension regulator directly if they have any queries see link to website. <http://www.thepensionsregulator.gov.uk/>

#### 4. Liaison, engagement and communication strategy

The Adminstrating Authority will issue and annually review their Local Government Pension Scheme Communications Policy

The policy will include a strategy for communicating with:

- Scheme Members
- Members' Representatives
- Prospective members
- Employers participating in the Fund

This policy document will set out the mechanisms that the Adminstrating Authority will use to meet their communication responsibilities it will also include details of what is communicated and the frequency.

Annually the Adminstrating Authority will issue an engagement plan that will include events for employers, members of the scheme and perspective members of the scheme.

The Communications policy will be updated on the Hammersmith and Fulham Pension Fund where it can be found

under the Forms and Publications sub heading under the About us main tab.

See link to the pension fund website below.

<http://www.wccpensionfund.co.uk/>

5. Standard of expected service between the Administrating Authority and the employers

| Who * | Administration Description  | Performance Targets  |
|-------|---|--|
|       | <b><u>New Starters and Transfers In</u></b>   |  |
| E     | <p><b>New starter:</b><br/>The Employer must advise all eligible employees of their membership of the scheme. Members should be given the details of the Pension Fund website <a href="http://www.wccpensionfund.co.uk/">http://www.wccpensionfund.co.uk/</a></p> <p>Members must be advised that transfers into the scheme must be requested in the first year of joining or thereafter at their employer's discretion.</p> <p>Members must be advised that all necessary forms and contact details are available on the Pension Fund website.</p> | On the first day of the members employment if not provided prior to the start.                                       |
| E     | <p><b>New scheme member:</b><br/>Employer to send to the Administrating Authority the details of the new member. Completing the new starter form available on the website or by sending a file in an approved format by WAA to SCC.</p>   | Details to be provided to SCC by the last working day of the month following the first payroll deduction of pension. |
| AA    | <p><b>New scheme member</b><br/>Administrating Authority to create a new pensions record from the completed notification from the Employer.</p>   | By the last working day of the month following the data submission by the employer.                                  |

|    |   |   |
|----|---|---|
| AA | <p><b>New scheme member:</b><br/>Administrating Authority to request a transfer quote from the new member's previous scheme.</p>                      | Within 30 days of receipt of authorisation from the employee. If transfer factors are currently available. If not the member is to be advised of the delay within the same timescale. |
| AA | <p><b>New scheme member:</b><br/>Administrating Authority to credit member record with membership due from transfer of previous pension benefits.</p> | Within 30 days of receipt of payment from previous scheme.  |
| AA | <p><b>New Scheme member:</b></p>  |   |
|    | <p>Notification of service purchased by an incoming transfer to be provided to the scheme new member.</p>   | Within 30 days of receipt of the all the information  |
|    | <b><u>Existing members and schemes</u></b>  |   |
| AA | <p>Changes to data which materially affect actual or potential benefit calculations to be processed and provided to the member concerned.</p>         | Within 30 days of occurrence or receipt of all necessary information, whichever is later.   |
| AA | <p>Admissions and Inter Fund Adjustment (IFA) in to be notified to the members concerned.</p>   | Within 30 days of receipt of all necessary information.   |
| AA | <p>Transfers and Inter Fund Adjustment IFA out to be notified to the receiving scheme.</p>  | Within 30 days of receipt of all necessary information  |
| AA | <p>The terms of purchasing additional pension to be notified to the member concerned.</p>   | Within 15 days of receipt of all necessary information.   |
| AA | <p>Refund of contributions, where due under the Regulations, to be calculated and paid.</p>   | Within 14 days of receipt of all necessary information  |
| AA | <p>Upon notification of a death notification of a pensioner; arrangements put in place for pension payments to cease immediately.</p>                 | Within 1 working day of receipt of all necessary information  |
| AA | <p>Letters will be sent to next of kin or other relevant party.</p>   | Within 5 days of receipt of notification of a death or within 5 days of receipt of all relevant information.  |
|    | <p>Setting up of any dependents pension.</p>  | Within 14 days of receipt of all necessary information.   |

## 6. Pensions Administration Strategy – Schedule of Charging

Hammersmith and Fulham acting as Administering Authority (WAA) wishes to support its fund employers to enable them to provide all relevant data to both members and to WAA as per the requirements of the PAS set out above. Any employer who is unclear on the requirements of the PAS or is struggling with any aspect of the requirements should inform WAA of any concern as soon as possible, WAA will provide support where it can. WAA's first priority is to ensure compliance for the benefit of members and employers, ensuring that accurate data is stored for members. That pension can be processed quickly and accurately when required and that WAA and its employers all meet their statutory obligations.

Where additional costs have been incurred by the Administering Authority as a direct result of an Employer's poor performance these costs will be recovered from the Employer.

The Administering Authority will give the reasons for doing so in accordance with the regulations.

In addition to the schedule below other circumstances could generate a charge:

- Instances where the performance of the Employing Authority has resulted in fines being levied against the Administering Authority by the Pension Regulator, Pensions Ombudsman, HMRC or other regulatory body.
- Additional cost incurred in providing specialist third party advice in administering the Scheme on behalf of the employer, including but not exclusive to actuarial

services, occupational medical practitioner services and legal services.

- Persistent failure to resolve issues in a timely and satisfactory fashion.

In these circumstances the Administering Authority will set out the calculations of any loss or additional cost incurred, in writing, stating the reason for the cost(s) and the basis for the calculation.

WAA will monitor aspects of the PAS on a quarterly basis, the aspect monitored may change and not all employers data will necessarily be reviewed on each occasion. WAA will be reviewing data from SCC to ensure its own compliance which will be reported on to the Pension fund Committee and the Pension

board. WAA will also seek evidence from SCC of employer compliance with the PAS but may also request data directly from the employer who will be expected to respond with relevant evidence or assurance of compliance where relevant. If an employer does not respond to any request for information within **30 days** of request then this will also be chargeable at **£200** an occasion.

| Administration Description   | Performance Targets  | Charge                             |
|--|--|------------------------------------|
| <b><u>New Starters and Transfers In</u></b>  |  |                                    |
| <b>New scheme member:</b><br>Employer to send to the Administering Authority the details of the new member.  | Within 25 working days after the start date.   | £50 per case                       |
| <b><u>Leavers and Transfers out</u></b>  |  |                                    |
| <b>Scheme Leaver:</b><br>Employer to send the Administering Authority a completed leaver notification.   | Within 25 working days from the employee's last day in the Scheme.                     | £50 per case                       |
| <b>Retirements:</b><br>Employer to send the Administering Authority a completed notification.  | At least 15 working days before their final paid day of work.                          | £50 per case                       |
| <b><u>Deductions</u></b>   |  |                                    |
| <b>Monthly deductions:</b><br>Employer to send funds and schedule of deductions from salary to the Administering Authority.                        | By the 19th day of the month following the month in which contributions were deducted. | £100 per instance of late payment. |
| <b>Payment of Other Sums Due:</b><br>Employers should make payment of any invoiced sums as set out within this PAS within 30 days of invoice date. |  |                                    |

## 7. Strategy to develop web enabled services for employers and employees.

In 2016/17 the Administrating Authority will implement, develop and engage employers in an on line portal. Initially, the portal will be used for data sharing with employers and information communication with employees.

Whilst forms will be restricted to being downloaded completed and resent, it is anticipated that the portal will be developed to allow members of the scheme to self-serve e-forms direct to the scheme administrators.

## 8. Further Information

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# Appendix 6. Annual Report of the Pension Board

The role of the Local Pension Board is to assist the scheme manager (the administering authority) in securing compliance with:

- The LGPS scheme regulations
- Other governance and administration legislation
- The requirements of the Pensions Regulator (tPR)
- Additional matters, if specified by scheme regulations

The Local Pension Board is required to have an equal number of representatives from employers and scheme members. They may also have other types of members, such as independent experts, but such members will not have a vote.

The law requires Local Pension Board members to have knowledge and understanding of relevant pension laws, and to have a working knowledge of the LGPS, its governance and documentation. Whereas the role of the Pension Fund Committee usually involves carrying out a decision-making function, members of the Local Pension Board should focus on the processes involved in the governance of the Fund. For example, are policies and procedures up-to-date, are the requirements of the Pensions Regulator being met and is the Fund following recognised best practice?

At a national level, the LGPS Scheme Advisory Board (SAB) consists of representatives from a broad spectrum of LGPS stakeholders. Its purpose is to encourage best practice, increase transparency and coordinate technical and standards issues by being reactive and proactive. Separate SABs exist for the schemes in England and Wales, Scotland and Northern Ireland.

## Elected Members

- Councillor Rory Vaughan (Chair)
- Councillor Bora Kwon

## Appointees

- Mr Neil Newton
- William O'Connell
- Khadija Sekhon

**During the year 2020/21 the Local Pension Board met twice:**

- 19 November 2020
- 10 February 2021

**During the year, the Local Pension Board had a varied and extensive work programme covering the following areas:**

- The monitoring of quarterly fund investment performance, including an environmental, social and governance (ESG) issues report of the Fund's underlying investments
- Reports detailing the Fund's financial management, including cash flow and scrutiny of the fund risk register
- Pensions administration key performance indicators

**The Board also reviewed the following work during the year:**

- The recent organisational decision to appoint a new pensions administration provider and the associated ongoing project work needed to transition across
- The recent Pension Fund Committee review of the fund's investment consultant's performance against desired aims and objectives.



## Annual Report of the Pension Board (continued)

The Board underwent the following training in the year:

The Board attended three half-day bespoke training events that took place in November 2020, December 2020 and February 2021 and covered the following topics:

- 2020 from an actuarial perspective and funding updates
- The Macro-Economic outlook
- Asset allocation and portfolio construction
- Diversity in the asset management industry
- Investing in renewable energy
- LGPS current developments
- Physical climate risk management
- Impact investing
- Responsible investment
- Behavioural finance
- How asset managers approach risk management
- Fixed income update
- Risk and compliance perspective from an asset pool
- Environmental risk

**Councillor Rory Vaughan**

**Chair, LBHF Local Pension Board**

**June 2021**

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