# PENSION FUND ACCOUNTS

# Fund Account

| | Note | 2011/12 £000 | 2011/12 £000 | 2010/11 £000 | 2010/11 £000 |
|---|---|---|---|---|---|
| **Dealings with members, employers and others directly involved in the scheme** | | | | | |
| **Contributions** | | | | | |
| From Employers | 14 | 23,234 | | 24,924 | |
| From Members | 14 | 6,906 | 30,140 | 7,564 | 32,488 |
| Individual Transfers In from other Pension Funds | 2(a) | | 1,906 | | 6,746 |
| Other Income | | | 20 | | 45 |
| **Benefits** | | | | | |
| Pensions | 15 | (17,373) | | (16,358) | |
| Pensions Increases on Pensions and Lump Sum Benefits | 15 | (6,911) | | (6,399) | |
| Lump Sum Retirement Benefits | 15 | (6,102) | | (3,866) | |
| Lump Sum Death Benefits | 15 | (750) | (31,136) | (208) | (26,831) |
| **Payments to and on account of leavers** | | | | | |
| Individual Transfers Out to other Pension Funds | 2(a) | | (2,575) | | (4,693) |
| Refund of Contributions | | | (3) | | (10) |
| Other Expenditure | | | (57) | | (3) |
| **Administrative Expenses** | | | (867) | | (902) |
| **Net Additions (Withdrawals) from dealings with members** | | | **(2,572)** | | **6,840** |
| **Returns on Investments** | | | | | |
| Investment Income | 12 | | 9,579 | | 7,766 |
| Taxes on Income (Irrecoverable Withholding Tax) | | | (133) | | (154) |
| **Profit and losses on disposal of investments and changes in value of investments** | | | | | |
| Realised | 8 | | 37,698 | | 26,207 |
| Unrealised | 8 | | 1,572 | | 3,681 |
| **Investment Management Expenses** | 2(c) | | (3,222) | | (2,936) |
| **Net Returns on Investments** | | | **45,494** | | **34,564** |
| **Net Increase (Decrease) in the net assets available for benefits during the year** | | | **42,922** | | **41,404** |
| **Opening Net Assets of the Scheme** | | | **595,718** | | **554,314** |
| **Closing Net Assets of the Scheme** | | | **638,640** | | **595,718** |

# Net Assets Statement

The objective of the fund's accounts is to provide information about the financial position of the fund. The accounts summarise the transactions of the fund and show the net assets of the fund at the end of the financial year. The accounts do not take account of liabilities to pay pensions and benefits which fall due after the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 4 of these accounts.

| | | Note | 31 March 2012 £000 | 31 March 2011 £000 |
|---|---|---|---|---|
| **Investment Assets** | | | | |
| Fixed Interest Securities | Public Sector | | - | - |
| | Private Sector | | - | - |
| Index Linked Securities | Public Sector | | 13,211 | 11,871 |
| | Private Sector | | | - |
| | | | | - |
| Equities | UK | | 100,574 | 96,072 |
| | Overseas | | 177,048 | 164,106 |
| Pooled Investment Vehicles | | | | |
| Managed Funds – UK Fixed Interest | | | - | 63,331 |
| Managed Funds – UK Equities | | | 66,562 | 62,786 |
| Managed Funds – Overseas Equities | | | 1,206 | 865 |
| Managed Funds – Libor Plus 1 Fund | | | 59,637 | 59,254 |
| Managed Funds – LDI Bespoke Fund | | | 81,804 | - |
| Managed Funds – Illiquid Strategies Fund of Funds | | | 1,570 | 1,740 |
| Managed Funds – Dynamic Asset Allocation Funds | | | 114,821 | 108,900 |
| Managed Funds – Ruffer Baker Steel Gold Fund | | | 684 | 2,504 |
| Managed Funds – Red Kite Fund | | | 371 | 648 |
| Managed Funds – Private Equity | | | 13,142 | 12,628 |
| Cash Deposits | | | 8,366 | 8,379 |
| Other Investment Balances | | | | |
| Amounts Outstanding on Sale of Investments | | | 1,041 | 765 |
| Investment Income Due | | | 1,470 | 1,061 |
| **Investment Liabilities** | | | | |
| Amounts Outstanding on Purchase of Investments | | | (127) | (746) |
| **Total Investment Assets** | | 9 | **641,380** | **594,164** |
| **Current Assets** | | | | |
| Contributions due from Employers | | | 45 | 144 |
| Contributions due from Members | | | 134 | 45 |
| Combined Benefits | | | 32 | 44 |
| Administration Expenses | | | 13 | (10) |
| **Current Liabilities** | | | | |
| Unpaid Benefits | | | (429) | (43) |
| Investment Management Expenses | | | (637) | (502) |
| Other Current Assets | | | (1) | 1 |
| Cash Balances | | | (1,897) | 1,875 |
| | | | | - |
| **Net assets of the scheme available to fund benefits at the period end.** | | | **638,640** | **595,718** |

# Notes to the Pension Fund Accounts

## 1. INTRODUCTION

The Pension Fund is part of the Local Government Pension Scheme 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 are based on an employee's final salary and the number of years of eligible service. Pensions are increased each year in line with the Consumer Price Index.

The fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and from interest and dividends on the fund's investments.

The Fund is governed by the Superannuation Act 1972 and is administered in accordance with the following secondary legislation: the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended), the LGPS (Administration) Regulations 2008 (as amended) and the LGPS ( Management and Investment of Funds) Regulations 2009 (as amended). The regulations are updated on a regular basis by central government. A revised scheme came in to effect from 1st April 2008.

The Council has delegated the investment arrangements of the scheme to the Audit and Pensions Committee (the Committee) who decide on the investment policy most suitable to meet the liabilities of the fund and have the ultimate responsibility for the investment policy. The Committee is made up of six elected representatives of the Council, including two opposition party representatives, each having voting rights. Members of the admitted bodies, representatives of the Trade Unions and one co-opted member may attend the committee meetings but have no voting rights.

The Committee reports to the full Council and has full delegated authority to make investment decisions. The Committee obtains and considers advice from the Executive Director of Finance and Corporate Governance, and as necessary from the fund's appointed actuary, investment managers and advisor.

The Committee has delegated the management of the fund's investments to professional investment managers, appointed in accordance with the regulations, and whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. Organisations participating in the Hammersmith & 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 following table is a membership summary of the scheme:

| | 31 March 2012 | 31 March 2011 |
|---|---|---|
| Contributing employees | 3,835 | 4,064 |
| Pensioners receiving benefit | 4,461 | 4,285 |
| Deferred Pensioners | 5,409 | 5,217 |

Details of the scheduled and admitted bodies in the scheme are shown in Notes 14 (contributions receivable) and 15 (benefits payable.)

## 2. ACCOUNTING POLICIES

**(a) General Principles**

The accounts have been prepared in accordance with IAS 26 and the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (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 accrual basis in accordance with the Code, apart from transfer values which have been accounted for on a cash basis.

**(b) Valuation of Investment Assets**
Quoted Securities and Pooled Investment Vehicles have been valued at the bid price and fixed interest securities are recorded at net market value based on their current yields at the balance sheet date. Quoted securities are valued by Northern Trust, the fund's custodian and Pooled Investment Vehicles at the bid prices quoted by their managers.

Where appropriate, market values, cash deposits and purchases and sales outstanding listed in overseas currencies are converted into sterling at the rates of exchange ruling at the balance sheet date. The values of the investment in Private Equity are based on valuations provided by the general partners to the private equity funds. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

There are no significant restrictions affecting the ability of the scheme to realise its investments at the accounting date or at the value at which they are included in the accounts apart from the investments in private equity which, by their nature, will be realised over a long period of time.

**(c) Investment Management Expenses**
The Committee has appointed external investment managers to manage the investments of the Fund. These managers are paid a fee based on the market value of the investments they manage and/or a fee based on performance. The cost of obtaining investment advice from the external consultant is included in the investment managements expenses.

## 3. ACTUARIAL VALUATION

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

The latest full triennial valuation of the London Borough of Hammersmith and Fulham Pension Fund was carried out by Barnett Waddingham, the fund's actuary, as at 31 March 2010 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 2011 and this is available on the Council's Internet site**.**

The following statement has been prepared by the Actuary to the Fund.

**2010 Valuation Results**
The 2010 valuation certified a common contribution rate of 21.5% of pensionable pay to be paid by each employing body participating in the London Borough of Hammersmith and Fulham Pension Fund. In addition to this each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

**Contribution Rates**
The contribution rates were calculated using the Projected Unit Method.
The contribution rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

a) the additional annual accrual of benefits allowing for future pay increases and increases to pension in payment when these fall due; plus
b) 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.

**Asset Value and Funding Level**
The smoothed market value of the Fund's assets as at 31 March 2010 for valuation purposes was £531.7m which represented 74% (70% at 31st March 2007) of the Fund's accrued liabilities at that date allowing for future increases in pay and pensions in payment.

To be consistent with the market related valuation of assets the liabilities were valued allowing for expected future investment returns and increases to benefits as determined by market levels at the valuation date as follows:

- Rate of return on investments - 6.7% per annum
- Rate of increases in pay - 5.0% per annum
- Rate of Increases to pensions in payment - 3.0% per annum

**Post Valuation Events – Changes in market conditions**
Since March 2010 investment returns have been slightly less than assumed at the 2010 valuation and liabilities may have slightly increased due to a decrease in the real discount rate underlying the valuation funding model.

Overall we estimate that the funding level as at 31 March 2012 will be slightly less than as at the 2010 valuation.

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

**Alison Hamilton FFA**
**Partner, Barnett Waddingham**
**10 May 2012**

## 4. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

The table below shows the total net liability of the Fund as at 31st March 2012. The figures have been prepared by Barnett Waddingham, the fund's actuary, only for the purposes of providing the required information required by IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

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

| | 31 March 2012 | 31 March 2011 |
|---|---|---|
| | £'000 | £'000 |
| Present Value of Promised Retirement Benefits* | 1,079,048 | 899,733 |
| Fair Value of Scheme Assets (bid value) | (638,640) | (595,718) |
| Net Liability | **440,408** | **304,015** |

*Present Value of Promised Retirement Benefits comprises of approximately £918,319,000 (£774,653,000 in 2010/2011) and £160,729,000 (£125,080,000 in 2010/2011) in respect of vested benefits and non-vested benefits respectively as at 31 March 2012.

## 5. INVESTMENT STRATEGY

The investment strategy of the Fund consists of having four main portfolios, UK Equity, Global (ex UK) Equity, Dynamic Asset Allocation and a Matching Fund (to match some of the Fund's liabilities). The investment strategy is designed to give asset diversification and specialisation to reduce exposure to market risk and achieve optimum return against the Liability Benchmark.

Within the four portfolios external investment managers have been appointed with clear strategic benchmarks which place maximum accountability for performance against that benchmark on the investment manager.

The UK Equity portfolio was managed by Majedie Asset Management, the Global (ex UK) portfolio by MFS International (UK) Ltd, the Dynamic Asset Allocation portfolio was split 75% to Baring Asset Management Ltd and 25% to Ruffer LLP and the Matching Fund was split between Goldman Sachs Asset Management and Legal and General Investment Management.

Additionally, the Committee has agreed to invest up to £15 million in four private equity fund of funds. Two are managed by Invesco, which has approximately 75% invested in the United States and 25% in Europe, and the other two are managed by Unigestion which are invested almost entirely in Europe.

The market value and proportion of the investments managed by each fund manager at 31st March is as follows:

| | 31 March 2012 | | 31 March 2011 | |
|---|---|---|---|---|
| | Market Value £000 | Total % | Market Value £000 | Total % |
| Majedie Asset Management | 165,450 | 25.8 | 155,398 | 26.2 |
| MFS International | 167,753 | 26.1 | 156,527 | 26.3 |
| Baring Asset Management | 114,060 | 17.8 | 108,900 | 18.3 |
| Ruffer LLP | 39,533 | 6.2 | 37,708 | 6.3 |
| Goldman Sachs | 59,638 | 9.3 | 59,262 | 10.0 |
| Legal and General | 81,804 | 12.7 | 63,335 | 10.7 |
| Invesco Private Equity | 7,600 | 1.2 | 6,677 | 1.1 |
| Unigestion Private Equity | 5,530 | 0.9 | 6,316 | 1.1 |
| Barings English Growth Fund | 12 | 0.0 | 41 | 0.0 |
| | **641,380** | **100.0** | **594,164** | **100.0** |

The Panel has appointed Northern Trust as its global custodian. They are responsible for safe custody and settlement of all investment transactions, collection of income and the administration of corporate actions. The bank account for the Pension Fund is also held with Northern Trust. Northern Trust has an issuer credit rating of AA- with both Fitch and S&P rating's agencies.

## 6. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

For this reason, the benchmark used to measure the estimated movement in liabilities, The "Liability Benchmark" is calculated based on the movement of a selection of index-Linked gilts, which most match the fund's liabilities as measured at the actuarial valuation, in the following proportions: 45% Index-Linked Treasury Gilt 1 1/4%, 20% Index-Linked Treasury Gilt 1 1/4% 2027, 10% Index-Linked Treasury Gilt1 1/8% 2037, 5% Index-Linked Treasury Gilt 0 3/4% 2047 and 20% Index-Linked Treasury Gilt 1 1/4% 2055.

**a) Market Risk**

The investment strategy of the Fund has been set so as to meet a return equivalent to the Liability Benchmark plus 2.2% p a. The investment strategy aims to exceed this and targets a return of 2.5% in excess of the Liability Benchmark. To achieve this the Fund's assets are invested in a broad range of asset classes in terms of geographical and industry sectors and individual securities which are expected to produce returns above the Liability Benchmark over the long term albeit with greater volatility. This diversification reduces exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level.

The aim of the investment strategy is to 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. Responsibility for the Fund's investment strategy rests with the Audit and Pensions Committee and is reviewed on a regular basis.

**Price Risk**

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

The fund is exposed to price risk. This arises from investments held by the fund for which the future price is uncertain. All securities represent a risk of loss of capital. The maximum risk resulting from financial instruments 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 represents potential movements in market prices for different asset classes for the 2012/13 reporting period, consistent with a one standard deviation movement in the change in value of the assets over the latest three years as determined by State Street Global Services. These potential movements assume the observed historical volatility of asset returns will be repeated and that the Fund's overall asset allocation and individual asset positions remain constant

| Asset Type | Market Value as at 31st March 2012 | Movement | Value on Increase | Value on Decrease |
|---|---|---|---|---|
| | £000 | % | £000 | £000 |
| UK Equities | 167,716 | 13.16% | 189,787 | 145,645 |
| Overseas Equities | 178,588 | 14.58% | 204,626 | 152,550 |
| Total Bonds | 59,637 | 1.97% | 60,812 | 58,462 |
| Index-Linked Gilts | 95,015 | 12.06% | 106,474 | 83,556 |
| Cash | 9,836 | 0.00% | 9,836 | 9,836 |
| Alternative Investments | 117,446 | 6.47% | 125,045 | 109,847 |
| Private Equity | 13,142 | 6.47% | 13,992 | 12,292 |
| Total Assets | 641,380 | | 710,572 | 572,188 |

**Interest Rate Risk**

The fund invests in financial assets for the primary purpose of obtaining a return on 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 council recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. A 25 basis point (BPS) movement in interest rates is consistent with the level of interest rates over the last three years. The analysis below assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 25 BPS change in interest rates:

| Asset Type | Market Value as at 31st March 2012 £000 | Movement % | Change in Year on Increase £000 | Change in Year on Decrease £000 |
|---|---|---|---|---|
| Total Bonds | 59,637 | 0.25 | 149 | (149) |
| Index-Linked Gilts | 95,015 | 0.25 | 238 | (238) |
| Cash | 9,836 | 0.25 | 25 | (25) |

**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.

Following analysis of historical data by State Street Global Services, the Council considers the likely volatility associated with foreign exchange rate movements to be 9.8%. A 9.8% fluctuation in the currency is considered reasonable based on the analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 9.8% 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 as follows:

| Asset Type | Market Value as at 31st March 2012 £000 | Movement % | Value on Increase £000 | Value on Decrease £000 |
|---|---|---|---|---|
| Overseas Investments | | | | |
| Equities | 177,048 | 9.8% | 194,399 | 159,697 |
| Index-Linked Gilts | 5,579 | 9.8% | 6,126 | 5,032 |
| Pooled Investment Vehicles | 2,338 | 9.8% | 2,567 | 2,109 |
| Private Equity | 13,130 | 9.8% | 14,417 | 11,843 |
| Total Assets | 198,095 | | 217,509 | 178,681 |

**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.

**c) Liquidity Risk**

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The council therefore takes steps to ensure that the pension fund has 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 council has immediate access to its pension fund cash holdings.

The fund also has access to an overdraft facility with Northern Trust for short-term cash needs. This facility is only used to meet timing differences on pension payments. As at 31 March 2012 the balance on this facility stood at £1,416,974.These borrowings are of a limited short-term nature.

## 7. FUND PERFORMANCE

Northern Trust is also employed to monitor the investment performance of the fund. Performance is measured on a financial year basis against a customised benchmark. From 1st January 2009, following the implementation of a new investment strategy, the benchmark was changed to more reflect the performance against the Fund's liabilities. The benchmark was defined as a portfolio of index-linked gilts with an average duration of 18 years in line with the Fund's liabilities with an outperformance target of the benchmark of 1.75% per annum. From 1st November 2011 following the 2010 Actuarial Valuation the benchmark was adjusted to more accurately reflect the fund's liabilities, as at the valuation date, with a new outperformance target of 2.2% per annum ( See note 6).

The performance compared to the benchmark is as follows:

| | 2011/12 % p.a. | 2010/11 % p.a. | 3 Years % pa | 5 Years % pa |
|---|---|---|---|---|
| Fund | 8.2 | 6.4 | 15.4 | 6.9 |
| Benchmark | 21.7 | 8.6 | 14.7 | 4.8 |
| Difference | -13.5 | -2.2 | 0.7 | 2.1 |

## 8. INVESTMENT ASSETS - MOVEMENTS IN YEAR

The table below shows a reconciliation of the movement in the total investment assets of the fund.

| | 2011/12 £000 | 2010/11 £000 |
|---|---|---|
| **Market Value of Investment Assets at 1st April** | 594,164 | 556,831 |
| | | - |
| **Movements in Year** | | - |
| Purchase of Investments | 205,195 | 206,069 |
| Sale of Investments | (198,541) | (203,101) |
| Realised Profit/(Loss) on Sales | 37,698 | 26,207 |
| Unrealised Profit/(Loss) in Market Value | 1,572 | 3,681 |
| Change in Cash Deposits | (13) | 3,809 |
| Change in Debtors and Creditors | 1,305 | 668 |
| **Market Value of Investment Assets At 31st March** | **641,380** | **594,164** |

The table below shows a reconciliation of the movement in the total investment assets of each fund manager in 2011/2012.

| **Fund Manager** | **Value at 31 March 2011** £000 | Purchase of Investments £000 | Sale of Investments £000 | Realised Profit/(Loss) on sales £000 | Unrealised Profit/(Loss) in Market value £000 | Change in Cash Deposits £000 | Change in Debtors and Creditors £000 | **Value at 31 March 2012** £000 |
|---|---|---|---|---|---|---|---|---|
| Majedie Asset Management | 155,398 | 46,812 | (41,898) | 4,400 | (283) | 1,168 | (147) | **165,450** |
| MFS International | 156,527 | 52,576 | (49,663) | 4,694 | 4,064 | (362) | (83) | **167,753** |
| Baring Asset Management | 108,900 | 110 | 0 | 0 | 5,050 | 0 | 0 | **114,060** |
| Ruffer LLP | 37,708 | 21,227 | (21,632) | 1,873 | (776) | (402) | 1,535 | **39,533** |
| Goldman Sachs | 59,262 | 0 | (19) | 19 | 383 | (7) | 0 | **59,638** |
| Legal and General | 63,335 | 83,371 | (83,372) | 25,812 | (7,338) | (4) | 0 | **81,804** |
| Invesco Private Equity | 6,677 | 380 | (699) | 120 | 1,208 | (86) | 0 | **7,600** |
| Unigestion Private Equity | 6,316 | 719 | (1,258) | 780 | (707) | (320) | 0 | **5,530** |
| Barings English Growth Fund | 41 | | | | (29) | | | **12** |
| **Totals** | **594,164** | **205,195** | **(198,541)** | **37,698** | **1,572** | **(13)** | **1,305** | **641,380** |

Transaction costs are included in the cost of purchases and in sale proceeds. These include costs charged directly to the fund, such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year total £467,851 (£600,124 in 2010/11). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

## 9. CLASSIFICATION OF FINANCIAL INSTRUMENTS

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. 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. No financial assets were reclassified during the accounting period. All investments are quoted unless stated.

| | 31 March 2012 | | 31 March 2011 | |
|---|---|---|---|---|
| **Designated at fair value through Profit and Loss** | £000 | £000 | £000 | £000 |
| **United Kingdom** | | | | |
| Fixed Interest - Private Sector | | | - | - |
| Index Linked Securities - Public Sector | | 7,632 | - | 6,084 |
| Index Linked Securities - Private Sector | | - | - | - |
| Equities | | 100,574 | - | 96,072 |
| Pooled Investment Vehicles | | | - | - |
| Managed Fund - Majedie UK Equity Funds | 66,562 | | 62,786 | - |
| Managed Fund - L & G 2055 Index Linked Gilt | - | | 63,331 | - |
| Managed Fund - L & G LDI Bespoke Fund | 81,804 | | - | - |
| Managed Fund - Goldman Sachs Libor Plus 1 Fund | 59,637 | | 59,254 | - |
| Managed Fund - Baring Dynamic Asset Allocation Fund | 114,060 | | 108,900 | - |
| Managed Fund - Ruffer Illiquid Strategies Fund of Funds | 1,570 | | 1,740 | - |
| Managed Fund - Ruffer Baker Steel Gold Fund | 684 | 324,317 | 2,504 | 298,515 |
| Managed Fund - Private Equity (Unquoted) | | 12 | - | 41 |
| **Total United Kingdom** | | **432,535** | | **400,712** |
| **Overseas** | | | | |
| Fixed Interest - Public Sector | | | - | - |
| Fixed Interest - Private Sector | | | - | - |
| Index Linked Securities - Public Sector | | 5,579 | - | 5,787 |
| Equities | | | | |
| North America | 93,855 | | 78,233 | - |
| Japan | 8,923 | | 11,716 | - |
| Europe (ex UK) | 49,756 | | 52,218 | - |
| Pacific Basin | 11,058 | | 10,417 | - |
| Other | 13,456 | 177,048 | 11,522 | 164,106 |
| Pooled Investment Vehicles | | | | |
| Managed Fund - Dynamic Investment Fund | 761 | | | |
| Managed Fund - Ruffer Japanese Fund | 1,206 | | 865 | |
| Managed Fund - Red Kite Fund | 371 | 2,338 | 648 | 1,513 |
| Managed Fund - Private Equity (Unquoted) | | | | |
| Invesco - North America | 7,600 | | 6,591 | - |
| Unigestion - Europe | 5,530 | 13,130 | 5,996 | 12,587 |
| **Total Overseas** | | **198,095** | | **183,993** |
| **Loans and Receivables** | | | | |
| Cash Deposits | 8,366 | | 8,379 | |
| Amounts outstanding on Sale of Investments | 1,041 | | 765 | |
| Investment Income Due | 1,470 | | 1,061 | |
| Contributions due from Employers | 45 | | 144 | |
| Contributions due from Members | 134 | | 45 | |
| Combined Benefits | 32 | | 44 | |
| Administration Expenses | 13 | 11,101 | (10) | 10,428 |
| **Financial Liabilities at Amortised Cost** | | | | |
| Amounts outstanding on Purchase of Investments | (127) | | (746) | |
| Unpaid Benefits | (429) | | (43) | |
| Investment Management Expenses | (637) | | (502) | |
| Other Current Assets | (1) | | 1 | |
| Cash Balances | (1,897) | (3,091) | 1,875 | 585 |
| **Net assets of the scheme available to fund benefits at the period end.** | | **638,640** | | **595,718** |

## 10. FAIR VALUE OF FINANCIAL INSTRUMENTS AND LIABILITIES

The following table summarises the Book Cost of the financial assets and financial liabilities by class of instrument compared with their Market Values (Fair Value). The table shows only the investment assets and does not include current assets and liabilities which have no book cost.

| | 31 March 2012 | | 31 March 2011 | |
|---|---|---|---|---|
| | Market Value | Book Cost | Market Value | Book Cost |
| | £000 | £000 | £000 | £000 |
| **Financial Assets** | | | | |
| **Designated at fair value through Profit and Loss** | | | | |
| Investment Assets | 630,630 | 545,247 | 584,705 | 500,894 |
| **Loans and Receivables** | | | | |
| Cash Deposits | 8,366 | 8,366 | 8,379 | 8,379 |
| Amounts outstanding on Sale of Investments | 1,041 | 1,041 | 765 | 765 |
| Investment Income Due | 1,470 | 1,470 | 1,061 | 1,061 |
| **Financial Liabilities at Amortised Cost** | | | | |
| Amounts outstanding on Purchase of Investments | (127) | (127) | (746) | (746) |
| **Total Value of Investments** | **641,380** | **555,997** | **594,164** | **510,353** |

## 11. TOP TEN EQUITY HOLDINGS

The largest 10 equity holdings of the Fund as at 31 March 2012 was:

| Holding | Country | Market Value £'000 | % Holding |
|---|---|---|---|
| BP | United Kingdom | 8,311 | 1.30 |
| Vodafone Group | United Kingdom | 7,799 | 1.22 |
| GlaxoSmithKline | United Kingdom | 6,997 | 1.09 |
| Royal Dutch Shell | United Kingdom | 6,130 | 0.96 |
| BT | United Kingdom | 4,468 | 0.70 |
| Danone | France | 4,463 | 0.70 |
| Google | United States | 4,455 | 0.69 |
| Danaher Corporation | United States | 4,307 | 0.67 |
| Taiwan Semiconductor Manufacturing | Taiwan | 4,067 | 0.63 |
| BAE Systems | United Kingdom | 3,816 | 0.59 |
| **Total** | | **54,813** | **8.55** |
| | | | |
| **Total Value of Investments** | | **641,380** | |

No single investment exceeds either 5% of the net assets available for benefits or 5% of any class or type of security except for some pooled investment vehicles detailed in paragraph 9 above. These pooled investment vehicles are made up of underlying assets which will be far less than 5%.

## 12. INVESTMENT INCOME

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

| | 2011/12 £000 | 2010/11 £000 |
|---|---|---|
| Income from Fixed Interest Securities | - | 5 |
| Dividends from Equities | 9,220 | 7,732 |
| Income from Index-Linked Securities | 178 | 179 |
| Interest on Cash Deposits | 140 | 124 |
| Currency profit/(loss) | (179) | (343) |
| Private Equity/Other | 220 | 69 |
| **Total** | **9,579** | **7,766** |

## 13. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

As at 31st March 2012, the fund had a commitment to invest a further £4.3million in the four private equity fund of funds managed by Invesco and Unigestion. It is anticipated that these commitments will be spread over the next three years.

## 14. 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 balancing 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 made during the year by the Council and each admitted body. H & F Homes came back under control of the Council at 1st April 2011 and is no longer an admitted body.

| | Employers' | | Employees' | |
|---|---|---|---|---|
| | 2011/12 | 2010/11 | 2011/12 | 2010/11 |
| | £000 | £000 | £000 | £000 |
| LB Hammersmith and Fulham | 20,698 | 20,761 | 5,976 | 5,951 |
| H & F Homes | - | 1,353 | - | 617 |
| LBHF Councillors | 74 | 66 | 18 | 16 |
| Mortlake Crematorium Board | 53 | 62 | 14 | 15 |
| London Oratory School | 89 | 89 | 40 | 39 |
| Burlington Danes Academy | 106 | 104 | 49 | 48 |
| F M Conway Ltd | 85 | 100 | 34 | 34 |
| Urban Partnership Group | 50 | 63 | 13 | 17 |
| H&F Community Law Centre | 5 | 20 | 2 | 5 |
| Family Mosaic | 111 | 169 | 35 | 44 |
| Disabilities Trust | 5 | 5 | 2 | 1 |
| Thames Reach | 6 | 6 | 2 | 2 |
| Medequip Assistive Technology | 14 | 14 | 3 | 4 |
| Eden Food Service | 243 | 262 | 80 | 87 |
| Fulham Palace Trust | 54 | - | 15 | - |
| Family Mosaic Supporting People | 20 | 21 | 8 | 9 |
| Glencross Cleaning Ltd | 3 | 3 | 1 | 2 |
| Inspace Partnerships Ltd | 58 | 65 | 19 | 21 |
| H & F Bridge Partnership | 374 | 396 | 154 | 224 |
| Keir | 141 | 144 | 44 | 44 |
| Keir - Non HR Contract | 4 | 4 | 2 | 2 |
| P H Jones Ltd | 5 | 5 | 2 | 2 |
| Irish Cultural Centre | 6 | 6 | 1 | 1 |
| Hammersmith Academy | 49 | 1 | 24 | - |
| Conway Academy | 7 | - | 2 | - |
| West London Free School | 11 | - | 3 | - |
| Financial Data Management | - | 3 | | 2 |
| E C Harris LLP | 49 | 55 | 20 | 23 |
| Crime Reduction Initiatives | 1 | 5 | 1 | 2 |
| Quadron | 244 | 208 | 69 | 67 |
| Serco | 499 | 763 | 218 | 231 |
| Tendis | 21 | 25 | 6 | 7 |
| Turners | 149 | 146 | 49 | 47 |
| **Grand Totals** | **23,234** | **24,924** | **6,906** | **7,564** |

## 15. BENEFITS PAYABLE

The tables below show a breakdown of the total amount of benefits payable for 2011/12. H & F Homes came back under control of the Council on 1st April 2011 and is no longer an admitted body.

| | Pensions | | Pension Increases | |
|---|---|---|---|---|
| | 2011/12 | 2010/11 | 2011/12 | 2010/11 |
| | £000 | £000 | £000 | £000 |
| LB Hammersmith and Fulham | 16,787 | 15,100 | 6,870 | 6,317 |
| Councillors | 1 | 1 | - | 1 |
| H & F Homes | - | 752 | - | 49 |
| Mortlake Crematorium Board | 40 | 37 | 5 | 4 |
| London Oratory School | 2 | - | - | - |
| H&F Community Law Centre | 26 | 45 | 3 | 3 |
| Burlington Danes Academy | 17 | 11 | 1 | 3 |
| H&F Police Consultative Group | 5 | 5 | 1 | 1 |
| ROOM the National Council | 4 | 4 | 1 | 1 |
| Family Mosaic | 90 | 81 | 15 | 13 |
| Greenwich Leisure Ltd | 2 | 2 | 1 | 1 |
| Blythe Neighbourhood Council | 1 | 1 | - | - |
| Inspace Partnerships Ltd | 42 | 35 | 2 | 1 |
| Turners | 15 | 5 | - | - |
| Urban Partnership Group | 3 | 3 | - | - |
| EC Harris LLP | 4 | - | - | - |
| Eden Food Service | 14 | 1 | - | - |
| F M Conway Ltd | 12 | 7 | - | - |
| H & F Bridge Partnership | 236 | 227 | 10 | 5 |
| Quadron | 27 | 13 | 1 | - |
| Serco | 45 | 28 | 1 | - |
| **Grand Totals** | **17,373** | **16,358** | **6,911** | **6,399** |

| | Lump Sum Retirement Benefits | | Lump sum Death Benefits | |
|---|---|---|---|---|
| | 2011/12 | 2010/11 | 2011/12 | 2010/11 |
| | £000 | £000 | £000 | £000 |
| LB Hammersmith and Fulham | 5,564 | 2,642 | 744 | 191 |
| Councillors | | 7 | | - |
| H & F Homes | - | 535 | - | - |
| Mortlake Crematorium Board | | 147 | | - |
| London Oratory School | 12 | | | |
| H&F Community Law Centre | | 46 | | - |
| Burlington Danes Academy | 6 | 47 | | - |
| Family Mosaic | 102 | 1 | | - |
| Inspace Partnerships Ltd | | 49 | | - |
| EC Harris LLP | 78 | | | |
| Eden Food Service | 78 | 15 | 6 | - |
| F M Conway Ltd | 68 | 17 | | - |
| H & F Bridge Partnership | | 301 | | 17 |
| Quadron | 58 | 2 | | - |
| Turners | 3 | - | | - |
| Serco | 133 | 57 | | - |
| **Grand Totals** | **6,102** | **3,866** | **750** | **208** |

## 16. RELATED PARTIES

The Council was a related party to the fund. Details of the relationship are disclosed in Note 1 to the Pension Fund Accounts. In accordance with the regulations the Council's expenses in administering the scheme are charged direct to the Fund. The amount charged by the Council for 2011/2012 was £740,954 (2010/2011 £817,172).

During 2011/2012 as a result of the day to day administration of the fund the pension fund borrowed monies from the Council or invested some surplus monies with the Council. The pension fund paid £6,199 in interest to the Council during 2011/2012. At 31st March 2012 the Pension Fund owed the Council £480,112.

Some of the elected representatives and senior officers of the Council who attended the Audit and Pensions Committee were members of the Pension Fund and made contributions to the fund in accordance with the regulations. No other material transactions with related parties of the fund during 2011/2012 were identified.

## 17. STOCK LENDING AGREEMENTS

The Fund did not participate in stock lending or underwriting.

## 18. STATEMENT OF INVESTMENT PRINCIPLES

The Panel approved a Statement of Investment Principles on 16th March 2010 and this is available in the Pension Fund Annual Report on the Council's Internet site. The Statement shows the Authority's compliance with the Myner's principles of investment management.

## 19. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

The pension fund's AVC providers are Zurich Assurance and the Equitable Life Assurance Society, although no employees are currently contributing to the Equitable Life scheme apart from three members who contributed £198.52 during the year for death-in-service benefits. At the year end there was only two members contributing.

The total market value of the separately invested AVCs with Equitable Life Assurance at the 5th April 2012 was £249,340. At the year end there were 69 members of the Zurich Assurance AVC scheme. The total value of the contributions paid to Zurich in 2011/2012 was £72,936.33 and the total market value of the separately invested AVC's with Zurich Assurance at 5 April 2012 was £904,628.09

In accordance with Regulation 4(2) (b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009 the contributions paid and the assets of these investments are not included in the 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.

## 20. TRI-BOROUGH WORKING

The City of Westminster, London Borough of Hammersmith & Fulham and the Royal Borough of Kensington & Chelsea councils have combined certain parts of their operational areas to provide a more efficient service and greater resilience. One of the areas that has joined together has been the treasury and pension teams of the three boroughs.

The combined team was formed in February 2012 and is responsible for the management of the pension fund investments and the treasury operations across the three boroughs. The team is based at Westminster's offices.

The Pension Funds and Treasury operations will continue to be managed separately in accordance with Government Regulations and the current strategies agreed by the home boroughs who will continue to have sovereignty over decision making.

## 21. EVENTS AFTER THE BALANCE SHEET DATE

At the 31st August 2012 the market value of the investments of the Fund had decreased to approximately £634.54 million due to the fall in global stock markets since the date of the balance sheet.

Since the reporting year end date the Local Government Association (LGA) and trade unions have announced the outcome of their negotiations on a new Local Government Pension Scheme for England & Wales. Among the proposals are changes to the accrual rate as well as the basis on which earnings are to be determined. The LGA and unions will now consult with their respective members, the successful outcome of which may lead the Government to go straight to a statutory consultation. Any final agreement is due to take effect on 1st April 2014.