London Borough of Hammersmith and Fulham

Pension Fund Annual Report and Accounts for the year ended 31 March 2018

Contents

Section 1

Preface and Introduction

Report from Chair of the Pensions Sub-Committee

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

The Pensions Sub-Committee is responsible for overseeing the management of the London Borough of Hammersmith and Fulham Pension Fund, including investment management and pension administration issues. As the current Chairman of this Committee, I am pleased to introduce the Pension Fund's Annual Report for the year 2017-18.

During the year, the value of the Fund increased by over £6m to £1,009m reflecting the continued recovery in the global economy since last year. The Sub-Committee continues to monitor the Fund closely at each quarterly committee meeting and challenges the investment advisors as necessary to ensure the Fund's investments are being managed effectively.

During 2016/17 the triennial revaluation of the Pension Fund was carried out by the Fund actuaries, Barnett Waddingham, using data as at 31 March 2016. The actuary reported that the Fund has sufficient assets to cover 88% of future pension liabilities and an overall deficit of £114m. This is an improvement in the funding level at the previous valuation in 2013 of 83%.

The Fund has transferred assets to the London Collective Investment Vehicle (LCIV) in the quest for efficiencies and fee reductions. The year started with £127m of the Majedie Portfolio being transferred to LCIV in May 2017, with a further £60m of Majedie equities being liquidated and transferred to the Ruffer Absolute Return portfolio. This realised some of the asset class gains, in addition to rebalancing the portfolio in advance of expected capital calls on both the new Aviva Sustainable Infrastructure Fund and the existing Partners Group Infrastructure Fund. The pooling of assets will continue over the coming years to maximise cost savings and net of fees returns for the Fund.

The Pension Fund remains conscious of its role in ensuring good environmental, social and governance behaviours from the companies in which it invests, with a key part of this looking at the Fund's carbon footprint. This is expected to be reviewed at the July 2018 Sub-Committee meeting. I would like to thank all those involved in the management of the Pension Fund during the year especially those who served on the Sub-Committee during 2017-18

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

Introduction

The London Borough of Hammersmith and Fulham Pension 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 under statute, which provides for the payment of benefits to employees and former employees of the City of Westminster Council and the admitted and scheduled bodies in the Fund.

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and returns from the Fund's investments. Contribution rates for employees and employers are set by the Fund's actuary at the actuarial valuation which is carried out every three years. The most recent revaluation, carried out as at 31 March 2016, was used to set contribution rates with effect from 1 April 2017 through to April 2020.

A new LGPS scheme was introduced with effect from 1st April 2014. One of the main changes is that a scheme member's pension is no longer based on their final salary but on their earnings throughout their career. This is known as a Career Average Revalued Earnings (CARE) scheme. Everything built up in the Scheme before 1st April 2014 is protected so benefits up to that date will be based on the scheme member's final year's pay.

Benefits payable from the Fund are set out in the Local Government Pension Scheme Regulations 2013, as amended, and in summary consist of:

- A pension based on career average earnings (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 Fund is governed by the Public Service Pensions Act 2013 and the LGPS Regulations 2013 (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 a number of 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** detailing the Fund's investment strategy, arrangements and performance.
- **Scheme Administration** which sets out how the Scheme's benefits and membership are administered.
- 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 2018
- **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
- Further information about the Local Government Pension Scheme can be found at *www.lbhfpensionfund.org*

Section 2

Management and Financial Performance

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).

The Committee comprises nine elected representatives of the Council – five from the administration and four 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 Pensions and Treasury, 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 management arrangements, including the appointment and termination of the appointment of the Fund Managers, Actuary, Custodians and Fund Advisers.
- 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 so as 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. All members served for the full year in 2017/18.

Councillor	Committee Attendance 2017/18
Iain Cassidy (Chair)	4/4
Michael Adam (Vice Chair)	4/4
Nicholas Botterill	3/4
PJ Murphy	4/4
Guy Vincent	4/**4**

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

LOCAL PENSION BOARD

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

The Board does not have a decision making role 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 can be found on the Pension Fund website at

http://democracy.lbhf.gov.uk/documents/s67497/Background%20and%20Role%20of%20the%20Board.pdf

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 representatives from the Council or an admitted or scheduled body.

The current membership of the Pensions Board is set out below. All members served for the full year 2017/18.

Board Member	Employer/Employee	Attendance 2017/18
Cllr Ali Hashem (Chair)	Employer	0/2
Cllr Rory Vaughan	Employer	2/2
Eric Kersey	Employee	1/2
Orin Miller	Employee	1/2
Neil Newton	Employee	1/2

MEMBER AND OFFICER TRAINING

During 2017-18 knowledge was gained at various meetings with investment managers in addition to individual attendance at conferences and seminars.

Further relevant training is planned for 2018-19 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 at

https://www.lbhf.gov.uk/sites/default/files/section_attachments/lbhf_constitution.pdf

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

EXTERNAL PARTIES

Investment Adviser	Deloitte	
Investment Managers	**Equities (Active)** London LGPS CIV Ltd - Majedie Asset Management **Equities (Passive)** Legal and General Investment Management **Absolute Return Bonds** Insight Investment Management **Inflation Opportunities** M & G Investments **Dynamic Asset Allocation** London LGPS CIV Ltd - Ruffer LLP	**Multi-Asset Credit** Oak Hill Advisers Partners Group **Long Lease Property** Standard Life Investments **Infrastructure** Partners Group Aviva Investors **Private equity** Invesco Unigestion
Custodian	Northern Trust	
Banker	Nat West Bank	
Actuary	Barnett Waddingham	
Auditor	KPMG UK LLP	
Legal Adviser	Eversheds Sutherland	
Scheme Administrators	Surrey County Council	
AVC Providers	Zurich Assurance	Equitable Life Assurance Society

OFFICERS

Strategic Finance Director (section 151) Officer	Hitesh Jolapara	
Tri-Borough Pensions Team	Phil Triggs from December 2017 Peter Carpenter to July 2017 Matt Hopson from August 2017 Miriam Adams from October 2017	Alex Robertson Yvonne Thompson-Hoyte Sue Hands Jaimina Shah
Director of Human Resources and Organisational Development	Mark Grimley	
Pensions Manager	Maria Bailey	

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.

Responsibility for the Fund's risk management strategy rests with the Pensions Sub-Committee.

In order to manage risks a Pension Fund Risk Register is maintained and reviewed quarterly. Risks identified have been reduced through planned actions. The Risk Register is managed by the Tri-Borough Director of Pensions and Treasury and risks have been assigned to "Risk Owners".

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

Objective area at risk	Risk	Risk rating	Responsible officer	Mitigating actions
Administration	3rd parties undertaking outsourced administration work are unable to unable to facilitate timely and accurate updating of service records. Inaccuracies in service records may impact on actuarial valuations, calculations of pension benefits and on notifications to starters and leavers.	Medium	Director of Human Resources	Issue has been escalated by the Chief Executive for high level resolution with British Telecom Test files are currently with Surrey County Council Actuary undertakes data cleansing on service records as part of the triennial revaluation which should identify the extent of any inaccuracies
Administration	Loss of funds through fraud or misappropriation by 3rd parties could lead to negative impact on reputation of the Fund as well as financial loss.	High	Strategic Finance Director and Director of Human Resources	Third parties regulated by the FCA. Separation of duties and independent reconciliation procedures in place. Review of third party internal control reports. Regular reconciliations of pension payments undertaken by Pensions Finance Team. Periodic internal audits of Pensions Finance and HR teams.

Risk Management (continued)

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

The Funding Strategy Statement (at Appendix 4) 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 if required.

Objective area at risk	Risk	Risk rating	Responsible officer	Mitigating actions
Regulation	Introduction of European Directive MiFID II results is a restriction of Fund's investment options and an increase in costs	Low	Strategic Finance Director	Officers are engaging with Fund Managers to understand the position better Knowledge and Skills Policy in place for Officers and Members of the Committee Maintain links with central government and national bodies to keep abreast of national issues.
Funding	Scheme members live longer leading to higher than expected liabilities.	Medium	Strategic Finance Director	Review at each triennial valuation and challenge actuary as required.
Funding	Assumed levels of inflation and interest rates may be inaccurate leading to higher than expected liabilities.	Medium	Strategic Finance Director	Review at each triennial valuation and challenge actuary as required. Growth assets and inflation linked assets in the portfolio should rise as inflation rises.
Funding	Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others	Medium	Strategic Finance Director and Director of Human Resources	Transferee admission bodies required to have bonds in place at time of signing the admission agreement. Regular monitoring of employers and follow up of expiring bonds
Investment	Fund managers fail to achieve the returns agreed in their management agreements.	Medium	Strategic Finance Director	Independent monitoring of fund manager performance against targets. Fund manager performance is reviewed quarterly.

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 control 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 2017.

Fund manager	Type of assurance	Control framework	Compliance with controls	Reporting accountant
Ruffer LLP	ISAE34022	Reasonable assurance	Reasonable assurance	Ernst Young LLP
Insight[1]	ISAE34022	Reasonable assurance	Reasonable assurance	KPMG LLP
Legal & General Investment Management[2]	ISAE34022	Reasonable assurance	Reasonable assurance	PwC LLP
Oak Hill Advisers	SOC10	Reasonable assurance	Reasonable assurance	RSM US LLP
Partners Group	ISAE34020	Reasonable assurance	Reasonable assurance	PwC LLP
Majedie	ISAE34020	Reasonable assurance	Reasonable assurance	KPMG LLP
M & G Investments	SOC10	Reasonable assurance	Reasonable assurance	Ernst Young LLP
Unigestion	ISAE34020	Reasonable assurance	Reasonable assurance	KPMG LLP
Standard Life	ISAE34022	Reasonable assurance	Reasonable assurance	PwC LLP
Custodian				
Northern Trust	SOC10	Reasonable assurance	Reasonable assurance	KPMG LLP

Periods covered by the above reports are typically not aligned with the Pension Fund's financial year. Bridging statements have been provided for the remainder of the year.

Financial Performance

The Fund asset value increased by £7m to £1,010m as at 31 March 2018 due to the recovery in global markets since the uncertainty of 2016/17.

The 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 next three years.

The new valuation report will be used to determine contribution rates for the period 2017/18 to 2019/20.

ANALYTICAL REVIEW

	2014/15	2015/16	2016/17	2017/18
Fund Account	**£'000**	**£'000**	**£'000**	**£'000**
Dealings with members				
Contributions	(30,082)	(30,617)	(32,274)	(33,454)
Pensions	33,982	37,858	40,770	42,827
Net (additions)/withdrawals from dealings with members	3,900	7,241	8,496	9,373
Management expense	7,216	7,762	6,530	4,503
Net investment returns	(11,167)	(12,631)	(12,799)	(10,283)
Change in market value	(105,595)	9,784	(148,740)	(10,384)
Net (increase)/decrease in the Fund	(105,646)	12,156	(146,513)	(6,791)

Over the four-year period, pensions paid have exceeded contributions by £29m in total. This reflects the maturity of the Fund membership in that there are fewer contributors than beneficiaries, although increased deficit recovery contributions in 2017/18 have reduced this.

Net investment returns in 2017/18 have remained healthy despite falling slightly in comparison to last years, reflecting the fact that 2016/17 was a particularly good year for equities compounded a little with the weakening of sterling.

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

Financial Performance (continued)

	2014/15	2015/16	2016/17	2017/18
Net Asset Statement	**£'000**	**£'000**	**£'000**	**£'000**
Bonds	31,923	36,771	0	0
Equities	371,885	136,937	112,475	0
Pooled investment vehicles	443,015	671,300	834,828	998,290
Commodities	2,540	1,976	0	0
Derivatives	(709)	(368)	0	0
Cash deposits	15,410	7,544	7,856	6,168
Other	717	1,504	486	35
Total Investment Assets	864,781	855,664	1,002,682	1,004,494
Current assets	4,840	1,842	4,373	6,420
Current Liabilities	(1,146)	(1,187)	(4,223)	(1,291),
Total Net Assets available to fund benefits	868,475	856,319	1,002,832	**1,009,623**

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. (94% and 6% respectively in 2016/17).
- The overall value of pooled investment vehicles increased by £163m (16%) during the year.

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

Financial Performance (continued)

ANALYSIS OF DEALINGS WITH SCHEME MEMBERS

	2014/15	2015/16	2016/17	2017/18
	£'000	£'000	£'000	£'000
Contributions receivable				
- Members	(6,658)	(6,795)	(6,937)	(6,781)
- Employers	(21,944)	(22,412)	(22,494)	(24,268)
- Transfers in	(1,445)	(1,375)	(2,090)	(3,012)
- Other	(35)	(35)	(753)	607
Total Income	(30,082)	(30,617)	(32,274)	**(33,454)**
Benefits/Expenses				
- Pensions	28,155	29,076	30,002	31,465
- Lump sum retirements and death benefits	4,955	5,536	5,685	7,256
- Transfers out	856	3,230	5,046	4,086
- Refunds	16	16	37	20
Total Expenditure	33,982	37,858	40,770	42,827
Net Dealings with Members	3,900	7,241	8,496	**9,373**

The key variances were due to the following:

- Lump sums rose due to more members retiring than in previous years.
- Transfers out were higher because more members chose to transfer their benefits to another employer or remove them under the freedom of choice legislation.
- Transfers in were lower, reflecting fewer 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
	£'000	£'000
Administration		
Employees	138	235
Supplies and services	381	165
Other costs	1	3
	520	403
Governance and Oversight		
Employees	103	341
Investment advisory services	66	65
Governance and compliance	43	0
External audit	24	21
Actuarial fees	31	25
	267	452
Investment Management		
Management fees	4,310	3,223
Performance fees	997	343
Transaction costs	382	44
Custodian fees	54	38
	5,743	3,648
Total	6,530	4,503

The key variances were due to the following:

- Reduced costs for administrative services in 2017/18 to 2016/17 reflects one-off IT costs and new software licences related to new online pension services for members and employers.
- The reduction in investment management costs in 2017/18 reflects participation in the London CIV which has led to economies of scale through lower management fees and transaction costs.

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 a number 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	Performance	Performance
		2016/17	2017/18
Letter detailing transfer out quote	20 days	59%	34%
Process refund and issue payment voucher	10 days	92%	98%
Letter notifying estimate of retirement benefit	10 days	82%	100%
Letter notifying actual retirement benefit	7 days	87%	100%
Letter acknowledging death of member	5 days	100%	100%
Letter notifying amount of dependant's benefits	10 days	100%	100%
Calculate and notify deferred benefits	20 days	70%	44%

Staff shortages, new legislative requirements and implementing new online pension systems have all had a negative impact on the performance indicators shown above. However, there have been no delays in processing pension payments and no impact on the accuracy of final calculations made.

Looking forward, staffing issues have been addressed and new legislative requirements are now in place although they do involve more detailed and complex information to be provided to scheme members.

ORBIS

The ORBIS on-line pension system is now in operation with 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 new system to:

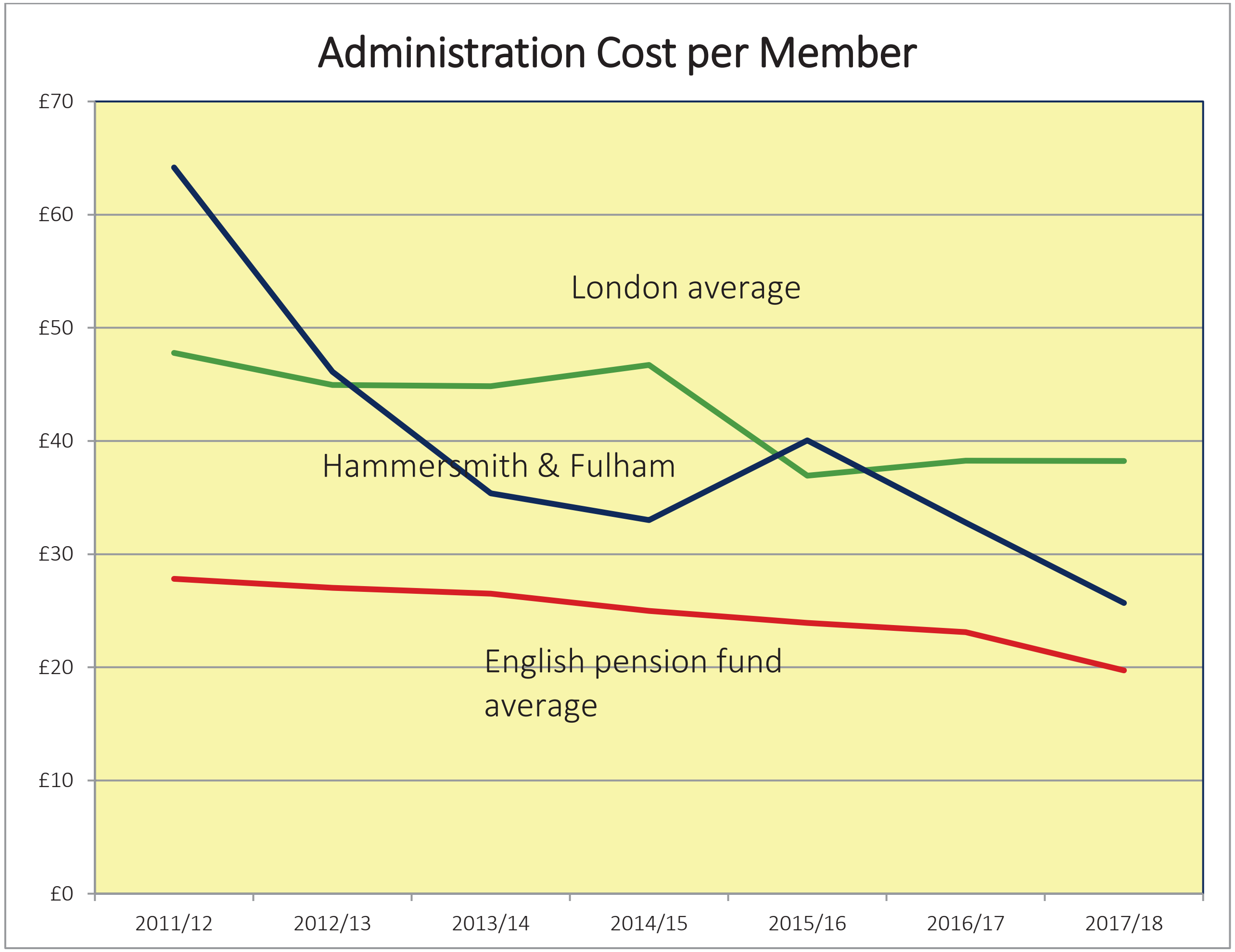
- Submit starter and leaver details and other changes online
- View and update employee details
- Run benefit calculations, e.g. early retirements

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)

No new complaints have been lodged with the Ombudsman in 2017/18.

Administration Management Performance (continued)



STAFFING INDICATORS

The administration of the Fund comprises:

- 3 full-time equivalent (FTE) staff engaged by Surrey CC working directly on pension administration for Hammersmith and Fulham
- 1.8 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.
- Costs remain below the average for London borough pension funds as shown in the chart, and are subject to regular review.

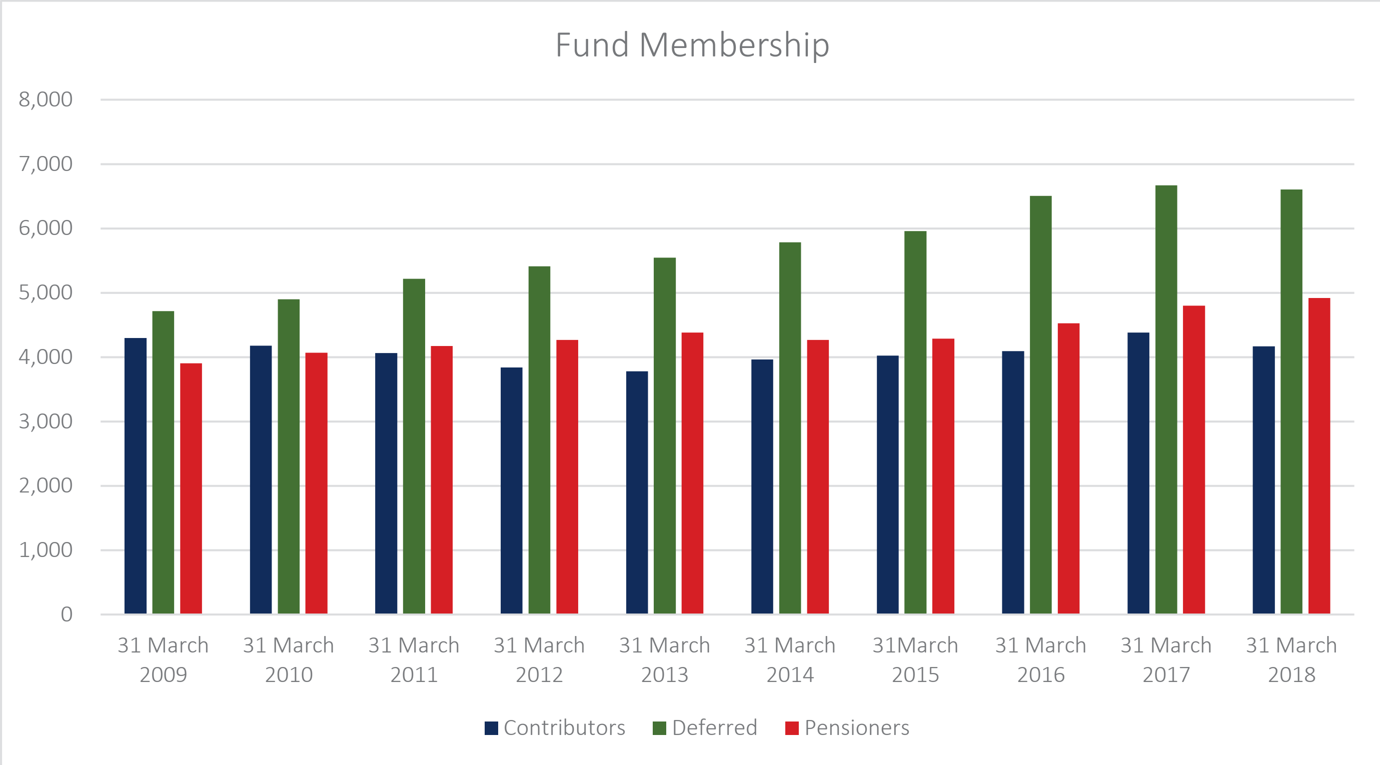
Administration Management Performance (continued)

MEMBERSHIP NUMBERS AND TRENDS

Overall membership has increased by 21% over the past 10 years from 12,914 to 15,689.

However, over this period the number of contributing members to the Pension Fund has declined steadily from 2008/09 to 2012/13.

The introduction of auto-enrolment in 2013 and the increase in employers admitted into the Scheme has started to reverse this trend. Nonetheless, the number of pensioners has continued to rise in common with other local government pension funds, reflecting the increasing maturity of the Fund.



Administration Management Performance (continued)

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 below as at each year on 31 March.

Reason for Leaving	2014/15	2015/16	2016/17	2017/18
Ill Health Retirement	10	10	10	6
Early Retirement	23	3	29	18
Total	**33**	**46**	**39**	**24**

Administration Management Performance (continued)

CONTRIBUTING EMPLOYERS AND CONTRIBUTIONS RECEIVED

Below is a list of the current active contributing employers and the contributions received for 2017/18 (Figures include early retirement and deficit funding contributions).

	Employees Contributions [2]	Employers Contributions	Total Contributions
	£'000	£'000	£'000
Administering Authority Employers			
LONDON BOROIUGH OF HAMMERSMITH AND FULHAM	4,295	15,480	19,775
Addison Primary School	29	127	155
All Saints Primary School	11	46	57
Bayonne Nursery School	15	73	88
Brackenbury Primary School	30	132	162
Cambridge School (Special)	20	92	112
Flora Gardens Primary School	20	85	105
Holy Cross RC Primary School	30	133	163
Jack Tizard School (Special)	46	200	246
James Lee Nursery School	9	40	50
Kenmont Primary School	14	61	74
Larmenier & Sacred Heart Primary School	22	102	124
Melcombe Primary School	40	175	215
Miles Coverdale Primary School	26	113	140
Normand Croft Community School for Early Years & Primary Education	19	85	104
Old Oak Primary School	27	120	146
Queensmill School	96	418	514
Randolph Beresford Early Years Centre Nursery School	45	185	230
Sir John Lillie Primary School	28	120	147
St Augustine's Primary School	13	57	70
St John XXIII Catholic Primary School (previously called Pope John)	22	102	125
St Johns CE Primary School	24	103	126
St Mary's Primary School	17	72	89
St Paul's Primary School	23	101	125
St Peter's Church of England Primary School	14	63	77
St Stephens CoE Primary School	34	148	181
St. Thomas of Canterbury Primary School	10	42	52
The Good Shepherd Primary School	17	82	100
Vanessa Nursery School	16	68	84
Wendall Park Primary School	26	114	141
William Morris Sixth Form School	54	219	272
Wood Lane High School	16	66	82
Wormholt Park Primary School	32	130	161
Total Contributions from Administering Authority	5,140	19,152	24,292

[2] Includes early retirement and deficit contributions

SCHEDULED BODIES

The Fund provides pensions not only for employees of Hammersmith and Fulham Council, but also for the employees of a number of 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.

	Employees Contribution[3]	Employers' Contributions	Total Contributions
Scheduled Bodies			
Bentworth Academy	8	35	44
Bridge Academy	0	0	0
Brightwells Academy	79	309	388
Burlington Danes Academy	95	207	302
Conway Academy	10	43	53
Fulham Boys Free School	17	60	76
Fulham College Academy Trust (Boys)	42	151	193
Fulham College Academy Trust (Girls)	44	149	193
Futures (Phoenix) Academy	43	164	207
Greenside Academy	18	70	88
Hammersmith Academy	47	169	216
Hurlingham and Chelsea Academy	28	101	130

[3] Includes early retirement and deficit contributions

	Employees Contribution[4]	Employers' Contributions	Total Contributions
Scheduled Bodies			
Lady Margaret Academy	47	168	216
Langford Academy	9	33	42
Lena Gardens Academy	10	39	48
London Oratory School	56	132	188
Mortlake Crematorium Board	20	54	73
Sacred Heart Academy	56	175	231
Swift ARK Academy	18	74	91
The Bridge AP Academy	70	243	313
Thomas' Academy	17	74	91
West London Free School	72	258	330
Total Contributions From Scheduled Bodies	**806**	**2,708**	**3,513**

[4] Includes early retirement and deficit contributions

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.

	Employees Contribution[5]	Employers Contributions	Total Contributions
Admitted Bodies			
3BM	109	259	369
3BM (Governor Support)	1	3	4
Abelian UK (Greenside Primary)	1	3	5
Abelian UK (Miles Coverdale)	1	4	5
Abelian UK (Wormholt Primary)	3	7	10
Agilisys Ltd.	4	10	13
Amey	81	249	331
Birkin Clean	4	20	24
BT - IT services	12	40	52
C T Plus Transport (2017)	1	4	5
Caterlink (2016 Schools)	16	105	120
Caterlink (Hurlingham & Chelsea Academy contract)	5	14	18
Civica	1	3	4
Disabilities Trust	1	3	4
Eden Food Services	-17	-55	-72
ETDE Infrastructure	5	15	21
Family Mosaic Housing	18	53	71
FM Conway (2009)	**12**	**37**	**49**

	Employees Contribution[6]	Employers' Contributions	Total Contributions
FM Conway (2012)	4	14	18
Fulham Palace Trust	12	48	59
Glencross Cleaning Ltd	0	0	0
H & F Bridge Partnership	35	0	35
HATS	3	11	14
HCT	4	15	19
Hestia	1	5	6
Impact	24	80	104
Innovate	6	23	30
Interserve Schools Contract	41	175	215
Medequip Assistive Technology Ltd	2	7	9
Mitie	90	259	349
Pinnacle PSG Ltd - Estates Services	62	193	255
Pinnacle PSG Ltd - Housing Management	22	77	99
Quadron Services Ltd	54	175	229
Quadron Services Ltd (2018) - T/A Idverde	0	1	1
RM Education	10	19	29
Serco	187	437	624
Starbus	0	0	0
Urban Partnership Group	21	94	114
Total contributions for admitted Bodies	836	2,409	3,245
Grand Total	**6,781**	**24,268**	**31,049**

[5] Includes early retirement and deficit contributions

[6] Includes early retirement and deficit contributions

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 Body	22	3	25
Admitted Body	38	20	58
Total	**61**	**23**	**84**

Section 3

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 can be found at Appendix 2.

For 2017/18, 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 social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.

The ISS can be obtained from:

Pensions Fund Team, 5th Floor, City Hall, 5 The Strand, London WC2N 5HR

Email: *pensionfund@lbhf.gov.uk*

Asset Allocation

The strategic asset allocation is agreed by the Pensions Sub-Committee and the Fund's advisers. The allocation effective during the year ended 31 March 2018 was as follows:

Asset Class	Target Allocation
UK equities	22.5%
Overseas Equities	
Secure Income	
Dynamic Asset Allocation	
Absolute Return Bonds	47.5%
Inflation Opportunities	20%
Long Lease Property	15%
TOTAL	**100%**

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

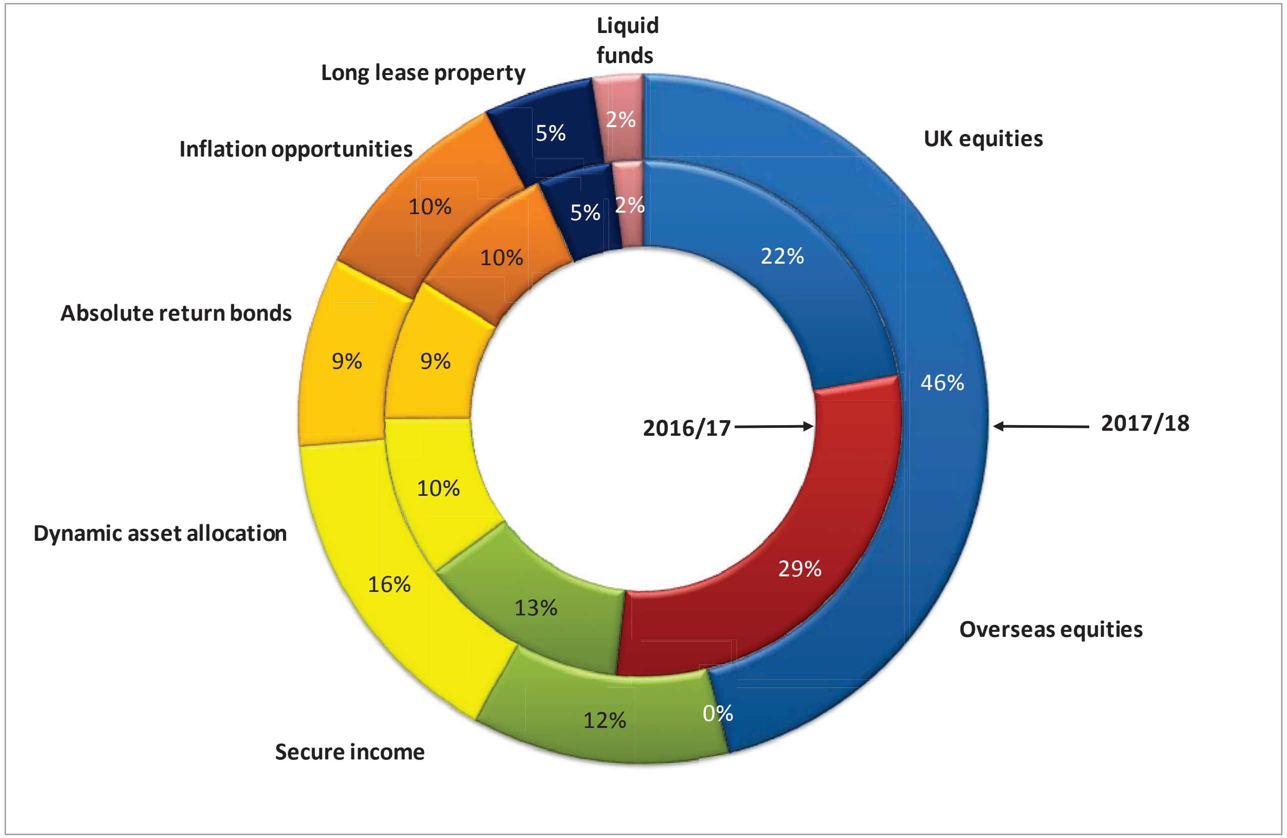
Investment portfolios are reviewed at each Committee meeting in discussion with the Investment Adviser and Officers, and Fund Managers are called to a Sub-Committee meeting if there are issues that need to be addressed. Officers meet Fund Managers regularly and advice is taken from the Investment Adviser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

Fund managers provide a rationale for asset allocation decisions based upon their research resource in an effort 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.

As funding levels have improved the Sub-Committee has sought to move away from equities and re-balance the portfolio in line with the target allocation in the SIP.

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.

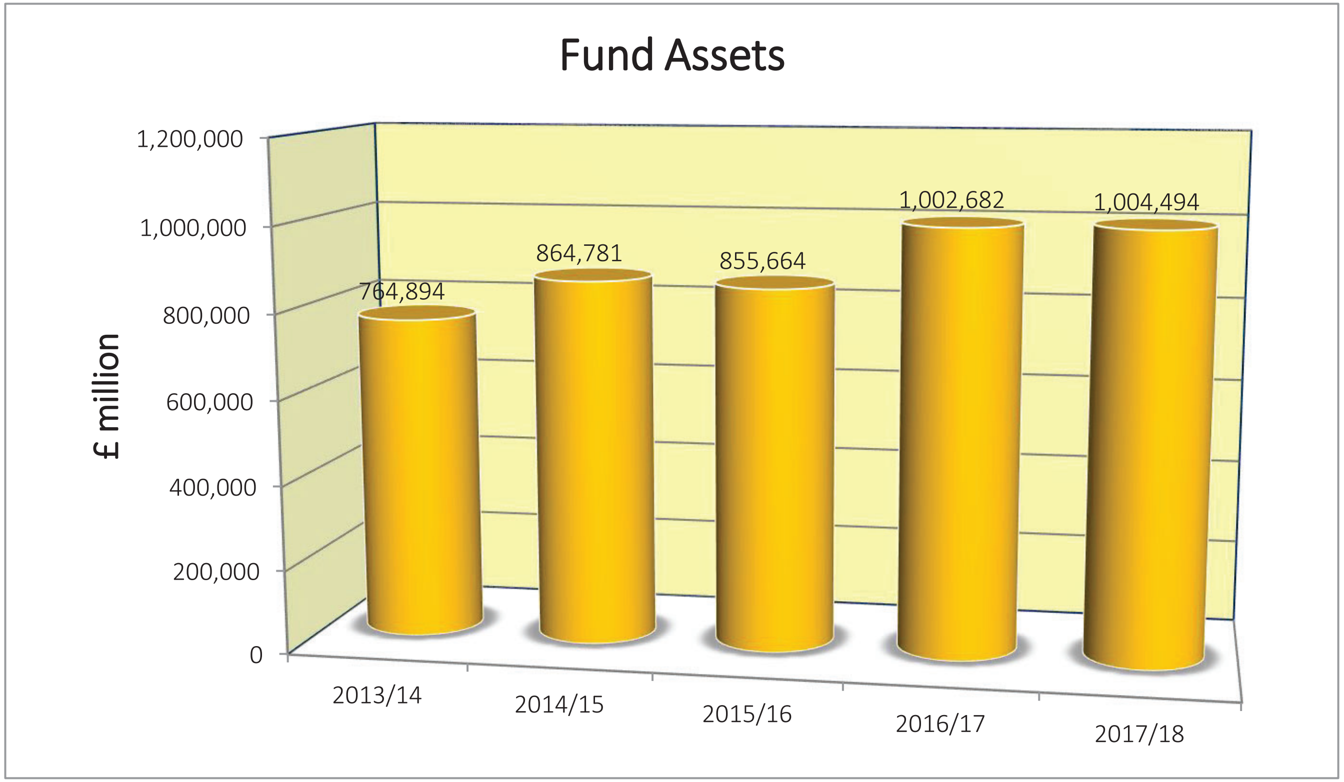


Asset Allocation (continued)

FUND VALUE

The value of the Fund has more than doubled over the past ten years. The slight fall in value in 2015/16 reflected uncertainty around the strength of the global economy and China in particular, but the Fund recovered well and continued with a slight increase in 2017/18 of 1.2%

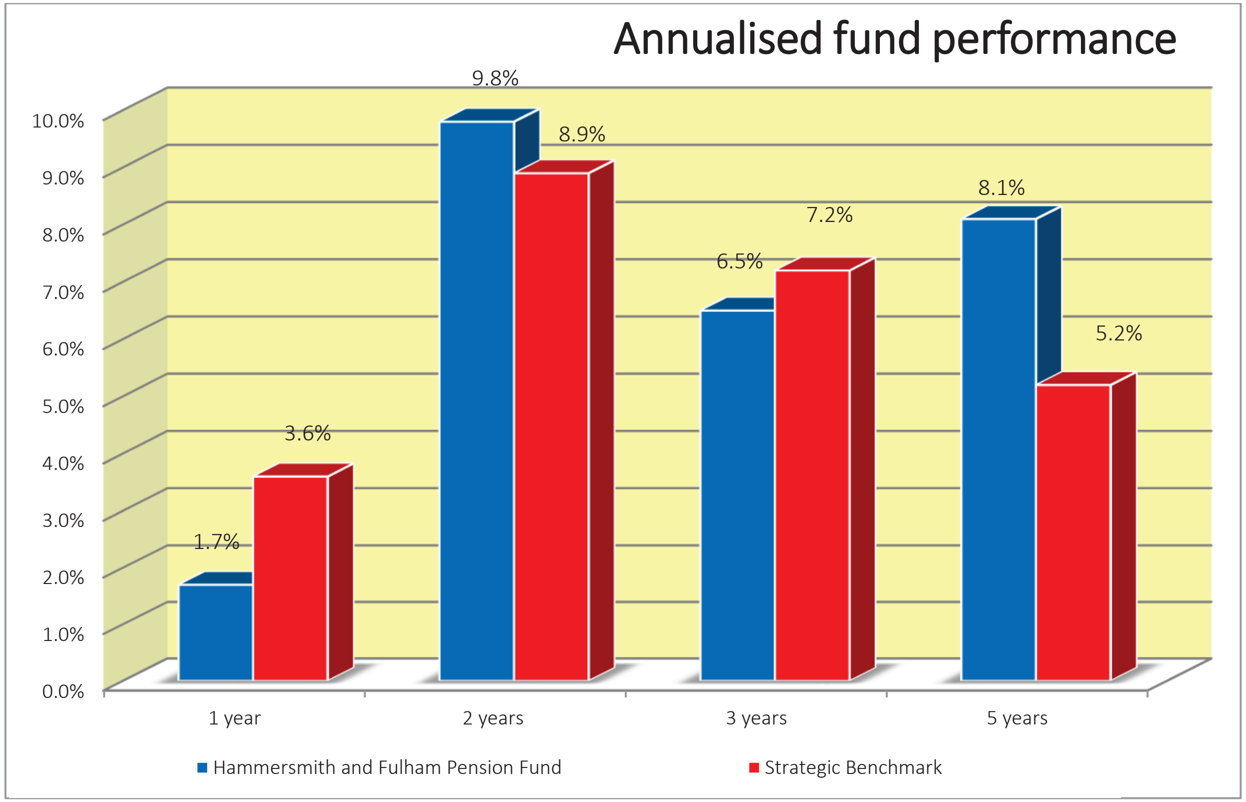
The Fund is invested to meet liabilities over the medium to long-term and therefore its performance should be judged over a corresponding period. Annual returns can be volatile and do not necessarily indicate the underlying health of the Fund.



Investment Performance

The Fund's overall performance in 2017/18 underperformed the benchmark for the year by 2.4%, as shown below.

Annualised performance has exceeded the benchmark since inception, and over the past 2 and 5 years.



Performance of the Fund is measured against an overall strategic benchmark. Below this, each Fund Manager is given individual performance targets which are linked to index returns for the assets they manage. Details of these targets can be found in the Statement of Investment Principles.

Performance of Fund Managers is reviewed quarterly by the Pension Fund Committee which is supported by the Fund's independent investment advisor, Deloitte.

Investment Performance (continued)

The overall performance of each manager is measured over rolling three and five year periods, as inevitably there will be short-term fluctuations in performance.

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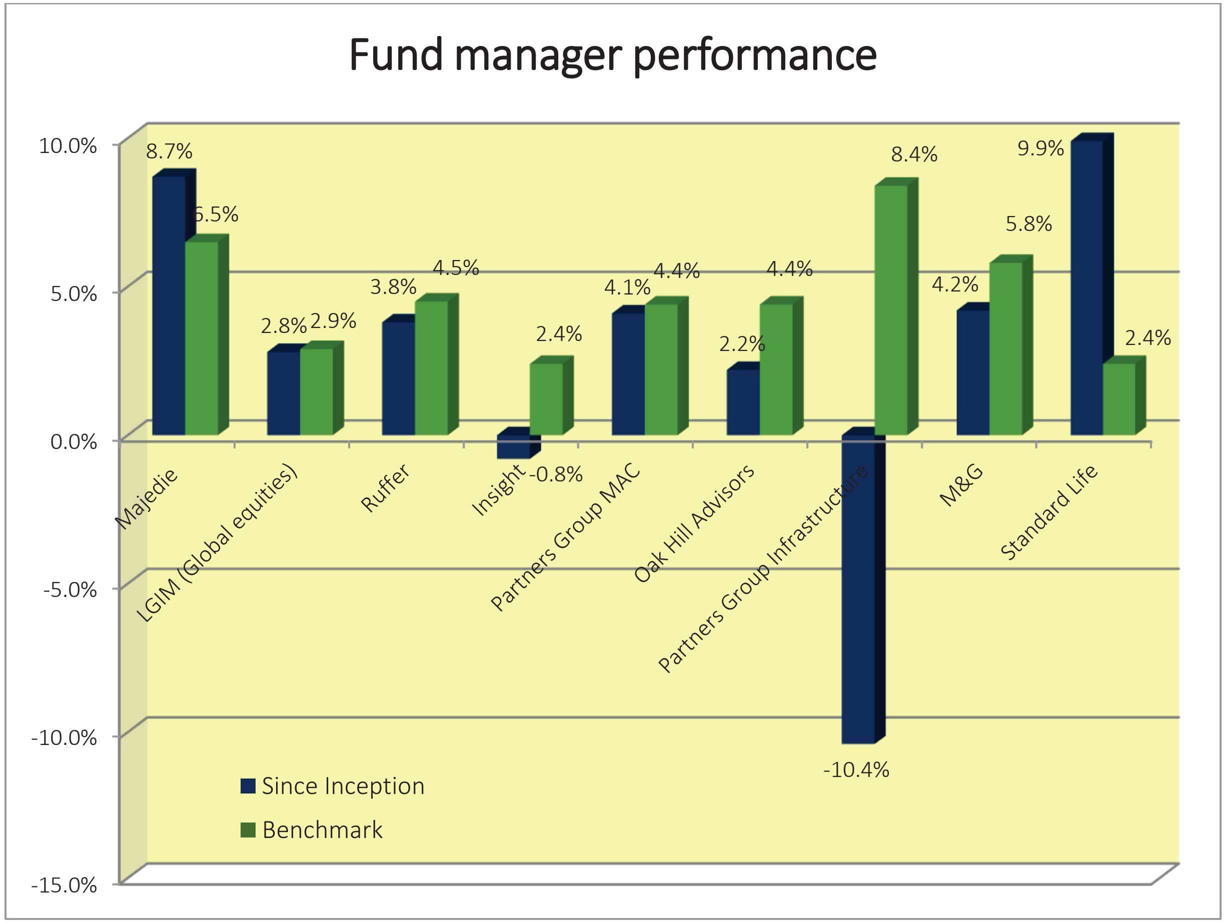


The portfolio is a mixture of active and passively managed asset classes:

- Targets for active fund mandates are set to out-perform the benchmark by a set percentage through active stock selection and asset allocation. Fund managers with active fund mandates are Majedie, Ruffer (CIV), Insight, Partners Group MAC (Multi Asset Credit), Oak Hill Advisors and Partners Group Infrastructure.
- Targets for passive funds are set to achieve the benchmark through investment in a stable portfolio. Fund managers with passive fund mandates are LGIM, M&G and Standard Life.

Note: The holdings with Majedie and Ruffer are measured over 5 years. The remainder of the holdings are measured over 1 year following a strategic re-alignment of the investment portfolio.

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 good practice in terms of social, environmental and ethical issues is generally likely to have a favourable 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 social, environmental and ethical issues on the performance of a company when undertaking the acquisition, retention or realisation of investments for the Fund. In line with this policy the Fund has used infrastructure funds to invest in sustainable technologies such solar and wind power.

The Council'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 are able to 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.

Following FCA approval in 2016, the CIV has continued to trade and the Hammersmith and Fulham Pension Fund transferred the Ruffer mandate (valued at £102m) into the CIV in June 2016. This was followed by the transferring £127m of Majedie assets in May 2017.

Corporate Governance (continued)

SEPARATION OF RESPONSIBILITIES

The Fund has appointed a global custodian (Northern Trust), independent to the investment managers, to be responsible for the safekeeping of all of 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 Lloyd's Bank. Funds not immediately required to pay benefits are held as interest bearing operational cash with Lloyds Bank.

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.

FUNDING STRATEGY STATEMENT

The Funding Strategy Statement (Appendix 4) sets out the aims and purpose of the pension fund and the responsibilities of the administering authority as regards 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.

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 of the Council'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 ultimate aim is to work with management, shareholders and stakeholders to bring about changes that enhance long-term performance.

Section 4 Scheme Administration

Scheme Administration

SERVICE DELIVERY

Although the LGPS is a national scheme, it is administered locally. 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 65 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 CC for the provision of pension administration services. Performance of this service against targets within the contract is reported on page 18 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 90. 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

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. In the event that 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.

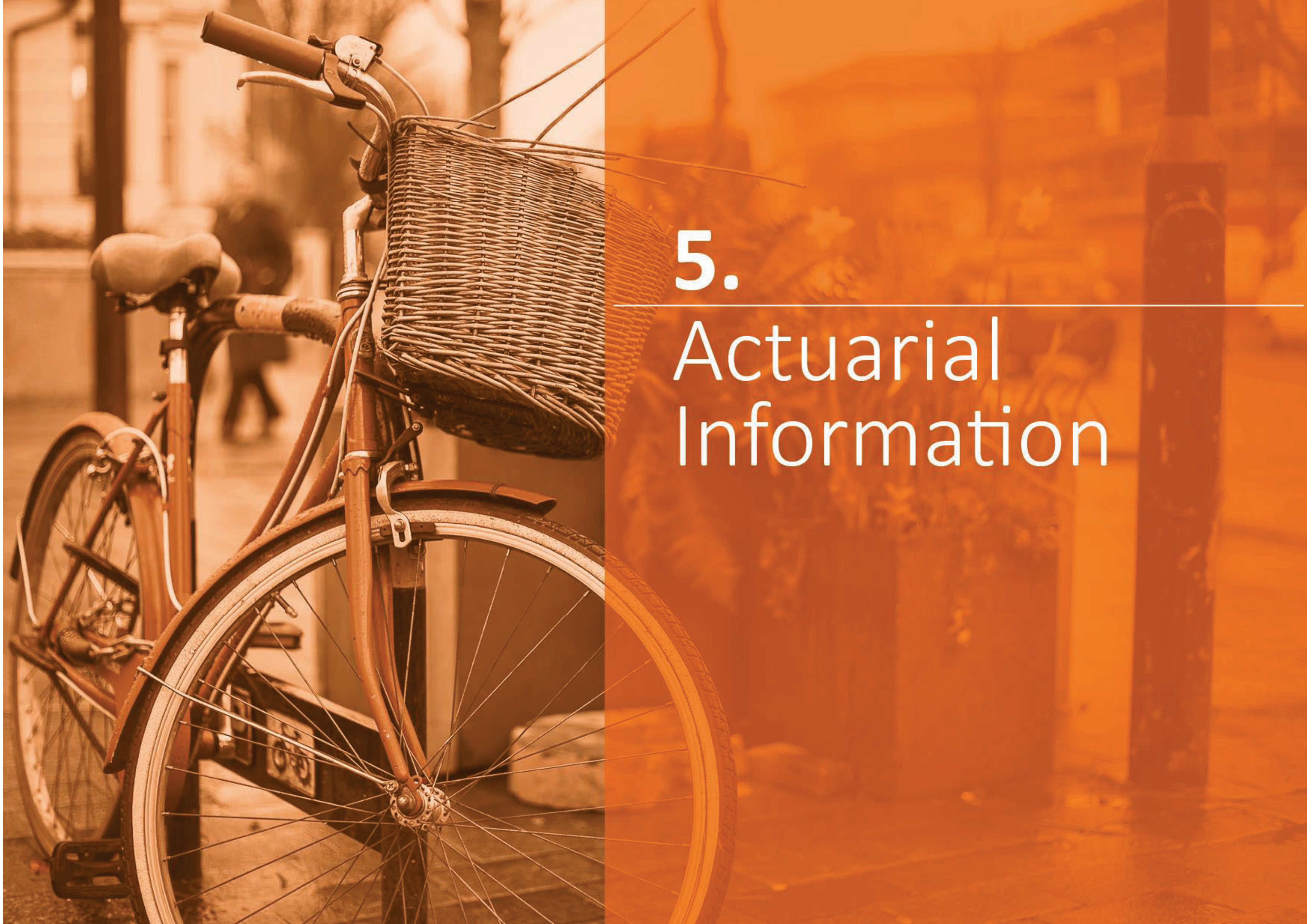
IDRP Stage 3 is a referral of the complaint to the Pension Ombudsman.

- one complaint was received in 2016/17 but resolved before reaching IDRP Stage 1
- one complaint went to IDRP Stage 1 but was then resolved

No complaints have been received or referred to the Pensions Ombudsman in 2017/18

Both TPAS and the Pensions Ombudsman can be contacted at:

11 Belgrave Road
Pimlico
London
SW1V 1RB



5. 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 2016 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated March 2017.

This statement gives an update on the funding position as at 31 March 2018 and comments on the main factors that have led to a change since the full valuation.

2016 VALUATION

The results for the Fund at 31 March 2016 were as follows:

- The Fund as a whole had a funding level of 88% i.e. the assets were 88% 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 £114m which is lower than the deficit at the previous valuation in 2013.
- To cover the cost of new benefits a total contribution rate of 15.5% 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 2016 valuation, we estimate that the funding position at 31 March 2018 has improved compared with the position as at 31 March 2016 although the primary rate has increased due to changes in market conditions.

The next formal valuation will be carried out as at 31 March 2019 with new contribution rates set from 1 April 2020.

Graeme Muir FFA

Partner, Barnett Waddingham LLP

6.

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

RESPONSIBILITIES OF THE STRATEGIC DIRECTOR OF FINANCE AND GOVERNANCE

The Strategic Director of Finance and Governance 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 Strategic Director of Finance and Governance 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 Strategic Director of Finance and Governance 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 the assumption that the functions of the Authority will continue in operational existence for the foreseeable future.
- Maintained such internal control as they determine is 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 AND GOVERNANCE

I certify that the Statement of Accounts (set out on pages 42 to 79) present a true and fair view of the financial position of the London Borough of Hammersmith and Fulham Pension Fund as at 31 March 2018 and income and expenditure for the year for the financial year 2017/18.

H Jolapara

Hitesh Jolapara
Strategic Director of Finance and Governance, Section 151 Officer

Date:

Independent Auditors Report

Independent auditor's report to the members of the London Borough of Hammersmith and Fulham on the pension fund financial statements published with the Pension Fund Annual Report

OPINION

We have examined the pension fund financial statements for the year ended 31 March 2018 which comprise the Fund Account Net Asset Statement and the related notes, including the accounting policies in note 3.

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included in the annual published statement of accounts of the London Borough of Hammersmith and Fulham for the year ended 31 March 2018 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

RESPECTIVE RESPONSIBILITIES OF THE STRATEGIC DIRECTOR OF FINANCE & GOVERNANCE AND THE AUDITOR

As explained more fully in the Statement of Responsibilities the Strategic Director of Finance and Governance is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the Pension Fund Annual Report with the pension fund financial statements included in the annual published statement of accounts of the London Borough of Hammersmith and Fulham, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In addition, we read the information given in the Pension Fund Annual Report to identify material inconsistencies with the pension fund financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Our report on the administering authority's annual published statement of accounts describes the basis of our opinion on those financial statements, the purpose of our audit work and to whom we owe our responsibilities.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

The Code of Audit Practice requires us to report to you if we have exercised our responsibilities in respect of the pension fund in the following areas.

- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit;

- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014;

- an application has been made to the court for a declaration that an item of account is contrary to law under

- Section 28 of the Local Audit and Accountability Act 2014;

- an advisory notice has been issued under Section 29 of the Local Audit and Accountability Act 2014;

- an application for judicial review has been made under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Andrew Sayers

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London

30 July 2018

Pension Fund Accounts and Explanatory Notes

FUND ACCOUNT

2016/17		Notes	2017/18
£'000			**£'000**
	Dealings with members, employers and others directly involved in the fund		
	Contributions		
(22,494)	From Employers	8	(24,268
(6,937)	From Members	8	(6, 781)
(2,090)	Individual Transfers in from Other Pension Funds		(3,012)
(753)	Other income		607
(32,274)			(33,454)
	Benefits		
30,002	Pensions	9	31,465
5,685	Commutation, Lump Sum Retirement and Death Benefits	9	7,256
	Payments to and on Account of Leavers		
5,046	Individual Transfers Out to Other Pension Funds		4,086
37	Refunds to Members Leaving Service		20
40,770			42,828

Pension Fund Accounts and Explanatory Notes (continued)

2016/17		Notes	2017/18
£'000			**£'000**
8,496	Net (Additions)/Withdrawals from Dealings with Members		9,373
6,530	Management Expenses	10	4,503
	Returns on Investments		
(12,822)	Investment Income	11	(10,283)
23	Taxes on Income (Irrecoverable Withholding Tax)		-
(148,740)	(Profit) and loss on disposal of investments and changes in the market value of investments	12	(10,384)
(161,539)	Net return on investments		(20,667)
(146,513)	Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year		(6,791)
(856,319)	Opening Net Assets of the Scheme		(1,002,832)
(1,002,832)	Closing Net Assets of the Scheme		(1,009,623)

Net Assets Statement for the year ended 31 March 2018*

2016/17		Notes	2017/18
£'000			**£'000**
	Investment assets		
112,475	Equities	13	-
765,857	Pooled Investment Vehicles	13	891,097
47,037	Pooled Property	13	51,933
68,973	Private equity/infrastructure	13	55,261
	Derivative Contracts:		
-	Forward Foreign Exchange	13	-
7,856	Cash deposits	13	6,168
	Other Investment Balances:		
521	Income Due	13	35
76	Debtors	13	-
	Investment Liabilities		
(111)	Amounts outstanding on purchase of investments	13	-
1,002,682	Net investment assets	13	1,004,494

Net Assets Statement for the year ended 31 March 2018* (continued)

2016/17		Notes	2017/18
£'000			**£'000**
1,539	Current Assets	22	2,059
(4,223)	Current Liabilities	23	(1,291)
2,834	Cash Balances		4,361
1,002,832	**Net Assets of the Fund Available to Fund Benefits at the Period End**		**1,009,623**

* 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 20a.

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. 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. The benefits payable in respect of service from 1st April 2014 are based on career average revalued earnings and the number of years of eligible service. The benefits payable in respect of service prior to 1st 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 returns on the Fund's investments. 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 2018. Employer contributions are set based on the triennial actuarial funding valuation, as detailed in Note 20. b) Pensions Sub-Committee.

b) Pensions Sub-Committee

The Council has delegated investment arrangements of the scheme to the Audit, Pensions and Standards Committee, who in December 2014 formed a Pensions Sub-Committee and delegated all pensions responsibilities to it. The Sub-Committee decide on the investment strategy most suitable to meet the liabilities of the Fund and have responsibility for the investment strategy. The Sub-Committee is made up of five elected representatives of the Council, including two opposition party representatives, each having voting rights. Members of the admitted bodies and representatives of the Trade Unions may attend the Sub-Committee meeting but have no voting rights.

The Sub-Committee reports annually to the Audit, Pensions and Standards Committee and has full delegated authority to make investment decisions. The Sub-Committee obtains and considers advice from the Strategic 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 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.

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 on 20 June 2017 (available on the Council's website). The Statement shows the Authority'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 12), appointed in accordance with the regulations, and whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

Note 1 Description of Hammersmith and Fulham Pension Fund (continued

e))Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal pension arrangements outside the scheme. Organisations participating in the Hammersmith and Fulham Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.
- The Deferred member numbers include 883 undecided leavers, who are no longer paying contributions or in receipt of benefits.

The following table summarises the membership numbers of the scheme:

31 Marc 2017		31 March 2018
45	Number of employers with active members	61
4,383	Active members	4,166
4,800	Pensioners receiving benefits	4,920
6,670	Deferred Pensioners*	6,603
15,853		**15,689**

Note 2 Basis of preparation of financial statements

The Statement of Accounts summarise the Fund's transactions for 2017/18 and its position at year end as at 31st March 2018. The accounts been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (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 take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the Net Asset Statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The authority has opted to disclose this information in a note to the accounts (Note 19).

The pension Fund Accounts have been prepared on a going concern basis.

Note 3 Summary of significant accounting policies

FUND ACCOUNT – REVENUE RECOGNITION

a) Contribution Income

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

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

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 is reported gross of withholding taxes which are accrued in line with the associated 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 recognised as a current financial asset.

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

FUND ACCOUNT – EXPENSE ITEMS

d) Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. 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 an exempt approved fund 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.

Note 3 Summary of significant accounting policies (continued)

f) Management Expenses
Pension fund management expenses are accounted for in accordance with the CIPFA guidance "Accounting for Local Government Pension Scheme Management Costs 2016".:

All administrative expenses are accounted for on an accruals basis. 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 expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged 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.

All investment management expenses are accounted for on an accruals basis. The Pension-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.

NET ASSETS STATEMENT

g) Financial Assets
Financial assets are included in the net assets statement on a fair value basis as at the reporting date. 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 15a).

h) 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 15a).

i) 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.

j) Cash and Cash Equivalents
Cash and cash equivalents comprise cash in hand and deposits with financial institutions which are repayable on demand without penalty.

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

l) Actuarial present value of promised retirement benefits
The actuarial present value of promised retirement benefits should be disclosed and based on the requirements of IAS 19 Post-Employment Benefits and relevant actuarial standards. As permitted under the Code, the financial statements include a note disclosing the actuarial present value of retirement benefits (see Note 20a).

m) Additional Voluntary Contributions
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 as a note only (Note 23). There are also some residual policies with Equitable Life, which are disclosed in Note 22, but it is not open for new members.

Note 3 Summary of significant accounting policies (continued)

n) 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 on the basis of 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 26.

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 on the basis of 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) PENSION FUND LIABILITY

The Pension Fund liability is calculated triennially 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 the accompanying actuarial report. The estimates of the net liability to pay pensions depends on a number of judgements and assumptions. In particular, are 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.

The effect of changes in individual assumptions can be measured. A 0.5% increase in the discount rate would result in a decrease in the pension liability of £153m. A 0.2% increase in assumed earnings would increase the value of liabilities by approximately £4m, a 0.2% increase in pension increases would increase the liability by about £56m and a one year increase in life expectancy would increase the liability by about £61m

B) UNQUOTED PRIVATE EQUITY INVESTMENTS

The fair value of private equity investments is unavoidably subjective. The valuations are based on forward-looking estimates and judgements involving many factors. Unquoted private equity assets are valued by the investment managers in accordance with industry standards. The value of private equity investments at the balance sheet date was £5.6m.

The fair value of the Partners Multi Asset Credit fund and the Partners infrastructure fund is also to some extent subjective. A number of the underlying assets are traded in private markets only and therefore judgements need to be made about value, using factors such as the enterprise value and net debt. The value in the net assets statement is £49.6m.

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 taking into account 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.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rates used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £182m. A 0.2% increase in assumed earnings would increase the value of liabilities by approximately £8m, a 0.2% increase in pension increases would increase the liability by about £70m and a one year increase in life expectancy would increase the liability by about £62m.

Note 6 Accounting Standards issued but not yet adopted

At the balance sheet date, the following new standards and amendments to existing standards had been published but not yet adopted by the Code of Practice on Local Authority Accounting in the United Kingdom:

- **IFRS 9 Financial Instruments**, which introduces extensive changes to the classification and measurement of financial assets, and a new "expected credit loss" model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables to amortised cost. There are not expected to be any changes in the measurement of financial assets and the Fund does not at this stage anticipate any adjustments for impairments.
- **IFRS 15 Revenue from Contracts with Customers**, presents new requirements for the recognition of revenue, based on a control-based revenue recognition model. The Fund does not have any revenue streams within the scope of the new standard.
- **IAS 7 Statement of Cash Flows (Disclosure Initiative)**, will potentially require some additional analysis of Cash Flows from Financing Activities, however since the Fund is not currently required to prepare a Cash Flow Statement it does not anticipate any additional disclosure.
- **IAS 12 Income Taxes (Recognition of Deferred Tax Assets for Unrealised Losses)**, applies to deferred tax assets related to debt instruments measured at fair value. Currently the Fund does not hold such financial instruments.

Note 7 Events after the Balance Sheet date

There were no material events arising after the Balance Sheet date.

Note 8 Contributions receivable

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

The table below shows a breakdown of the total amount of employers' and employees contributions.

BY AUTHORITY

2016/17		2017/18
£'000		£'000
23,290	Administering Authority	24,292
3,158	Scheduled bodies	3,244
2,983	Admitted bodies	3,513
29,431		**31,049**

BY TYPE

2016/17		2017/18
£'000		£'000
6,937	Employees' normal contributions	6,781
	Employer's contributions:	
13,450	Normal contributions	16,368
9,044	Deficit recovery contributions	7,900
29,341		**31,049**

Note 9 Benefits payable

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

BY TYPE

2016/17		2017/18
£'000		£'000
30,002	Pensions	31,465
5,093	Commutation and lump sum retirement benefits	6,360
592	Lump sum death benefits	896
35,687		**38,721**

BY AUTHORITY

2016/17		2017/18
£'000		£'000
33,353	Administering Authority	35,914
1,977	Scheduled Bodies	2,427
357	Admitted Bodies	380
35,687		**38,721**

Note 10 Management Expenses

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

2016/17		2017/18
£'000		£'000
520	Administration Expenses	403
267	Oversight and Governance	452
5,743	Investment Management Expenses	3,648
6,530		**4,503**

Investment management expenses have fallen significantly during the year, as a result of there being no Majedie performance fees, reductions gained both by joining London CIV and those negotiated with Legal & General The table below provides a breakdown of the Investment Management Expenses.

2016/17		2017/18
£'000		£'000
4,310	Management fees	3,223
997	Performance fees	343
54	Custody fees	44
382	Transaction costs*	38
5,743		3,648

*Transaction costs incurred on segregated assets only

Note 11 Investment Income

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

2016/17		2017/18
£'000		**£'000**
35	Income from Bonds	(47)
9,975	Equity dividends	(5,331)
16	Interest and cash deposits	(17)
2,796	Private Equity/Other	(4,888)
12,822	Total before taxes	(10,283)
	Taxes	-
12,822	**Total**	**(10,283)**

Note 12 Investment Management Arrangements

In August 2015 a commitment was made to the Partners Group Direct Infrastructure fund and this is being funded over time from the cash held in the Legal and General sterling liquidity fund.

The private equity commitments were made some years ago and the funds are now in the distributing phase.

As shareholders of London LGPS CIV Ltd. (the organisation set up to run pooled LGPS investments in London), the Fund has purchased £150,000 of regulatory capital. This is in the form of unlisted UK equity shares.

The Council has been active in the transfer of assets under management to the London Collective Investment Vehicle (CIV) to gain efficiencies and fee reductions.

The £127m Majedie portfolio transferred to CIV in May 2017. Work was also undertaken to realise some of the equity gains made on the Majedie segregated equity fund, which resulted in the £60m proceeds being temporarily invested in the LCIV Ruffer Fund. These monies will be used to cover future capital call payment for the Partners Group & the new Aviva Infrastructure Funds totalling £30m each, over the next few years which was agreed at the September 2017 Sub-Committee.

The market value and proportion of investments managed by each fund manager at 31 March 2018was as follows:

31 March 2017 Market Value	%	Fund Manager	Mandate	31 March 2018 Market Value	%
£'000				£'000	
		Investments managed by London CIV Ltd asset pool			
101,628	10.1%	Ruffer	Absolute Return (Active)	157,480	15.7%
-	0.0%	Majedie	UK Equity (Active)	125,194	12.5%
101,628	**10.1%**			**282,654**	**28.1%**
		Investments managed outside of London CIV Ltd asset pool			
294,433	29.4%	LGIM	World Equity (Passive)	302,920	30.1%
224,141	22.4%	Majedie	UK Equity (Active)	33,946	3.4%
89,121	8.9%	Insight	Bonds	88,885	8.8%
10,827	1.1%	LGIM	Liquidity Fund	10,868	1.1%
52,593	5.2%	Partners Group	Private Equity	41,711	4.2%
8,743	0.9%	Partners Group	Private Infrastructure	7,031	0.8%
70,334	7.0%	Oak Hill advisers	UK Equity (Active)	72,371	7.2%
94,998	9.5%	M & G	Inflation Opportunities	99,302	9.9%
47,037	4.7%	Standard Life	Long Lease Property	51,933	5.2%
5,366	0.5%	Invesco	Private Equity	3,757	0.4%
2,945	0.3%	Unigestion	Private Equity	1,871	0.2%
366	0.0%	In-house Cash	Cash	7,075	0.6%
150	0.0%	London CIV Ltd		150	0.0%
901,054	89.9%			721,799	71.9%
1,002,682	**100.0%**		**Total**	**1,004,494**	**100.0%**

Note 13 Reconciliation in movement in investments

The table below shows a reconciliation of the movement in the total investment assets by Asset Class during 2017/18, as opposed to by Fund Manager, as was previously the case:

2017/18	Market value 1 April 2017	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2018
Asset Class	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Equities	112,475	6,485	(120,878)	1,918	-
Pooled equity investments	765,856	197,903	(74,163)	1,500	891,096
Pooled property investments	47,037	-	(248)	5,144	51,933
Private equity/infrastructure	68,973	5,614	(20,065)	739	55,261
Derivatives:					
Forward foreign exchange	(1)	1	-	-	-
Total	**994,340**	**210,004**	**(215,354)**	**9,301**	**998,291**
Cash deposits	7,856			1,065	6,168
Amounts receivable from sales of investments	76			-	-
Investment income due	521			-	35
Spot FX contracts	0			18	-
Amounts payable for purchases of investments	(111)			-	-
Net investment assets	1,002,682	**210,004**	**(215,354)**	**10,384**	**1,004,494**

Note 13 Reconciliation in Movement in Investments (continued)

The equivalent analysis for 2016/17 is provided below:

2016/17	Market value 1 April 2016	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2017
Asset Class	£'000	£'000	£'000	£'000	£'000
Bonds	36,771	1,624	(39,237)	842	-
Equities	141,522	42,916	(95,168)	23,205	112,475
Pooled equity investments	562,331	1,005,823	(919,863)	117,565	765,856
Pooled property investments	43,925	-	(224)	3,336	47,037
Private equity/infrastructure	62,336	12,461	(10,230)	4,406	68,973
Derivatives:					
Forward foreign exchange	(368)	4,777	(3,658)	(752)	(1)
Total	846,517	1,067,601	(1,068,380)	148,602	994,340
Cash deposits	7,544			181	7,856
Amounts receivable from sales of investments	278			(1)	76
Investment income due	1,242			-	521
Spot FX contracts	-			(42)	-
Amounts payable for purchases of investments	(16)			-	(111)
Net investment assets	**855,565**	**1,067,601**	**(1,068,380)**	**148,740**	**1,002,682**

Note 14 Investments exceeding 5% of net assets

The table below shows the Fund's 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 2017 Market Value		Holding	31 March 2018 Market Value	
	% Holding		£'000	% Holding
294,433	29.4%	Legal & General World ex UK Dev equity fund index	302,920	30.2%
101,628	10.1%	LCIV Ruffer Absolute Return*	157,480	15.7%
-	0.0%	LCIV Majedie UK Equity	125,193	12.5%
94,998	9.5%	M&G Inflation Opportunities Fund V	99,302	9.9%
89,121	8.9%	Insight Investment Bonds Plus Fund	88,885	8.8%
70,334	7.0%	Oak Hill Advisers Diversified Credit Strategies Fund	53,734	5.4%
47,037	4.7%	Standard Life Long Lease Fund	51,933	5.2%
52,593	5.2%	Partners Group Multi Asset Credit 2014 Fund	41,711	4.2%
224,141	22.4%	Majedie Focus Fund	77,950	7.8%
974,285	97.2%	Total Top Holdings	973,741	99.7%
1,002,682	**100.0%**	**Total Value of Investments**	**1,004,458**	**100.0%**

* 2016/17 restated as LCIV Ruffer assets were not included

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.

31 March 2017				31 March 2018		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Financial Assets	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£'000	£'000	£'000		£'000	£'000	£'000
			Equities			
98,241			UK quoted			
14,234			UK unquoted			
			Pooled funds - investment vehicles			
665,907			UK Equity Funds	791,194		
10,827			UK Cash Funds	10,867		
47,037			UK Property Fund	51,933		
89,121			Overseas fixed Income Fund	88,885		
-			London LGPS CIV	150		
52,587			UK Venture Capital	41,711		
16,386			Overseas Venture Capital	13,551		
521			Investment income due		35	
76			Pending trade sales			
	7,856		Cash deposits with fund managers		6,168	
	1,539		Debtors		2,059	
	2,834		Cash balances (held by fund)		4,361	
994,937	12,229	-		998,291	12,623	-
			Financial Liabilities			
(111)			Pending trade purchases	-		
		(3,568)	Creditors			(620)
(111)	-	(3,568)		-	-	(620)
994,826	12,229	(3,568)	Total	998,291	12,623	(620)

Note 15b Net Gains and Losses on Financial Instruments

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

31 March 2017		31 March 2018
£'000		£'000
	Financial Assets	
149,311	Designated at fair value through profit and loss	10,235
181	Loans and receivables	149
149,492		10,384
	Financial Liabilities	
(752)	Designated at fair value through profit and loss	-
(752)		-
148,740	**Total**	**10,384**

Note 15c Valuation of Financial Instruments carried at Fair Value

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

Level 1 – where fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities (quoted equities, quoted fixed securities, quoted index linked securities and unit trusts). Listed investments are shown at bid prices. The bid value is based on the market quotation of the relevant stock exchange.

Level 2 – where market prices are not available, for example, where an instrument is traded in a market that is not considered to be active or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3 – where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, neither of which the Fund currently invests in.

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into the level at which fair value is observable.

31 March 2017				31 March 2018		
Quoted Market Price Level 1	Using Observable Inputs Level 2	With Significant Unobservable Inputs Level 3		Quoted Market Price Level 1	Using Observable Inputs Level 2	With Significant Unobservable Inputs Level 3
£'000	£'000	£'000		£'000	£'000	£'000
			Financial Assets			
217,252	707,965	69,123	Financial assets at fair value through profit and loss	33,940	908,939	55,412
486	0	0	Financial liabilities at fair value through profit and loss	0	0	0
217,738	707,965	69,123		33,940	908,939	55,412
	994,826				**998,291**	

Note 16a 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 based on the characteristics of each instrument, with the overall objective of maximising the use of market- based information.

Description of asset	Valuation hierarchy 16/17	Valuation hierarchy 17/18	Bas of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled Investments - Equity Funds UK and Overseas Managed Funds	Level 1	Level 2	Published bid market price ruling on the final day of the accounting period.	Not required.	Not required.
Forward foreign exchange derivatives	Level 2	Level 2	Market forward exchange rates at the year-end.	Exchange rate risk.	Not required.
Pooled Long Lease Property Fund	Level 2	Level 2	The Standard Life Long Lease Property Fund is priced on a Single Swinging Price.	In house evaluation of market data.	Not required.
Private equity	Level 3	Level 3	Valuations are prepared by Fund managers based on the latest profit forecasts and other financial information available at the time of preparing the Fund's financial statements .	Fund managers valuation statements are prepared in accordance with ECVA Guidelines.	Key sensitivities include market prices achieved by comparable investments, future income projections and the cost of replacing key business assets.
Infrastructure funds	Level 3	Level 3	Valued by Fund Managers at the lower of cost and fair value.	Managers use their judgement having regard to the EVCA guidelines noted above for valuing unquoted investments.	Upward valuations are only considered where there is validation of the investment objectives and such progress can be demonstrated. Downward valuations are enacted where the manager considers there is an impairment to the underlying investment.
Pooled Investments – Property Funds	Level 3	Level 2	Closing bid price where bid and offer prices are published.	Adjusted for net capital current assets	Estimated acquisition and disposal costs.

Note 16b Transfers between Levels 1 and 2

£127m of Majedie UK Equities (Level 1) were sold & the proceeds used purchase assets in the London CIV Majedie Fund (Level 2)

£60m of Majedie Focus Fund (Level 1) assets were sold, in order to realise some of the profits gained on Equities, the proceeds were used to re-balance the portfolio and resulting funds were used to purchase an assets in the London CIV Ruffer Fund (Level 2), for the purposes of future capitals due on Partners Group Infrastructure & the new Aviva Infrastructure Fund.

TRANSFERS BETWEEN LEVELS 2 AND 3

As a result of additional pricing information becoming available during the year:

	Now	Previously
LGIM - STERLING LIQUIDITY FUND	Level 2	Level 1
LONDON LGPS CIV RUFFER - LT RF ABSOLUTE RETURN A GBP	Level 2	Level 3
INSIGHT - LDI SOLUTIONS PLUS BONDS PLUS B GBP	Level 2	Level 1

Note 16c Reconciliation of Fair Value Measurements within Level 3

Transferred from level 2 to level 3 due to reappraisal of property valuation techniques – balances restated due to cash balances held in the property portfolio

2017/18	Opening balance	Transfers in/out Level 3	Purchases	Sales	Unrealised gains/losses	Realised gains/losses	Closing balance
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
UK Equities	150	(150)	-	-	-	-	-
Overseas Venture Capital	16,386	-	5,614	(7,672)	(2,540)	1,763	13,551
UK Venture Capital	52,587	-	-	(12,393)	1,516	-	41,710
London LGPS CIV	-	150	-	-	-	-	150
Total	**69,123**	**-**	**5,614**	**(20,065)**	**(1,024)**	**1,763**	**55,411**

Note 17 Nature and extent of risks arising from Financial Instruments

RISK AND RISK MANAGEMENT

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

Responsibility for the Fund's risk-management strategy rests with the Committee. Risk management policies are established that aim to identify and analyse the investment risks faced by the Fund and these are regularly reviewed in the light of changing market and other conditions.

a) Market Risk

Market risk is the risk of loss emanating from general market fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk across all its investment activities. In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of asset class, geographical and industry sectors and individual securities. To mitigate market risk, the Committee and its investment advisors undertake regular monitoring of market conditions and benchmark analysis.

Price Risk

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market. The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities represent a risk of loss of capital. The maximum risk resulting from financial instruments (with the exception of 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.

The following table demonstrates the change in the net assets available to pay benefits if the market price had increased or decreased by 10%. The analysis excludes cash, debtors, creditors, other investment balances and forward foreign exchange, as these financial instruments are not subject to price risk.

Price Risk Assets exposed to price risk	Value	Value on 10% price increase	Value on 10% price decrease
	£'000	£'000	£'000
As at 31 March 2017	994,340	1,093,774	894,906
As at 31 March 2018	**998,291**	**1,098,120**	**898,462**

Note 17 Nature and extent of risks arising from Financial Instruments (continued)

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 Committee and its investment advisors regularly monitor the Fund's interest rate risk exposure during the year. The Fund manages its interest risk exposure through the use of futures derivatives (see Note 15).

Fixed interest securities, cash and cash equivalents are exposed to interest rate risk. The table below demonstrates the change in 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	Value on 1% price increase	Value on 1% price decrease
	£'000	£'000	£'000
As at 31 March 2017	210,364	212,468	208,261
As at 31 March 2018	**220,573**	**222,779**	**218,367**

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.

Assets exposed to currency risk	Value	Value on 10% foreign exchange rate increase	Value on 10% foreign exchange rate decrease
	£'000	£'000	£'000
As at 31 March 2017	360,756	396,831	324,680
As at 31 March 2018	**418,816**	**460,698**	**376,934**

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.

Overseas equities, overseas index linked securities, cash in foreign currencies, the value of the forward foreign exchange contracts and some elements of the pooled investment vehicles are exposed to currency risk. The table overleaf shows the value of these assets at the balance sheet date (and the prior year) and what the value would have been if currencies had been 10% higher or 10% lower

c) Liquidity Risk

Note 17 Nature and extent of risks arising from Financial Instruments (continued)

b) 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.

There is a risk that some admitted bodies may not honour their pension obligations with the result that any ensuing deficit might fall upon the Fund. To mitigate this risk, the Fund regularly monitors the state of its admitted bodies.

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 also 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 10.2% of the Fund's Net Assets at 31st March 2018 (12.1% at 31st March 2017). The remaining investments can all be liquidated within days.

Manager	Portfolio	Value at 31 March 2017	Value at 31 March 2018
		£'000	£'000
Partners Group	Multi Asset Credit	52,587	41,711
Partners Group	Infrastructure	16,386	7,924
Standard Life	Property	43,925	51,933
Invesco	Private Equity	5,301	3,757
Unigestion	Private Equity	3,524	1,871
Total		**121,723**	**107,196**

Note 18 Contingent liabilities and contractual commitments

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

	31 March 2017 £000	31 March 2018 £000
Invesco Partnership Fund V L.P.	451	-
Partners Group Direct Infrastructure Fund 2015	38,553	40,198
Aviva Infrastructure	-	30,000
	39,004	70,198

The Aviva infrastructure commitment is expected to be paid over by March 2019. The Partners infrastructure commitment is expected to be paid by December 2020.

Note 19 Stock Lending

The Fund did not participate in stock lending or underwriting.

Note 20 Funding Arrangements

The LGPS 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 Fund was carried out by Barnett Waddingham, the Fund's actuary, as at 31 March 2016 in accordance with the Funding Strategy Statement of the Fund and Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008. The results were published in the triennial valuation report dated 31 March 2017.

The 2016 valuation certified a common contribution rate of 15.5% of pensionable pay (13.6% as at March 2013) to be paid by each employing body participating in the Fund, based on a funding level of 88% (83% as at March 2013). In addition, each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the 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 2016 was £851m and the Actuary assessed the present value of the funded obligation at £965m. This indicates a net liability of £114m,

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

i. The rate of accumulation of income and capital on new investments over the long-term and the increase from time to time of income from existing investments.

ii. Future rises in pensionable pay due to inflation and pension increases.

iii. Withdrawals from membership due to mortality, ill health and ordinary retirement.

iv. Progression of pensionable pay due to promotion.

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 22 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.

The next actuarial valuation of the Fund will be as at 31st March 2019 and will be published in 2020.

Note 20a Actuarial Present Value of Promised Retirement Benefits

The table below shows the total net liability of the Fund as at 31st March 2018. The figures have been prepared by Barnett Waddingham, the Fund's actuary, only for the purposes of providing the information required by IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pension's legislation.

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

	31 March 2018	31 March 2017
	£'000	£'000
Present Value of Promised Retirement Benefits*	(1,630,601)	(1,656,377)
Fair Value of Scheme Assets (bid value)	1,009,620	1,000,383
Net Liability	**(620,981)**	**(655,994)**

*Present Value of Promised Retirement Benefits comprise of £1,592.5m (2016/17: £1,613.4m) and £37.3m (2016/17: £43.0m) in respect of vested benefits and non-vested benefits respectively as at 31 March 2018.

ASSUMPTIONS

The assumptions applied by the actuary are set out below: To assess the value of the Fund's liabilities at 31 March 2018, the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2016 have been rolled forward, using financial assumptions that comply with IAS19.

DEMOGRAPHIC ASSUMPTIONS

The demographic assumptions used are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2016, hence they are different from those used for the 2017/18 statement of accounts.

The post mortality tables adopted are the S1PA tables. The base tables are projected using the CMI 2012 Model, allowing for a long term rate of improvement of 1.5% p.a.

The assumed life expectancies from age 65 are:

Life expectancy from age 65 years		31 March 2018	31 March 2017
Retiring today	Males	24.5	24.4
	Females	26.1	26.0
Retiring in 20 years	Males	26.8	26.6
	Females	28.4	28.3

FINANCIAL ASSUMPTIONS

The main financial assumptions are:

Financial Assumptions	31 March 2018 %	31 March 2017 %
RPI increases	3.3	3.6
CPI increases	2.3	2.7
Salary increases	3.8	4.2
Pension increases	2.3	2.7
Discount rate	2.6	2.7

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 21 Current Assets

31 March 2017		31 March 2018
£'000		£'000
	Debtors:	
334	Contributions due - employers	736
113	Contributions due - employees	197
1,085	London Borough of Hammersmith and Fulham	228
7	Sundry debtors	898
1,539		2,059

ANALYSIS OF DEBTORS

31 March 2017		31 March 2018
£'000		£'000
1,117	Local authorities	228
422	Other entities and individuals	1,831
1,539	**Total**	**2,059**

Note 22 Current Liabilities

31 March 2017		31 March 2018
£'000		£'000
	Creditors	
(2,439)	Unpaid benefits	(75)
(1,062)	Investment management expenses	(369)
(655)	HM Revenues and Customs	(672)
(67)	Sundry creditors	(175)
(4,223)	**Total**	**(1,291)**

ANALYSIS OF CREDITORS

31 March 2017		31 March 2018
£'000		£'000
(67)	Local authorities	(158)
(655)	Central government bodies	(672)
(3,501)	Other Entities and individuals	(461)
(4,223)	**Total**	**(1,291)**

Note 24 Additional Voluntary Contributions

The Pension Fund's Additional Voluntary Contributions (AVC) providers are Zurich Assurance and the Equitable Life Assurance Society. The table below shows information about these separately invested AVCs.

In accordance with Regulation 4(1) (b) of the Pension Scheme (Management and Investment of Funds) Regulations 2016, the contributions paid and the assets of these 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.

31 March 2017 Market Value		31 March 2018 Market Value
£'000		£'000
	Zurich Assurance	
1,172	Market Value at 31st March	824
21	Contributions during the year	35
41	Number of members at 31st March	40
	Equitable Life Assurance	
193	Market Value at 31st March	203
-	Contributions during the year	-
30	**Number of members at 31st March**	**29**

Note 25 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 £0.285m in 2017/18 (£0.240m in 2016/17) in relation to the administration of the Fund and were reimbursed by the Fund for the expenses.

Governance Arrangements

One member of the Pensions Sub-Committee is a deferred member of the Hammersmith and Fulham Pension Fund. Members of the Sub-Committee Members of the sub-committee are required to make a declaration of interests at the beginning of each meeting.

Key management personnel

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

31 March 2017		31 March 2018
£'000		£'000
37	Short-term benefits	26
39	Post-employment benefits	(3)
7	Termination benefits	-
174	**Total**	23

Note 26 Agency Transactions

The Hammersmith and Fulham Pension Fund pays discretionary awards to the former employees of London Borough of Hammersmith and Fulham council. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the council. The gross sum paid out is disclosed below. In 2017/18 the pension fund paid discretionary awards of £2.342 (£2.588m in 2016/17). £766k was outstanding from the Council at year end.

2016/17		2017/18
£'000		£'000
2,588	Payments on behalf of London Borough of Hammersmith and Fulham	2,342
2,588		2,342

NOTE 27 External Audit Costs

The external audit fee payable to Fund's external auditors, KPMG LP, was £21,000 (£21,000 in 2016/17).

7.

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

Hammersmith and Fulham Pensions Website

www.lbhfpensionfund.org

Shared Service Pensions Finance Team
City Hall
5 The Strand
London
WC2N 5HR

Telephone: 020 7641 6925

Email: pensionfund@lbhf.gov.uk

Bi-borough Pensions Manager
c/o Royal Borough of Kensington and Chelsea
The Town Hall
Hornton Street
London
W8 7NX

Email: pensions@rbkc.gov.uk

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

Email: myhelpdeskpensions@surreycc.gov.uk

Telephone: 020 8213 2802

National Local Government Pension Scheme information website

www.lgps.org.uk

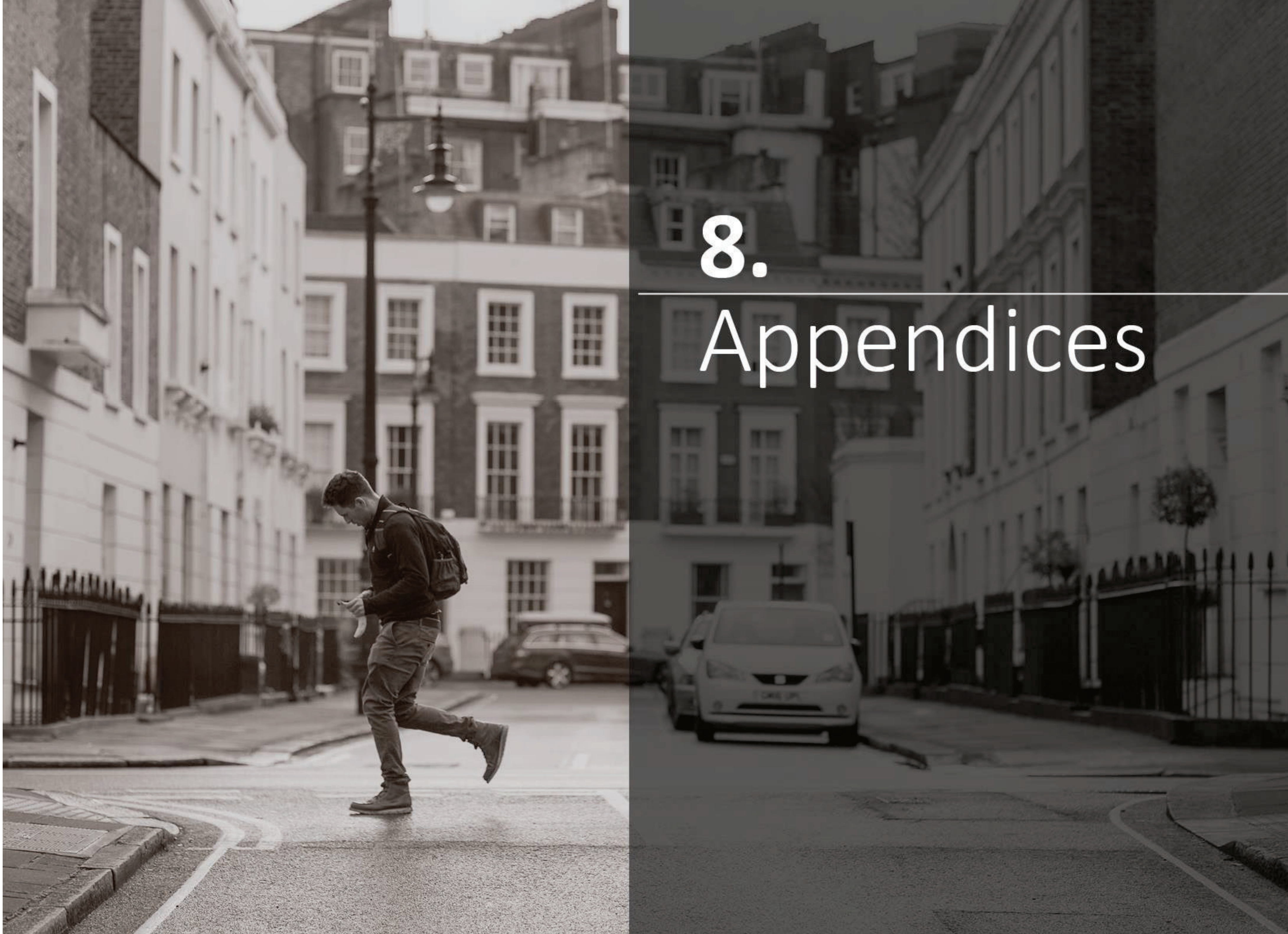
The Pensions Advisory Service (TPAS)
11 Belgrave Road
London SW1V 1RB
Telephone: 0845 601 2923

www.pensionsadvisoryservice.org.uk/online-enquiry

The Office of the Pensions Ombudsman
11 Belgrave Road
London, SW1V 1RB
Telephone: 020 7630 2200

Email: enquiries@pensions-ombudsman.org.uk

8. Appendices



Governance Compliance Statement

BACKGROUND

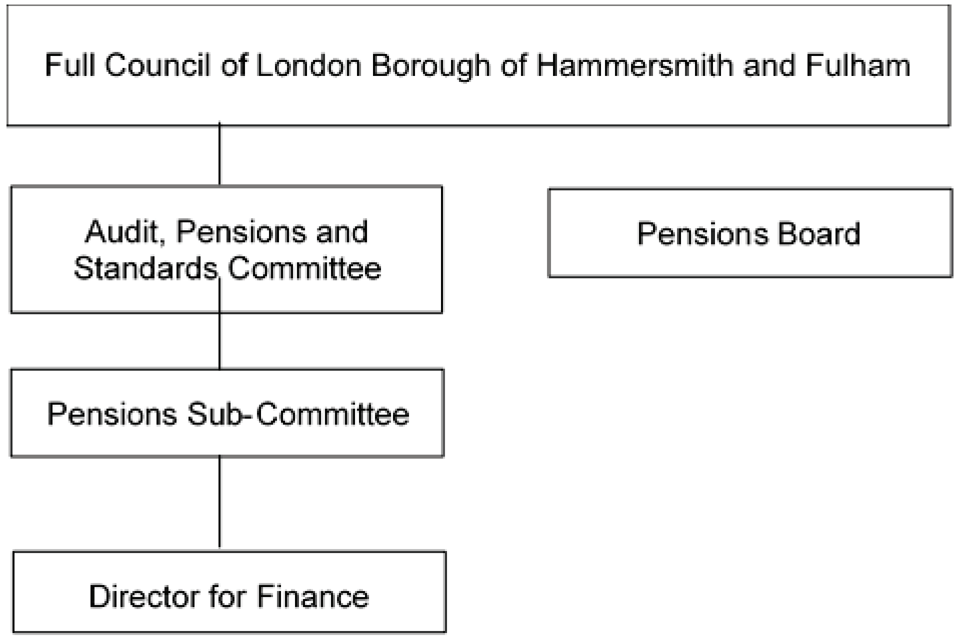
The London Borough of Hammersmith and Fulham is the administering authority for the London Borough of Hammersmith and Fulham ("the Fund") and it administers the Local Government Pension Scheme on behalf of the participating employers.

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 below 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.



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 five elected members of the Audit, Pensions and Standards Committee – three administration councillors and two opposition councillors. 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.

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.

Governance Compliance Statement (continued)

Compliance Requirement	Compliance	Notes
Structure		
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
Committee membership and representation		
That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: - i) employing authorities (including non-scheme employers, e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an *ad hoc* basis).	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
Selection and role		
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
Voting		
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

Governance Compliance Statement (continued)

Compliance Requirement	Compliance	Notes
Training, facility time and expenses		
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
Meetings		
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
Access		
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
Scope		
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
Publicity		
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

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 4071 active members 5915 deferred members and 4518 pensioners as at 31st March 2016

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 British Telecom (BT).

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.

British Telecom

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	Paper Based	Website	Intranet	Face to face	Electronic	Frequency of issue	Communication method	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	Paper Based	Website	Intranet	Face to face	Electronic	Frequency of issue	Communication method	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 IDRP					✓	As required	Email											✓
Statutory returns and questionnaires					✓	As required	Email							✓	✓			✓

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 IDRP

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*

General enquiries and complaints:
Helpdesk: 0208 231 2802
General enquiries and complaints: 0208 541 9293

RETAINED HR TEAM

Maria Bailey
Pensions Manager
Royal Borough of Kensington and Chelsea,
Town Hall,
Hornton Street,
London
W8 7NX

Email: Maria.Bailey@rbkc.gov.uk
Phone: 0207 361 2333

Funding Strategy Statement

1. PURPOSE OF THE FUNDING STRATEGY STATEMENT

1.1 The purpose of this Funding Strategy Statement is to explain the funding objectives of the London Borough of Hammersmith and Fulham Pension Fund (the "Fund") and in particular: -

- How the costs of the benefits provided under the Local Government Pension Scheme (the "Scheme") are met though the Fund in a prudent way;
- The objectives in setting employer contribution rates and the desirability of maintaining stability in the primary contribution rate; and
- Ensuring that the regulatory requirements to set contributions that will maintain the solvency and long term cost-efficiency of the Fund are met.

2. AIMS AND PURPOSE OF THE FUND

2.1 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
- Seek returns on investment within reasonable risk parameters.

2.2 The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits under the Regulations;
- Meet the costs associated in administering the Fund;
- Receive monies in respect of contributions, transfer values and investment income.

3. RESPONSIBILITIES OF KEY PARTIES

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

The Administering Authority

3.2 The Administering Authority for the Pension Fund is the London Borough of Hammersmith and Fulham. The main responsibilities of the Administering Authority are:

- Operate a pension fund
- Collect employee and employer contributions investment income and other amounts due to the Fund, as stipulated in the LGPS Regulations;
- Invest the Fund's assets in accordance with the LGPS regulations;
- Pay the benefits due to Scheme members; as stipulated by the LGPS 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, the SIP and ISS after consultation with other interested parties; and
- Monitor all aspects of the Fund's performance and funding, amending the FSS and ISS accordingly;
- Manage any potential conflicts of interest arising from the Borough's dual role as scheme employer and fund administrator
- Enable the pension board to review the valuation process as set out in their terms of reference.

Individual Employers

3.3 In addition to the Administering Authority, various scheduled and admitted bodies participate in the Fund.

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

- Deduct contributions from employees' salaries correctly 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 all changes in Scheme membership and any other membership changes promptly;
- Exercise any discretions permitted under the Regulations; and
- Meet the costs of any augmentations or other additional costs, such as early retirement strain, in accordance with agreed policies and procedures.

The Fund Actuary

4.4 The Pension Fund's Actuary is Barnett Waddingham LLP. Their 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 LGPS 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;
  - Advise the administering authority on Bonds and other forms of security against the financial effect on the Fund 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 that may be of relevance to the administrator's role in advising the fund; and
  - Advise on other actuarial matters affecting the financial position of the Fund.

4. SOLVENCY ISSUES AND TARGET FUNDING LEVELS

5.1 Given the statutory position of the LGPS administering authorities and the tax-backed nature of employing authorities who make up the core of the Scheme and the statutory basis of the Scheme, the LGPS remains outside the solvency arrangements established for private sector occupational pension schemes.

5.2 LGPS regulations require each administering authority to secure fund solvency and long-term cost efficiency by means of employer contribution rates established by mandatory valuation exercises.

5.3 Maintaining as nearly a constant a primary employer contribution rate is a desirable outcome, but not a regulatory requirement. It is for LGPS administering authorities to seek to achieve a balance between the objectives in a prudent manner.

5.4 Solvency is defined as meaning that the rate of employer contributions should be set at such a level as to ensure that the scheme's liabilities can be met as they arise. This does not mean that the Fund should be 100% funded at all times, but that the rate of employer contributions should be set to target a funding level for the whole fund of 100% over an appropriate time period and using an appropriate set of actuarial assumptions.

5.5 Employers should collectively have the financial capacity to increase employer contributions and/or the Fund should be able to realise contingent assets if future circumstances require, in order to continue to target a funding level of 100%. If these conditions are met, it is anticipated that the Fund will be able to pay scheme benefits as they fall due.

5.6 The rate of employer contributions shall be deemed to be set at an appropriate level to ensure long-term cost efficiency, if the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to the rate for any surplus or deficit in the Fund. The Government Actuary's Department (GAD) will assess whether this condition is met.

6. PRIMARY RATE OF THE EMPLOYERS' CONTRIBUTION

6.1 The primary rate for each employer is that employer's future service contribution rate which is the contribution rate required to meet the cost of the future accrual of benefits, expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit, but allowing for any specific employer circumstances.

6.2 The primary rate for the whole Fund is the weighted average, by payroll, of the individual employers' primary rates.

6.3 The secondary rate of the employer's contribution is an adjustment to the primary rate to arrive at the rate each employer is required to pay. It may be expressed either as a percentage adjustment to the primary rate and/or as a cash adjustment for each of the three years of the inter-valuation period. This will be set out in the rates and adjustments certificate. For any employer, the rate they are actually required to pay is the sum of the primary and secondary rates.

6.4 The actuary should disclose the secondary rates for the whole scheme in each of the three inter-valuation years. These should be calculated as a weighted average based on the whole scheme payroll. The purpose of this is to facilitate a single net rate of contributions expected to be received over each of the three years that can be readily compared with other rates and reconciled with actual receipts.

7 SOLVENCY ISSUES AND NON LOCAL AUTHORITY EMPLOYERS

7.1 The number and type of non-local government bodies operating within the LGPS has grown considerably since 2004, when Funding Strategy Statements were first introduced. There are now many more private sector contractors, companies spun off from local authorities and academies which have employees who continue to qualify for membership by dint of transferred rights under the TUPE regulations. Employees in academies qualify for the scheme because of academies' scheduled body status. Key issues are:

- The need to set appropriate employer contribution levels and deficit recovery periods for these employers which do not have tax-raising powers and therefore have weaker covenants than local authorities;
- The underlying investment strategy of the assets backing the liabilities of these employers;
- The financial standing of those employers (or their parent companies or guarantors) and their ability to meet the cost of current membership, fund any deficit and ability to ensure against default;
- The long and short term effects of high contribution rates on non-local authority employers in terms of their financial viability.

7.2 In the interests of transparency, the FSS should clearly set out the risk assessment methodology to assess the long term financial health of employers and how this will be monitored. This is undertaken by:

- Having the correct Risk Assessments made when new Admitted and Scheduled bodies join the fund and security via a bond is requested;
- Admitted and Scheduled bodies being consulted on Triennial revaluation rates; and
- Pension contributions being monitored "in year" to ensure Admitted and Scheduled bodies are making the required payments.

8. VALUATION ASSUMPTIONS AND FUNDING MODEL

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

Funding Strategy Statement (continued)

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

- The statistical assumptions which are essentially estimates of the likelihood 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

8.3 The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities. This is derived by considering the average difference in yields over the appropriate period from conventional and index linked gilts during the six months straddling the valuation date to provide an estimate of future price inflation as measured by the Retail Price Index (or "RPI").

Future Pay Inflation

8.4 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 inflation. Historically, there has been a close link between price and pay inflation with pay increases exceeding price inflation in the longer term. However, in recent years, this model has broken down due to pay freezes in the public sector and continuing restraint to restrict salary growth across many sectors.

Future Pension Increases

8.5 Pension increases are linked to changes in the level of the Consumer Price Index (or "CPI"). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. An adjustment is therefore made to the RPI assumption to derive the CPI assumption.

Future Investment Returns/Discount Rate

8.6 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.

8.7 The discount rate that is adopted will depend on the funding target adopted for each employer.

8.8 For open employers, 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 underlying 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 "on-going" discount rate.

8.9 For closed employers, an adjustment may be made to the discount rate in relation to the remaining liabilities, once all active members are assumed to have retired if at that time (the projected "termination date"), the employer either wishes to leave the Fund, or the terms of their admission require it.

8.10 The Fund Actuary will incorporate such an adjustment after consultation with the Administering Authority.

8.11 The adjustment to the discount rate for closed employers is to set a higher funding target at the projected termination date, so that there are sufficient assets to fund the remaining liabilities on a "minimum risk" rather than on an on-going basis. The aim is to minimise the risk of deficits arising after the termination date.

Asset Valuation

8.12 For the purposes 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.

Statistical Assumptions

8.13 The statistical assumptions incorporated into the valuation, such as future mortality rates, are based on national statistics. These are adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

9. DEFICIT RECOVERY/SURPLUS AMORTISATION PERIODS

9.1 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. Accordingly, the Fund will normally either be in surplus or in deficit.

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

9.3 The period that is adopted 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 and any limited period of participation in the Fund; and
- The implications in terms of stability of future levels of employers' contribution.

10. POOLING OF INDIVIDUAL EMPLOYERS

10.1 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.

10.2 However, certain groups of individual employers are pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small. This is the reason for pooling academies within the Fund.

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

11. CESSATION VALUATIONS

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

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

12. Links with the Investment Strategy Statement (ISS)

12.1 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 underlying investment strategy as set out in the ISS.

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

13. RISKS AND COUNTERMEASURES

13.1 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.

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

14. FINANCIAL RISKS

14.1 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.

14.2 The valuation results are most sensitive to the real discount rate. Broadly speaking an increase/decrease of 0.5% per annum in the real discount rate will decrease/increase the liabilities by 10%, and decrease/increase the required employer contribution by around 2.5% of payroll.

14.3 However, the Pensions Sub-committee regularly monitors the investment returns achieved by the fund managers and receives advice from the independent advisers and officers on investment strategy.

14.4 The Pensions Sub-committee may also seek advice from the Fund Actuary on valuation related matters.

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

15. DEMOGRAPHIC RISKS

15.1 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 of one year to life expectancy of all members in the Fund will reduce the funding level by between 0.5 to 1%.

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

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

15.4 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.

16. REGULATORY RISKS

16.1 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 central government.

16.2 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.

16.3 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.

17. GOVERNANCE

17.1 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.

17.2 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.

17.3 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.

18. MONITORING AND REVIEW

18.1 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.

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

LONDON BOROUGH OF HAMMERSMITH & FULHAM PENSION FUND INVESTMENT STRATEGY STATEMENT 2017/18

1. INTRODUCTION

1.1 This is the first Investment Strategy Statement (ISS) adopted by the London Borough of Hammersmith & Fulham Pension Fund ("the Fund").

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. It replaces the Statement of Investment Principles which was previously required under Schedule 1 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

The Regulations require administering authorities to outline how they meet each of 6 objectives aimed at improving the investment and governance of the Fund.

1.2 This Statement addresses each of the objectives included in the 2016 Regulations:

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

We deal with each of these in turn below.

1.3 The Pension Sub-Committee of the Fund oversees the management of the Fund's assets. Although not trustees, the Members of the Pension Sub-Committee owe a fiduciary duty similar to that of trustees to the council-tax payers, who would ultimately have to meet any shortfall in the assets of the Fund, as well as to the contributors and beneficiaries of the Fund.

1.4 The relevant terms of reference for the Pension 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.
- Consideration and approval of the authority statement of accounts in accordance with the relevant Accounts & Audit Regulations made from time to time.
- The Committee shall be a member of the Local Authority Pension Fund Forum.

The role of the Pensions Sub-Committee is 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 appointment of the Fund Managers, Actuary, Custodians and Fund Advisers.
- To agree the ISS, 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 Fund and to approve the Annual Report.
- To receive actuarial valuations of the Fund regarding the level of employers' contributions necessary to balance the 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 Fund.
- 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 Pension Sub-Committee has responsibility for:

- Determining an overall investment strategy and strategic asset allocation, with regard to diversification and the suitability of asset classes

- 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 policy on social, environmental and ethical considerations, and on the exercise of voting rights

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

1.5 This ISS will be reviewed at least once a year, 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 FSS.

1.6 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.

2. OBJECTIVE 7.2 (A): A REQUIREMENT TO INVEST FUND MONEY IN A WIDE RANGE OF INSTRUMENTS

2.1 Funding and investment risk is discussed in more detail later in this ISS. However, at this stage it is important to state that the Committee is aware of the risks it runs within the Fund and the consequences of these risks.

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

- Exposure to a diverse range of sources of return, such as market, manager skill and through the use of less liquid holdings.

- Diversity in the asset classes used.

- Diversity in the approaches to the management of the underlying assets.

A consequence of this approach is that the Fund's assets are invested in a wide range of instruments.

2.3 This approach to diversification has seen the Fund dividing its assets across 7 broad categories; UK equities, Global equities, Secure Income, Dynamic Asset Allocation, Absolute Return Bonds, Inflation Opportunities and Long Lease Property. The table in Section 5 (on page 8) below shows current asset allocation. The size of assets invested in each category will vary depending on investment conditions. However, it is important to note that each category is itself diversified.

2.4 The main risk the Pension Sub-Committee is concerned with is to ensure the long-term ability of the fund to meet pension and other benefit obligations, as they fall due, is met. As a result the Pension Sub-Committee place 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 Pension Sub- Committee considers excessive.

The Fund currently has a surplus of income over expenditure when taking into account investment income. The Pensions Sub-Committee keeps the liquidity within the Fund monitored through regular reporting of cash flows.

At all times the Pension Sub-Committee takes the view that their investment decisions, including those involving diversification, in the best long term interest of Fund beneficiaries.

2.5 To mitigate these risks the Pension 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 future, its return objective. In addition to keeping their investment strategy and policy under regular review the Pension Sub-Committee will keep this ISS under review to ensure that it reflects the approaches being taken.

3. OBJECTIVE 7.2(B): THE AUTHORITY'S ASSESSMENT OF THE SUITABILITY OF PARTICULAR INVESTMENTS AND TYPES OF INVESTMENT

3.1 When assessing the suitability of investments the Fund takes into account a number of factors:

- Prospective return

- Risk

- Concentration

- Risk management qualities the asset has, when the portfolio as a whole is considered

- Geographic and currency exposures

• Whether the management of the asset meets the Fund's ESG criteria.

3.2 Suitability is a critical test for whether or not a particular investment should be made.

3.3 Each of the Fund's investments has an individual performance benchmark which their reported performance is measured against.

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

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

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

4.1 The Pension Sub-Committee recognises that there are a number of risks involved in the investment of the assets of the Fund amongst which are the following:

4.2 Geopolitical and currency risks:

• are measured by the value of assets (the 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 the levels of diversification within the existing policy.

4.3 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.

4.4 Solvency and mismatching risk:

• 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.

4.5 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

4.6 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.

4.7 Employer contributions are based upon financial and demographic assumptions determined by the actuary. The main risks to the Fund are highlighted within sections 12 to 15 of the Funding Strategy Statement. 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

4.8 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.

4.9 The Fund and the Pension Sub-Committee are aware investment risk is only one aspect of the risks facing the Fund. The other key risk they are aware of is the ability of the Fund to ascertain the required future contributions, support the investment risk (i.e. the level of volatility of investment returns) and underwrite actuarial risk, namely the volatility in the actuarial funding position and the impact this has on contributions.

4.10 The Fund and the Pension Sub-Committee are 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 Pension Sub-Committee carefully considered both the individual asset risk characteristics and those of the combined portfolio to ensure the risks were appropriate.

Estimating the likely volatility of future investment returns is difficult as it relies on both estimates of individual asset class returns and also the correlation between them. These can be based on historic asset class information for some of the listed asset classes the Fund uses. However, for other private market and less liquid assets it is much more difficult.

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

To help manage risk the Pension Sub-Committee uses an external investment adviser to monitor the risk. In addition when carrying out their investment strategy review the Pension Sub-Committee also had different investment advisers asses the level of risk involved.

4.11 The Fund targets a return of 5.9% as aligned with the latest triennial valuation from the actuary. The investment strategy is considered to have a low degree of volatility.

4.12 When reviewing the investment strategy on a quarterly basis the Pension 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.

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

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

5.1 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.

5.2 The Fund has formally agreed to join the London Collective Investment Vehicle (CIV) as part of the Government's pooling agenda. The London CIV has been operational for some time and is in the process of opening a range of sub-funds covering liquid asset classes, with less liquid asset classes to follow.

5.3 The Fund has already transitioned assets into the London CIV with a value of

£101.6m or 10.3% of the assets and will look to transition further liquid assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

5.4 The Fund will transition liquid assets into the London CIV when there are suitable investment strategies that meet the asset allocation and investment strategy available on the London CIV platform. The Fund anticipates being able to transition some of the liquid assets across in advance of April 2018.

5.5 The Fund is monitoring developments and the opening of investment strategy fund openings on the London CIV platform with a view to transitioning liquid assets across to the London CIV as soon as there are suitable sub-funds to meet the Fund's investment strategy requirements.

5.6 The Fund holds £278.6m or 28.4% of its assets in life funds and intends to retain these outside of the London CIV in accordance with government guidance on the retention of life funds outside pools for the time being. The Fund agrees for the London CIV to monitor the passive funds as part of the broader pool.

5.7 The Fund holds £71.6m or 7.3% of the Fund held in illiquid assets and these will remain outside of the London CIV pool. The cost of exiting these strategies early would have a negative financial impact on the Fund. These will be held as legacy assets until such time as they mature and proceeds re-invest through the pool assuming it has appropriate strategies available or until the Fund changes asset allocation and makes a decision to disinvest.

5.8 The Fund and the Pension Sub-Committee are aware that certain of the assets held within the Fund have limited liquidity and moving them would come at a cost. Whilst it is the expectation to make use of the London CIV for the management of the majority of the Fund assets in the longer term, the Pension Sub-Committee recognises that transitioning from the current structure to the London CIV will be a protracted exercise spread over a number of years to ensure unnecessary costs are not incurred.

London Borough of Hammersmith & Fulham Pension Fund	Value as at 31 Dec 2016 (£m)	Available on CIV	Transferred (£m)
UK Equities			
Majedie	221.0	Due April 2017	
Overseas Equities			
L&G World Equity	278.6	Not yet – see 5.6 above	
Secure Income			
Oak Hill Advisers	69.2	Not yet	
Partners Group Multi Asset Credit	53.5	n/a – illiquid	
Infrastructure			
Partners Group Infrastructure	8.3	n/a – illiquid	
Dynamic Asset Allocation			
Ruffer	101.6	Yes	101.6
Absolute Return Bonds			
Insight Bonds	88.9	Not yet	
Inflation Opportunities			
M&G Inflation Opportunities Fund	91.6	Not yet	
Long Lease Property			
Standard Life	45.8	Not yet	
Private Equity			
Invesco	6.2	n/a – illiquid	
Unigestion	3.6	n/a – illiquid	
Cash and liquidity funds			
L&G Liquidity Fund	13.8	n/a – illiquid	
Total	**982.1**		**101.6**

5.9 At each review of the investment strategy, which will happen at least every three years, the investment of the above assets will be actively considered by the Fund, including in particular whether a collective investment option is appropriate.

5.10 More information on the London CIV and its operation is included in Appendix D of this statement.

6. OBJECTIVE 7.2(E): HOW SOCIAL, ENVIRONMENTAL OR CORPORATE GOVERNANCE CONSIDERATIONS ARE TAKEN INTO ACCOUNT IN THE SELECTION, NON-SELECTION, RETENTION AND REALISATION OF INVESTMENTS

6.1 The Fund recognises that the neglect of corporate governance and corporate social responsibility may lead to poor or reduced shareholder returns. The Pensions Sub-Committee has considered how the Fund may best implement a corporate social responsibility policy, given the current resources available to the Fund. Accordingly, the Pensions Sub-Committee has delegated social, environmental and ethical policy to the investment managers, but also approved a Governance Strategy. The Pensions Sub-Committee believes this is the most efficient approach whilst ensuring the implementation of policy by each manager is consistent with current best practice and there is appropriate disclosure and reporting of actions taken. To that extent, the Pensions Sub-Committee maintains a policy of non-interference with the day-to-day decision making of the investment managers

6.2 As a responsible investor the Fund wishes to promote corporate social responsibility, good practice and improved performance amongst all companies in which it invests. Whilst there has been a great deal of emphasis on the relationship of business, financial and economic factors to investment performance, the impact on returns of less tangible non-financial and reputational factors is more difficult to identify. Nevertheless, it is clear that adverse publicity relating to low corporate, environmental or social standards can have an adverse impact on shareholder value, the Fund, its beneficiaries and local taxpayers. By having a good public image, the morale of the workforce will be higher, thus making it easier to attract and retain quality employees. The Fund considers that the pursuit of high corporate social responsibility standards by Companies will lead to higher returns in the long term. A good public image may help to increase sales volumes. An improved financial standing will improve credit ratings, thus allowing a company to attract lower cost funding. By addressing outside factors, the company is able to demonstrate an above average standard of management competence which will improve the long term potential and sustainability of the organisation. At the very least the Fund expects the Companies in which it invests to comply with all applicable laws and regulations in home markets and to conform to local best practice when operating overseas.

6.3 In furtherance of this stance, the Fund will support standards of best practice by Companies in both the disclosure and management of corporate social responsibility issues consistent with the Fund's fiduciary responsibilities. To this end the Fund will pursue a policy of active shareholder engagement with companies using its own efforts, those of its Fund managers and alliances with other investors. The Fund is a member of the Local Authority Pension Fund Forum.

6.4 The Fund will consider excluding certain types of investment from its actively managed portfolios, following appropriate advice on the implications for performance and diversification. Fund managers are instructed not to invest segregated elements of their portfolio in companies that generate over half of their income from tobacco products on investment prospects grounds. Fund managers are required to have policies regarding Environmental, Social and Governance (ESG) issues and to monitor their compliance with those policies.

6.5 The Fund is committed to being a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills. In addition the Pension Sub-Committee undertakes training on a regular basis and this will include on training and information sessions on matters of social, environmental and corporate governance.

6.6 Sections 6.7 to 6.12 below relate to the Fund's holdings in the London CIV.

6.7 The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

6.8 The Fund expects its external investment managers (and specifically the London CIV through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund, such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

6.9 Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

6.10 The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

6.11 The Fund will invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including social, environment and governance factors to the extent these directly or indirectly impact on financial risk and return.

6.12 The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

7. OBJECTIVE 7.2(F): THE EXERCISE OF RIGHTS (INCLUDING VOTING RIGHTS) ATTACHING TO INVESTMENTS

7.1 The Fund is committed to making full use of its shareholder rights. The Fund's policy on voting rights is based on the Cadbury, Greenbury and Hampel codes, as well as the stock exchange combined code, and the principles of protecting shareholder rights, minimising risk and enhancing value.

7.2 The Fund expects its Fund Managers to vote in an appropriate and informed manner and report their voting actions in their quarterly investment reports. The exercise of shareholder's rights is delegated to the Fund Managers as part of their mandate. Fund Managers will vote in accordance with their Corporate Governance Policy Statements. These policy statements have been developed with the recommendations of Institutional Shareholder Service, National Association of Pension Funds and the Association of British Insurers.

7.3 The Pensions Sub-Committee has delegated the Fund's voting rights to its investment managers, who are required, where practical, to make considered use of voting in the interests of the Fund. The Committee expects the investment managers to vote in the best interests of the Fund.

7.4 Sections 7.5 to 7.20 below relate to the Fund's holdings in the London CIV.

7.5 The investment managers are required to regularly report voting actions and highlight where they do not vote in accordance with their stated policy.

7.6 The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests, recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

7.7 The Fund's investments through the London CIV are covered by the voting policy of the CIV which has been agreed by the Pensions Sectoral Joint Committee. Voting is delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum (LAPFF) as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions.

7.8 The Fund will incorporate a report of voting activity as part of its Pension Fund Annual Report which is published on the Council website: http://democracy.lbhf.gov.uk

7.9 The Fund has not issued a separate Statement of Compliance with the Stewardship Code, but fully endorses the principles embedded in the 7 Principles of the Stewardship Code.

7.10 The Fund expects its external investment managers to be signatories of the Stewardship Code and reach Tier One level of compliance or to be seeking to achieve a Tier One status within a reasonable timeframe. Where this is not feasible the Fund expects a detailed explanation as to why it will not be able to achieve this level.

7.11 In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

7.12 The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which it invests

8 FEEDBACK ON THIS STATEMENT

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

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Investment Strategy Statement: Appendix A

Compliance with CIPFA Pensions Panel Principles for investment decision making in the local government pension scheme in United Kingdom

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 also recognised as important to demonstrate how the Fund meets such principles and best practice.

The Secretary of State has previously highlighted the principle contained in Roberts

v. Hapwood 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 seen as supporting this approach. The principles, together with the Fund's position on compliance, are set out below:

PRINCIPLE 1 - EFFECTIVE DECISION-MAKING

Administrating authorities should ensure that:

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

Full Compliance

The Council has delegated the management and administration of the Fund to the Pension Sub-Committee, which meets at least quarterly. The responsibilities of the Pension Sub-Committee are described in paragraph 1.4 of the ISS.

The Pension Sub-Committee is made up of elected members of the Council who each have voting rights. Representatives from the admitted and scheduled bodies within the Fund and from trade unions may attend as observers.

The Pension Sub-Committee obtains and considers advice from and is supported by the Director of Finance, Corporate Finance and as necessary from the Fund's appointed actuary, investment managers and advisors. A review of the investment advice received by the Fund was completed in 2016/17 to ensure it continues to be fit for purpose in the changing investment and legislative environment.

The Pension Sub-Committee has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the scheme's regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

Business plans are presented to the Pension Sub-Committee annually and progress is monitored on a quarterly basis.

Several of the Pension Sub-Committee members have extensive experience of dealing with Investment matters and training is made available to new Pension Sub-Committee members. Pension Sub-Committee Members are required to undertake a minimum of three days of investment training a year – there is an on-going programme of training available to members.

PRINCIPLE 2 - CLEAR OBJECTIVES

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

Full Compliance

he aims and objectives of the Fund are set out within the FSS and the ISS. The main Fund objective is to meet the cost of pension liabilities and to enable employer contribution rates to be kept as nearly constant as possible at reasonable cost to the taxpayers and admitted bodies.

The investment strategy has been set with the objective of controlling the risk that the assets will not be sufficient to meet the liabilities of the Fund while achieving a good return on investment (see paragraphs 4 and 5 above). The approach taken reflects the Fund's liabilities and was decided upon without reference to any other funds. The Fund's performance is measured against the investment objective on a quarterly basis.

The Fund's strategy is regularly reviewed.

PRINCIPLE 3 – RISK AND LIABILITIES

In setting and reviewing their investment strategy, administrating authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

Full Compliance

The Pension Sub-Committee has, in conjunction with its advisers, agreed an investment strategy that is related to the Fund's liabilities. An actuarial valuation of the Fund takes place every three years, with the most recent triennial valuation taking place in 2016. The investment strategy is designed to give diversification and specialisation and achieve optimum return against acceptable risk.

The asset allocation of the Fund is set to maximise the potential to close the funding deficit over future years. The current allocation is outlined in Section 5 of the ISS.

During 2014/15, the Fund established an Admitted/Scheduled Body policy, which outlines its approach to assessing the strength of the covenant for participating employers and the risk assessment undertaken when new employers wish to join the Fund.

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

Full Compliance

The Pensions Sub-Committee has appointed investment managers with clear index strategic benchmarks within an overall Investment objective which place maximum accountability for performance against that benchmark on the manager.

The managers are monitored at quarterly intervals against their agreed benchmarks. Independent detailed monitoring of the Fund's performance is carried out by Deloitte, the Fund's investment adviser and by Northern Trust, the Fund's custodian who provide the performance figures. Moreover, portfolio risk is measured on quarterly basis and the risk/return implications of different strategic options are fully evaluated.

The investment adviser is assessed on the appropriateness of asset allocation recommendations and the quality of advice given.

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.

The Pension Sub-Committee monitors the investment decisions it has taken, including the effectiveness of these decisions. In addition the Pension Sub- Committee receives quarterly reports as to how the Fund has performed against their investment objective. The performance figures are included in the extract from the accounts which is sent to stakeholders annually.

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 the investment managers to exercise voting rights on behalf of the Fund. The investment managers are required to report how they have voted in their quarterly reports.

The Fund believes in 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 Section 7 of the ISS.

The ISS is publically available to all scheme members.

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

Links to the Governance Compliance Statement, the ISS, the FSS, the SRI Policy and the Communications Statement are all included in the Pensions Fund Annual Report which is published and is accessible to stakeholders of the Fund on the Council's web site, internal intranet and a website developed specifically for the Fund.

All Pensions Sub-Committee meetings are open to members of the public and agendas and minutes are published on the Council's website and internal intranet. The Fund's Annual Report includes an assessment of the Fund's performance and an extract from the accounts is sent to stakeholders annually.

Risk Register

Ref	Risk	Mitigating Actions	Residual risk score: Likelihood	Residual risk score: Impact	Risk Rating	Officer responsible	Review Date
1	**STRATEGIC: INVESTMENT** That the combination of assets in the investment portfolio fails to fund the liabilities in the long term.	• Investment strategy in place and reviewed periodically. • Performance is measured against a benchmark. • Fund performance is reviewed quarterly.	2	3	Low 6	Director of Treasury & Pensions	Nov 2016
2	**STRATEGIC: INVESTMENT** Fund managers fail to achieve the returns agreed in their management agreements.	• Independent monitoring of fund manager performance by custodian against targets. • Investment adviser retained to keep watching brief. • Fund manager performance is reviewed quarterly.	3	3	Low 9	Director of Treasury & Pensions	Nov 2016
3	**STRATEGIC: INVESTMENT** Failure of custodian or counterparty.	• At time of appointment, ensure assets are separately registered and segregated by owner. • Review of internal control reports on an annual basis. • Credit rating kept under review.	2	3	Low 6	Director of Treasury & Pensions	Nov 2016
4	**STRATEGIC: FUNDING** The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	• Review at each triennial valuation and challenge actuary as required. • Growth assets and inflation linked assets in the portfolio should rise as inflation rises.	4	3	Medium 12	Director of Treasury & Pensions	Nov 2016
5	**STRATEGIC: FUNDING** There is insufficient cash available in the Fund to meet pension payments leading to investment assets being sold at sub-optimal prices to meet pension payments.	• Cashflow forecast maintained and monitored. • Cashflow position reported to sub-committee quarterly. • Cashflow requirement is a factor in investment strategy reviews.	2	1	Very Low 2	Director of Treasury & Pensions	Nov 2016
6	**STRATEGIC: FUNDING** Scheme members live longer than expected leading to higher than expected liabilities.	• Review at each triennial valuation and challenge actuary as required.	4	2	Low 8	Director of Treasury & Pensions	Nov 2016

7	**STRATEGIC: FUNDING** Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	• Review maturity of scheme at each triennial valuation. • Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions. • Cashflow position monitored quarterly.	2	3	Low 6	Director of Treasury & Pensions	Nov 2016
8	**STRATEGIC: REGULATION** Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	• Maintain links with central government and national bodies to keep abreast of national issues. • Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.	3	4	Medium 12	Director of Treasury & Pensions and Bi-borough Director of HR	Nov 2016
9	**STRATEGIC: REGULATION** Introduction of European Directive MiFID II results in a restriction of Fund's investment options and an increase in costs.	• Officers are engaging with Fund Managers to understand the position better • Knowledge and Skills Policy in place for Officers and Members of the Committee • Maintain links with central government and national bodies to keep abreast of this developing issue.	2	2	Very Low 4	Director of Treasury & Pensions	Nov 2016

Ref	Risk	Mitigating Actions	Residual risk score: Likelihood	Residual risk score: Impact	Risk Rating	Officer responsible	Review Date
10	**OPERATIONAL: GOVERNANCE** Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	• Officers maintain knowledge of legal framework for routine decisions. • Eversheds retained for consultation on non-routine matters.	2	2	Very Low 4	Director of Treasury & Pensions	Nov 2016
11	**OPERATIONAL: GOVERNANCE** Sub-committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	• External professional advice is sought where required • Knowledge and skills policy in place	3	3	Low 9	Director of Treasury & Pensions	Nov 2016
12	**OPERATIONAL: GOVERNANCE** Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	• Person specifications are used at recruitment to appoint officers with relevant skills and experience. • Training plans are in place for all officers as part of the performance appraisal arrangements. • Shared service nature of the pensions teams provides resilience and sharing of knowledge.	3	3	Low 9	Director of Treasury & Pensions and Bi-borough Director of HR	Nov 2016

13	**OPERATIONAL: GOVERNANCE** Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.	• At time of appointment ensure advisers have appropriate professional qualifications and quality assurance procedures in place. • Sub-committee and officers scrutinise and challenge advice provided.	2	2	Very Low 4	Director of Treasury & Pensions	Nov 2016
14	**OPERATIONAL: GOVERNANCE** London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers.	• Pensions sub-committee Chair is a member of the Joint member Committee responsible for the oversight of the CIV and can monitor and challenge the level of resources through that forum. • Director of Treasury & Pensions is a member of the officer Investment Advisory Committee which gives the Fund influence over the work of the London CIV.	3	2	Low 6	Director of Treasury & Pensions	Nov 2016
15	**OPERATIONAL: FUNDING** Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.	• Transferee admission bodies required to have bonds in place at time of signing the admission agreement. • Regular monitoring of employers and follow up of expiring bonds. • Review of bond status within all admission agreements to be undertaken and finished in Quarter 2.	3	2	Low 6	Director of Treasury & Pensions and Bi-borough Director of HR	Nov 2016
16	**OPERATIONAL: FUNDING** Ill health costs may exceed "budget" allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	• Review "budgets" at each triennial valuation and challenge actuary as required. • Charge capital cost of ill health retirements to admitted bodies at the time of occurring. • Occupational health services provided by the Council and other large employers to address potential ill health issues early.	3	2	Low 6	Director of Treasury & Pensions and Bi-borough Director of HR	Nov 2016
17	**OPERATIONAL: FUNDING** Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	• Monitor numbers and values of transfers out being processed. • If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values.	2	3	Low 6	Director of Treasury & Pensions and Bi-borough Director of HR	Nov 2016
18	**OPERATIONAL: ADMINISTRATION** Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.	• Third parties regulated by the FCA and separation of duties and independent reconciliation procedures in place. • Review of third party internal control reports. • Regular reconciliations of pension payments undertaken by Pensions Finance Team. • Periodic internal audits of Pensions Finance and HR teams. • Mortality screening arrangements reviewed by HR and Surrey County Council leading to improvements.	4	2	Low 8	Director of Treasury & Pensions and Bi-borough Director of HR	Nov 2016

19	**OPERATIONAL: ADMINISTRATION** Failure of fund manager or other service provider without notice resulting in a period of time without the service being provided or an alternative needing to be quickly identified and put in place.	• Contract monitoring in place with all providers. • Procurement team send alerts whenever credit scoring for any provider changes for follow up action.	3	1	Very Low 3	Director of Treasury & Pensions and Bi-borough Director of HR	Nov 2016
20	**OPERATIONAL: ADMINISTRATION** Failure of financial system leading to lump sum payments to scheme members and supplier payments (to fund managers and advisers) not being made and Fund accounting not being possible.	• Contract in place with BT to provide service enabling smooth processing of payments. • Officers are tracking payments through the system to ensure scheme members and suppliers receive them. • Officers undertaking regular reconciliation work to verify accounting transactions.	2	2	Very Low 4	Director of Treasury & Pensions	Nov 2016
21	**OPERATIONAL: ADMINISTRATION** Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	• Pensioner payroll system is subject to daily software backups and off-site duplication of records. • Disaster recovery procedures allow for pensioner payrolls to be run from alternative sites if required.	1	5	Very Low 5	Bi-borough Director of HR	Nov 2016

22	**OPERATIONAL: ADMINISTRATION** Failure to pay pension benefits accurately leading to under or over payments.	• SCC's Altair system allows for all pensioner benefits to be automatically calculated by the administration system. • Pensioner benefits are double-checked by another team member in SCC before being released. • Spot checks are undertaken by the Client Team for accuracy.	2	3	Low 6	Bi-borough Director of HR	Nov 2016
23	**OPERATIONAL: ADMINISTRATION** Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	• Pensioner administration system Altair is subject to daily software backups and off-site duplication of records. • Disaster recovery procedures allow for Altair to be run from an alternative site if required. Payments can be made from other UK sites other than SCC's HQ.	1	5	Very Low 5	Bi-borough Director of HR	Nov 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
24	**OPERATIONAL: ADMINISTRATION** Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.	• SCC's pension teams are highly skilled and knowledgeable in the area of LGPS administration. • The work is split across multiple officers to ensure skills are fully developed so that there is no single point of failure. • Team members received regular training on LGPS and on changes or enhancements to the pension administration system. • There are regular monthly meetings with the Client Manager to review performance.	2	3	Low 6	Bi-borough Director of HR	Nov 2016
25	**OPERATIONAL: ADMINISTRATION** The quality of scheme member data inherited from Capita does not meet the comprehensiveness and level of accuracy required for Surrey County Council to correctly administer the LGPS to scheme members.	• Some key data cleansing work was undertaken as part of the data preparation for the triennial review data to be given to the Actuary in July 2016. • Data deficiencies inherited from Capita have been identified by Surrey County Council. A data recovery plan is expected to be agreed with Surrey and LBHF staff by the end of September 2016. • Surrey County Council has been given authority to recruit 2 additional FTE for an initial period of 1 year (shared with RBKC) to work through data deficiencies.	3	5	Medium 15	Bi-borough Director of HR	Nov 2016

Investment Strategy Statement: Appendix C

INFORMATION ON LONDON CIV

Stewardship Statement is attached – Other London CIV details are included in ISS main Statement

London CIV Draft Stewardship code Statement

The London Collective Investment Vehicle (CIV) was formed as a voluntary collaborative venture by the London Local Authorities in 2014 to invest the assets of London Local Government Pension Scheme (LGPS). The London CIV and its London Local Authority investors recognise the importance of being long term stewards of capital and in so doing supports the UK Stewardship Code, which it recognises as best practice.

The London LGPS CIV Limited ("London CIV") is fully authorised by the FCA as an Alternative Investment Fund Manager (AIFM) with permission to operate a UK based Authorised Contractual Scheme fund (ACS Fund). The London CIV in the management of its investments has appointed a number of external investment managers. We therefore see our role as setting the tone for the effective delivery of stewardship managers on our behalf and on behalf of our investing Funds. We are clear that we retain responsibility for this being done properly and fully in the interests of our own shareholders.

This Statement sets out how the London CIV implements the seven principles of the Code.

Principle 1

Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The London CIV on behalf of its London Local Authority Shareholders recognises its position as an investor on their behalf with ultimate responsibility to members and beneficiaries and recognises that effective stewardship can help protect and enhance the long-term value of its investments to the ultimate benefit of all stakeholders in the LGPS.

As we do not invest directly in companies, we hold our fund managers accountable for the delivery of stewardship on our behalf in terms of day-to-day implementation of its stewardship activity. We require the appointed fund management teams to be responsible for holding to account the management and boards of companies in which they invest. The London CIV believes that this approach is compatible with its stewardship responsibilities as it is the most effective and efficient manner in which it can promote and carry out stewardship activities in respect of its investments, and ensure the widest reach of these activities given the CIV's investment arrangements.

A key related area where stewardship is integrated into the wider process is in the selection and monitoring of external investment managers. When considering the appointment of external investment managers the consideration of Environmental Social and Governance (ESG) integration and stewardship activity of each investment manager is part of the selection process.

The London CIV expects its equity investment managers to adhere to the principles within the UK Stewardship Code. This position is communicated to the Fund's investment managers and forms the basis of the approach to monitoring the investment managers as outlined in this document. Whilst the Stewardship Code is primarily directed at UK equity investments, the CIV encourages its investment managers to apply the principles of the Code to overseas equity holdings where possible.

The primary mechanisms for the application of effective stewardship for the CIV are exercise of voting rights and engagement with investee companies. The CIV expects its external equity investment managers that invest directly in companies, to pursue both these mechanisms. We receive quarterly reporting from managers which includes their stewardship and voting activities where appropriate. We seek consistently to ensure that these stewardship activities are carried out actively and effectively in the furtherance of good long-term investment returns.

We expect all of the CIV's equity managers to be signatories to the Code and have publicly disclosed their policy via their Statements on how they will discharge their stewardship responsibilities. We expect managers that invest in companies directly to discharge their responsibilities by:

- having extensive dialogue with the company's management throughout the year on a range of topics such as governance, financial performance and strategy; and
- voting, either directly or via the services of voting agencies.

Principle 2

Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.

Day-to-day implementation of the Fund's stewardship activity has been delegated to external investment managers. The CIV expects its investment managers to document their approach to stewardship, which should include how they manage any conflicts of interest that arise to ensure that the interests of the CIV's Investors are prioritised. The CIV will review annually the conflicts of interest policy of its managers and how any conflicts have been managed during the year.

The London CIV has policies in place to manage conflicts of interest that may arise for the Board and its officers when making decisions on its behalf. The Conflicts of Interest policy is reviewed by the CIV board on a regular basis. A Conflicts of Interest Register is maintained.

Shareholders of the CIV attending the Pensions Sectoral Joint Committee are required to declare any conflicts of interest at the start of any meeting.

Principle 3

Institutional investors should monitor their investee companies.

We recognise that active and ongoing monitoring of companies is the foundation of good stewardship, reminding companies in which we invest that they have obligations to their shareholders to deliver returns over the appropriate long-term investment timeframe and, consistent with this, to manage any related environmental and social risks responsibly.

The CIV requires its external investment managers to monitor investee companies. Issues to be monitored are likely to vary, however typically these might include a company's corporate strategy, financial performance, risk (including those from environmental and social factors), capital structure, leadership team and corporate governance. The CIV encourages its investment managers to satisfy themselves that investee companies adhere to the spirit of the UK Corporate Governance Code.

The CIV reviews investment managers in this area as part of their regular meetings. For equity investment managers this includes consideration of:

- who has overall responsibility for ESG risk analysis and integration;
- resources and experience of the team;
- at what stages of the process ESG risks are considered;
- exposures to environmental, social or governance risk within the portfolio; and
- the investment manager's willingness to become an insider and, if so, whether the manager has a policy setting out the mechanisms through which this is done.

Principle 4

Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.

The CIV recognises that constructive engagement with company management can help protect and enhance shareholder value. Typically, the CIV expects its investment managers to intervene with investee companies when they view that there are material risks or issues that are not currently being adequately addressed.

The CIV reviews investment managers in this area as part of their regular meeting. For equity investment managers that invest directly in Companies, this includes consideration of:

- whether voting activity has led to any changes in company practice;
- whether the investment manager's policy specifies when and how they will escalate engagement activities;
- overall engagement statistics (volume and areas of focus);
- example of most intensive engagement activity discussed as part of the manager's annual review meeting; and
- the estimated performance impact of engagement on the strategy in question.

Given the range of fund managers and Fund investments, the CIV carries out its monitoring at the manager level to identify:

- trends to ensure progress is being made in stewardship activities;
- specific managers where progress or the rate of progress is not adequate; and
- appropriate specific actions necessary.

Principle 5

Institutional investors should be willing to act collectively with other investors where appropriate.

As day-to-day management of the Fund's assets has been delegated to external investment managers, the CIV expects its investment managers to get involved in collective engagement where this is an efficient means to protect and enhance long-term shareholder value.

In addition the London CIV will work collectively with other investors including other LGPS Asset pools and the Local Authority Pension Fund Forum (LAPFF) to enhance the impact of their engagement activities.

Principle 6

Institutional investors should have a clear policy on voting and disclosure of voting activity.

The CIV has delegated its voting rights to the Fund's investment managers and requires them to vote, except where it is impractical to do so. The CIV also monitors the voting alerts of the LAPFF and where these are issued, requires the investment managers to take account of these alerts as far as practical to do so. Where the investment manager does not vote in line with the LAPFF voting alerts, the CIV will require detailed justification for non compliance.

The CIV reviews and monitors the voting policies and activities of its investment managers, this includes consideration of:

- the manager's voting policy and, what areas are covered;
- the level of voting activity
- whether the investment manager typically informs companies of their rationale when voting against or abstaining (and whether this is typically in advance of the vote or not);
- if securities lending takes place within a pooled fund for the strategy, whether the stock is recalled for all key votes for all stocks held in the portfolio; and
- whether a third party proxy voting service provider is used and, if so, how.

Principle 7

Institutional investors should report periodically on their stewardship and voting activities.

The London CIV encourages transparency from its investment managers and expects its managers to report publicly on their voting in an appropriate manner. In addition the London CIV receives reviews and monitors quarterly the voting and stewardship engagement activities of its investment managers.

The CIV reports quarterly to its investors and will include information on voting and engagement activities from investment managers where appropriate including updates as required on updated stewardship and voting policies of managers. The CIV also requires its managers to provide it with annual assurances on internal controls and compliance through recognised framework such as the AAF01/06 or equivalent.

This statement will be reviewed regularly and updated as necessary.

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