London Borough of Hammersmith & Fulham Pension Fund Annual Report 2011-2012

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SECTION 1: INTRODUCTION AND OVERVIEW

CHAIRMAN'S REPORT

COUNCILLOR MICHAEL ADAM
Chairman of the Audit and Pensions Committee

As Chairman of the Audit and Pensions Committee ("Committee") I am pleased to introduce the Annual Report for the financial year 2011/2012. The Committee is responsible for overseeing the investment management and administration of the Pension Fund ("Fund").

I am very happy to report that 2011/2012 was another good year for the Fund. The value of the Fund rose by nearly £43million during the twelve months to 31st March 2012, ending the year at £638.6 million. The investment strategy that the Committee has put in place has worked well for us during the year.

The year was a busy one for the Committee with regular reports on the performance of the fund and its managers, consideration of alternative investments, a new benchmark for the fund and approval of the Fund accounts.

The September 2011 meeting approved the Fund's Statement of Accounts and received the Audit Commission's Annual Governance Report on the Fund Accounts for 2010/2011 (See Section 5 below).

During the year the Committee considered a proposal from the Fund's investment consultant to increase the Fund's exposure to alternative investments as a means of diversifying the investments of the Fund away from equities.

At the December 2011 meeting, Ruffer gave a presentation to the Committee on how they could manage alternative investments and diversification of assets for the Fund. After careful consideration the Committee agreed at the March 2012 meeting to increase the allocation of the Fund's investments to Ruffer by 5% of the total value of the Fund with 2.5% coming from each of Majedie and MFS who manage UK and overseas equity portfolios respectively.

The December 2011 meeting also agreed a new liability based benchmark for the Fund following the 2010 Actuarial Valuation. This will allow the Committee to see how the returns on the Fund's assets are matching the liabilities of the Fund (See Section 2 below).

At the March 2012 meeting Goldman Sachs gave the committee an update on how they manage their portfolio of bonds and at the same meeting the committee approved the Annual Business Plan of the Fund for 2012/2013.

It is likely that 2012/2013 will be as busy with discussions ongoing on a new look Local Government Pension Scheme, the impact of the next actuarial review and the need to keep our overall asset allocation mix under review given the uncertainties of the global economy and the particular circumstances of our fund.

I would like to take this opportunity to thank the members of the Committee, the officers involved with the Pension Fund, the Investment Consultant and the Investment Managers for their hard work during the year.

STATEMENT FROM THE EXECUTIVE DIRECTOR OF FINANCE AND CORPORATE GOVERNANCE

Jane West
Executive Director of Finance and Corporate Governance

The year 2011/12 was yet another dramatic one for stock markets and governments around the world especially in the Eurozone. Despite these problems the year was a good one for the Pension Fund with the Fund having an investment return of 8.2% and increasing in value by nearly £43millon.

The year began with another period of momentous news flow in both political and economic terms. Markets were fixed on the drama unfolding in Greece, weakening as news worsened, then rebounding strongly at the end of that quarter as the latest diplomatic patch was applied to tide things over.

For most of the spring of 2011, the problems facing Greece seemed intractable. Already behind the targets set during the first rescue, the Greek government was leant on by international powers to adopt yet more austerity measures. A damaging loop developed between Germany, which floated the necessity for the private sector to take some pain as a precondition to commit more taxpayers' money, the European Central Bank, for whom any suggestion of default would spell danger for European Banks, and the International Monetary Fund, who said that they would not dispense their latest tranche of bailouts to Greece without seeing support from Germany. Eventually the Greek government duly passed a set of austerity measures, but it was perhaps surprising how strongly markets rallied on the news.

The issue of debt was also central to US political discussions over the spring of 2011. Having long regarded themselves as being different from other debtor nations, US officials' concerns of balancing the books had always given way to the more pressing concerns of refloating the housing market and rescuing the banks.

Equity markets fell over the summer on fears that the debt crises will prove intractable – and that economies were once again running into possible recession. During the third quarter of 2011, the FTSE All-Share Index fell by 13.5%, its worst quarter in nine years.

It was a quarter when politicians, countries and banks were downgraded by the ratings agencies and given a vote of no confidence by markets. This downgrading brought home to markets just how difficult it would be to achieve anything genuinely substantial on the debt crisis. US indecision was matched by Eurozone leaders, who appeared incapable of effective action to solve the crisis. It was clear during the quarter that all parties facing the crisis had little appetite for anything particularly radical.

However, 2011 finished with a surprising flourish, with October's strong rally helping the FTSE All-Share Index to return 8.4% over the quarter to end of December. Economic news, which had largely disappointed on the downside during 2011, offered a reprieve towards the end of the year with data generally exceeding expectations. However the unfolding financial crisis in Europe which was dragging in Italy and Spain remained centre stage, with contagion risks a significant and immediate threat to the financial stability of not only Europe but also the wider world.

Elsewhere, widespread downward revisions to growth were seen across the globe. China, Brazil and India signalled slowdowns. While each had specific reasons for concern, it underlined the extent to which emerging market growth cannot yet decouple from developed market troubles.

The FTSE All-Share Index returned an impressive 6.1% over the first quarter of 2012, with investors' confidence building on signs of US recovery, falling government bond yields in Europe and anaemic returns from other asset classes.

We saw a marked improvement in sentiment in financial markets over the first quarter with the extension of the European Central Bank's three year long term refinancing operation. In total over €1 trillion had been borrowed by over 800 banks in the Eurozone. The rationale for introducing this cheap financing to the market was to provide banks with liquidity to ensure that they could continue to lend to the real economy.

The Pension Fund's performance return for 2011/12 of 8.2% compared favourably with the FTSE All-Share index return of 1.4% and the World MSCI (ex UK) index return of 1.5%. The Pension Fund's exposure to index-linked gilts helped the performance as the FTSE UK Index-Linked Gilts All Stocks index returned 18.1% for the year.

The positive returns of the world markets were a good performance considering the economic problems around the world. We shall have to wait and see if this trend continues in 2012/13 as there seems to be no let up in the debt crisis. The diversification of the pension fund's investments should again serve us well over the coming year cushioning us from extreme movements both positively but more importantly negatively.

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 contributions are set by the fund's actuary at the actuarial valuation which is carried out every third year (see Section 4 below).

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.

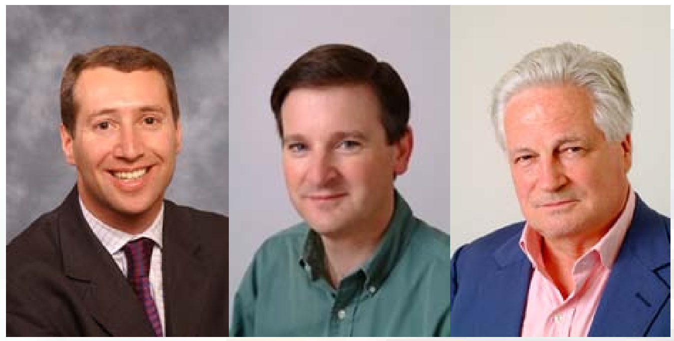
The Committee reports to the full Council and has full delegated authority to make investment decisions. The Committee obtains and considers advice from the Executive Director of Finance and Corporate Governance, and as necessary from the fund's appointed actuary, investment managers and advisor.

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.

MANAGEMENT STRUCTURE

Administering Authority
London Borough of Hammersmith and Fulham

Audit and Pensions Committee Members



Michael Adam (Chairman), Nicholas Botterill, Robert Iggulden

PJ Murphy, Marcus Ginn, Michael Cartwright

Co-Opted Member
Eugenie White

Investment Advisor
P-Solve

Executive Director of Finance and Corporate Governance
Jane West

Pension Fund Management Team
Jonathan Hunt, Tri-Borough Director of Treasury and Pensions
Les Green, Principal Pensions Manager

Actuary
Barnett Waddingham

Auditor
Audit Commission

Global Custodian
Northern Trust

Legal Advisor
Internal -Legal Department/Lovells

Scheme Administrator
Capita

AVC Providers
Zurich Assurance and the Equitable Life Assurance Society

FINANCIAL SUMMARY

	2007/2008	2008/2009	2009/2010	2010/11	2011/12
	£000s	**£000s**	**£000s**	**£000s**	**£000s**
Value of Fund at Start of Year	**457,070**	**460,445**	**420,871**	**554,314**	**595,718**
Dealings with members, employers and others directly involved in the scheme					
Contributions from Employers and Members	30,499	31,104	32,001	32,488	30,140
Individual Transfers In from other Pension Funds	2,916	1,961	3,267	6,746	1,906
Benefits Paid	(23,843)	(24,627)	(28,753)	(26,831)	(31,136)
Payments to and on Account of Leavers	(4,383)	(3,355)	(4,985)	(4,706)	(2,635)
Administration Expenses	(995)	(970)	(947)	(902)	(867)
Other Income	31	35	29	45	20
	4,225	**4,148**	**612**	**6,840**	**(2,572)**
Returns on Investments					
Investment and other Income	10,064	11,461	8,869	7,612	9,446
Investment Management Expenses	(1,773)	(2,355)	(3702)	(2,936)	(3,222)
Profit and Losses on disposal of investments and changes in value of Investments	(9,141)	(52,828)	127,664	29,888	39,270
	(850)	**(43,722)**	**132,831**	**34,564**	**45,494**
Net Increase (Decrease) in the net assets available for benefits during the year	**3,375**	**(39,574)**	**133,443**	**41,404**	**42,922**
Value of Fund at End of Year	**460,445**	**420,871**	**554,314**	**595,718**	**638,640**

SECTION 2: INVESTMENT OBJECTIVE, STRATEGY, RISKS AND PERFORMANCE

INVESTMENT OBJECTIVE

Defining an investment objective that is directly related to the Fund's liabilities (the cost of payment of future pensions and lump sums for all members of the scheme) is crucial in recognising the risks inherent in the Fund's liabilities and in monitoring the performance of the investment managers and overall strategy relative to this target.

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.

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). Each portfolio represents approximately 25% of the total Fund. The investment strategy is designed to give diversification and specialisation to reduce exposure to market risk and achieve optimum return against the Liability Benchmark.

Within the four portfolios the Committee has appointed external investment managers 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 is split 75% to Baring Asset Management Ltd and 25% to Ruffer LLP and the Matching Fund is split equally between Goldman Sachs Asset Management and Legal and General Investment Management.

The benchmarks for each manager are:

UK Equities

Majedie – FTSE All Share Index + 2% per annum over rolling three year periods

Overseas Equities

MFS International – MSCI AC World ex UK Growth Index + 2% p a over rolling three year periods

Dynamic Asset Allocation

Barings Asset Management (UK) Ltd – 3 month Sterling LIBOR +4% per annum

Ruffer LLP - 3 month Sterling LIBOR +4% per annum

Matching Fund - Liability Benchmark Portfolio Plus 1%

Goldman Sachs Asset Management - 3 month Sterling LIBOR +2% per annum

Legal and General Investment Management - 2 x the Liability Benchmark Portfolio minus 3 month Libor over rolling three year periods,

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:

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

Each investment manager is required to produce quarterly reports on their activities and performance. Northern Trust, the fund's custodian, produce performance figures independent of the investment managers and a report is prepared by P-Solve, the fund's investment advisor, each quarter on the performance of the investment managers. This report is presented to the

Committee at their quarterly meetings. The investment managers are required to provide copies of their SAS 70 reports where produced as part of the management of third party risk.

The Committee 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.

The fund is a member of the Chartered Institute of Public Finance and Accounting (“CIPFA”) Pensions Network.

INVESTMENT RISKS

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, interest rate risk and currency risk*) credit risk and liquidity 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	Movement	Change in Year on Increase	Change in Year on Decrease
	£000	%	£000	£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	Movement	Value on Increase	Value on Decrease
	£000	%	£000	£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.

INVESTMENT PERFORMANCE

Northern Trust is 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.

The investment strategy and performance of the Fund is reported on a quarterly basis to the Pension Fund Investment Committee (PFIP). The performance compared to the benchmark for the year to the 31st March 2012 is as follows:

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

The table below shows the performance of the main fund managers against their benchmarks for 2011/12.

	Majedie %	MFS %	Barings %	Ruffer %	Legal & General %	Goldman Sachs %
Fund	6.5	7.2	4.7	4.8	28.9	0.7
Benchmark	3.4	2.6	5.0	5.0	56.6	3.0
Difference	**3.1**	**4.6**	**-0.3**	**-0.2**	**-27.7**	**-2.3**

The table below shows the performance per annum of the main fund managers against their benchmarks for the three years to 31st March 2012.

	Majedie %	MFS %	Barings * %	Ruffer * %	Legal & General %	Goldman Sachs %
Fund	20.1	18.8	12.6	13.3	14.2	4.2
Benchmark	21.2	18.2	4.9	4.9	27.3	2.8
Difference	**-1.1**	**0.6**	**7.7**	**8.4**	**-13.1**	**1.4**

SECTION 3: SCHEME ADMINISTRATION

INTRODUCTION

The Local Government Pension Scheme ("LGPS") is a statutory pension scheme whose regulations are made by the government in accordance with the Superannuation Act 1972. It is a final salary pension scheme and the benefits are based on final salary and length of scheme membership.

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 Hammersmith and Fulham Council pension fund on behalf of the participating employers and the past and present members and their dependents. From 1 October 2011, Capita Hartshead have been contracted to perform the pension administration service for Hammersmith and Fulham Council and the Council monitors their performance. Prior to this the pension's administration contract was performed by the London Pension Fund Authority.

SCHEME DETAILS

The Local Government Pension Scheme ("LGPS") changed from April 2008. The scheme retained its final salary basis and in general increased the benefits available. The increased cost of the scheme was offset by a change in the employee contribution rate based on a sliding scale between 5.5% and 7.5% depending on earnings. The earnings bands used to determine the employee contribution in 2011/12 are shown in the table below

Whole Time Pay Rate	Employee Contribution
Up to £13,500	5.5%
£13,501 to £15,800	5.8%
£15,801 to £20,400	5.9%
£20,401 to £34,000	6.5%
£34,001 to £45,500	6.8%
£45,501 to £85,300	7.2%
Over £85,300	7.5%

The scheme provides an annual pension which increases annually in line with the Consumer Price Index. Lump sum benefits are also payable based on membership to 31 March 2008 and by exchanging part of the annual pension for a lump sum.

The scheme also provides for early payment of benefits due to permanent ill health and provides three tiers of benefits depending on the likelihood of the member being able to obtain further gainful employment. There is also provision, subject to employer agreement, for early payment of unreduced benefits after age 55 on the grounds of redundancy or business efficiency, as well as early payment of actuarially reduced benefits on grounds of voluntary retirement or flexible retirement..

Certain council employees, largely former Inner London Education Authority ("ILEA") employees, are members of the London Pension Fund Authority's pension fund, whilst teachers are members of the Teachers' Pension Scheme. All new council employees (except teachers) who have a contract of employment for at least three months are automatically admitted to the Hammersmith and Fulham pension fund on commencement of their employment.

KEY SERVICE STANDARDS FOR SCHEME MEMBERS

Capita Hartshead and our previous administrators the London Pension Fund Authority work to an agreed set of targets based on the number of working days from the date all of the information is available to them. The following table sets out the combined performance of the London Pension Fund Authority from 1 April 2011 to 30 September 2011 and Capita Hartshead from 1 October 2011 to 31 March 2012

Work area	Target Days	Total	Within Target	% Within Target	Average Days
Starters	10	160	160	100	7
Transfer Value In (Quote)	10	77	77	100	7
Transfer Value In (Actual)	10	56	56	100	8
Transfer Value Out (Quote)	15	99	98	99	7
Transfer Value Out (Actual)	12	44	44	100	7
Refund	10	9	9	100	5
Preserved Benefit	15	369	369	100	6
Estimate (Benefit)	10	516	496	96.1	7
Death in Service	5	4	4	100	4
Death on Pension	5	153	151	98.7	4
Quote AVCs	5	4	4	100	4
Quote ARCs	10	2	2	100	5

MEMBERSHIP SUMMARY

The table below shows the number of members in the Pension Fund over the last five years.

	31st March 2008	31st March 2009	31st March 2010	31st March 2011	31st March 2012
Contributors	4,572	4,297	4,176	4,064	3,835
Deferred	4,343	4,714	4,900	5,217	5,409
Pensioners/Dependents	3,812	3,903	4,055	4,285	4,461
Total Membership	12,727	12,914	13,214	13,566	13,705

CONTRIBUTIONS RECEIVABLE

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

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.

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

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

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.

FURTHER INFORMATION

For further information about joining the Pension Fund and administration of scheme benefits contact Les Green, Telephone 020 8753 1878, email les.green@lbhf.gov.uk and for up-to-date information about the LGPS, and how it operates at Hammersmith and Fulham please visit www.yourpension.org.uk/agencies/HandF or the UK national website at http//www.lgps.org.uk.

SECTION 4 – ACTUARIAL VALUATION

STATEMENT OF THE ACTUARY

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.

Rates of contributions paid by the participating Employers during 2010/11 were based on the previous actuarial valuation carried out as at 31 March 2007.

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

- The additional annual accrual of benefits allowing for future pay increases and increases to pension in payment when these fall due; plus
- An amount to reflect each participating employer's notional share of value of the Fund's assets compared with 100% of their liabilities in the Fund in respect of

service to the valuation date.

Asset Value and Funding Level

The smoothed market value of the Funds 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,

10th May 2012

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 pension's legislation.

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

Net Pension Asset as at	31 March 2012 £'000	31 March 2011 £'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.

SECTION 5 – ANNUAL STATEMENT OF ACCOUNTS

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Administering Authority'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 this Council, that officer is the Executive Director of Finance and Corporate Governance.
- Manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets, and
- Approve the Statement of Accounts.

Responsibilities of the Executive Director of Finance and Corporate Governance

The Executive Director of Finance and Corporate Governance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Executive Director of Finance and Corporate Governance has:

- Selected suitable accounting policies and applied them consistently;
- Made judgements and estimates that were reasonable and prudent; and
- Complied with the Local Authority Code.

The Executive Director of Finance and Corporate Governance has also:

- Kept proper accounting records which were up to date, and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certificate of the Executive Director of Finance and Corporate Governance

I certify that the Accounts present a true and fair view of the financial position of the London Borough of Hammersmith and Fulham and the London Borough of Hammersmith and Fulham Pension Fund as at 31 March 2012 and income and expenditure for the year for the financial year 2011/12.

Jane West, Executive Director of Finance and Corporate Governance

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF HAMMERSMITH & FULHAM

Opinion on the pension fund accounting statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of London Borough of Hammersmith & Fulham in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Executive Director of Finance and Corporate Governance and auditor

As explained more fully in the Statement of the Responsibilities for the Statement of Accounts, the Executive Director of Finance and Corporate Governance is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director of Finance and Corporate Governance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and

- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I report to you if, in my opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I have nothing to report in this respect.

Jon Hayes
District Auditor
Audit Commission
1st Floor
Millbank Tower
Millbank
London SW1P 4HQ

28 September 2012

FUND ACCOUNT

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

NET ASSETS STATEMENT

	31st March 2011 £000s	31st March 2012 £000s
Investment Assets		
Fixed Interest Securities – Public Sector	0	0
Fixed Interest Securities – Private Sector	0	0
Index Linked Securities – Public Sector	11,871	13,211
Index Linked Securities – Private Sector	0	0
Equities – UK	96,072	100,574
Equities – Overseas	164,106	177,048
Pooled Investment Vehicles		
Managed Funds – UK Fixed Interest	63,331	-
Managed Funds – UK Equities	62,786	66,562
Managed Funds – Overseas Equities	865	1,206
Managed Funds – Libor Plus 1 Fund	59,254	59,637
Managed Funds – LDI Bespoke Fund	0	81,804
Managed Funds – Illiquid Strategies Fund of Funds	1,740	1,570
Managed Funds – Dynamic Asset Allocation Fund	108,900	114,821
Managed Funds – Ruffer Baker Steel Gold Fund	2,504	684
Managed Funds – Red Kite Fund	648	371
Managed Funds – Private Equity	12,628	13,142
Cash Deposits	8,379	8,366
Other Investment Balances		
Amounts Outstanding on Sale of Investments	765	1,041
Investment Income Due	1,061	1,470
Investment Liabilities		
Amounts Outstanding on Purchase of Investments	(746)	(127)
Total Investment Assets	**594,164**	**641,380**
Current Assets		
Contributions due from Employers	144	45
Contributions due from Members	45	134
Combined Benefits	44	32
Administration Expenses	(10)	13
Current Liabilities		
Unpaid Benefits	(43)	(429)
Investment Management Expenses	(502)	(637)
Other Current assets	1	(1)
Cash Balances	1,875	(1,897)
Net Assets of the Scheme available to Fund Benefits at the Period End	**595,718**	**638,640**

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. They do not take account of liabilities to pay pensions and benefits which fall due after the financial year. The actuarial position of the fund, which does take account of such obligations, is set out in section 4 above.

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:

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

The above membership summary includes a number of external bodies which have been admitted to the Fund by admission agreements. Details of these admitted bodies are shown in Section 3 above.

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 management expenses.

3. INVESTMENT ASSETS - MOVEMENTS IN YEAR

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

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

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.

4. CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

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 table above 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.

5. 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 2011		31 March 2012	
	Market Value £000	Book Cost £000	Market Value £000	Book Cost £000
Financial Assets				
Designated at fair value through Profit and Loss				
Investment Assets	584,705	500,894	630,630	545,247
Loans and Receivables				
Cash Deposits	8,379	8,379	8,366	8,366
Amounts outstanding on Sale of Investments	765	765	1,041	1,041
Investment Income Due	1,061	1,061	1,470	1,470
Financial Liabilities at Amortised Cost				
Amounts outstanding on Purchase of Investments	(746)	(746)	(127)	(127)
Total Value of Investments	**594,164**	**510,353**	**641,380**	**555,997**

6. TOP TEN EQUITY HOLDINGS

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

Holding	Country	Market Value	% of Investments
		£'000	
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 4 above. These pooled investment vehicles are made up of underlying assets which will be far less than 5%.

7. INVESTMENT INCOME

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

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

8. 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.

9. RELATED PARTIES

The Council was a related party to the fund. Details of the relationship are disclosed in Note 1 above. 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.

10. STOCK LENDING AGREEMENTS

The Fund did not participate in stock lending or underwriting.

11. 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 have 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.

12. 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.

SECTION 6: ADDITIONAL INFORMATION

STATEMENT OF INVESTMENT PRINCIPLES

Regulation 12(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires administering authorities, after consultation with such persons as they consider appropriate, to prepare, maintain and publish a written statement of the principles governing their decisions about the investment of fund money. This is known as the "Statement of Investment Principles"

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 publication by CIPFA called "Investment Decision Making and Disclosure in the Local Government Pension Scheme: A guide to the application of the Myners Principles".

The regulations require authorities to review and revise the Statement on a regular basis particularly following any material change in the Council's policy. The Statement was last reviewed and updated in June 2012.

LONDON BOROUGH OF HAMMERSMITH & FULHAM PENSION FUND
STATEMENT OF INVESTMENT PRINCIPLES – JUNE 2012

1. BACKGROUND

1.1. Legal

Regulation 12(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires administering authorities, after consultation with such persons as they consider appropriate, to prepare, maintain and publish a written statement of the principles governing their decisions about the investment of fund money. The purpose of this document is to satisfy the requirements of the regulations.

1.2. Scheme

The Local Government Pension Scheme ("the Scheme") was established in accordance with statute to provide death and retirement benefits for all eligible employees. The Scheme is a contributory, defined benefit occupational pension scheme. It is funded by employee contributions and by variable employer contributions, which are set every three years, following an actuarial valuation of the assets and liabilities of the scheme.

The benefits of the Scheme are defined by statute and they are inflation proofed in line with annual increases in the Consumer Price Index for September. The Scheme is operated by designated administering authorities, of which the London Borough of Hammersmith and Fulham is one such authority. Each administering authority maintains a Pension Fund ("the Fund") and invests monies not required immediately to meet benefits.

1.3. Audit, Pensions and Standards Committee

The Council has delegated the investment arrangements of the scheme to the Audit, Pensions and Standards Committee ("The Committee") who decide on the investment policy most suitable to meet the liabilities of the Scheme. The Committee meets on a quarterly basis.

The Committee is made up of elected members of the Council who each have voting rights and invites representatives from the admitted and scheduled bodies within the Fund and from the trade unions, as observers. The Committee reports to the full Council.

1.4. Advice

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, co-opted members and advisors.

1.5. Investment Management

The 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.

2. INVESTMENT RESPONSIBILITIES

2.1. The Audit, Pensions and Standards Committee is responsible for:

- Determining overall investment strategy and ensuring that investments are sufficiently diversified, are not over concentrated in any one type of investment, and that the Fund is invested in suitable types of investments, as required by relevant regulations,

- Appointing the investment manager(s), custodian, actuary and any independent external advisors felt to be necessary for the good stewardship of the Fund,

- Monitoring the performance of the investment managers, custodians, actuary and external advisors to ensure that they remain suitable.

- Preparing, publishing and maintaining the Statement of Investment Principles, and reviewing its contents,

- Preparing, publishing and reviewing the Funding Strategy Statement, the Governance Compliance Statement and the Communications Policy and Practice Statement,

- Receiving actuarial valuations of the Fund regarding the level of employers' contributions necessary to balance the Fund.

- Reviewing policy on corporate and social responsibility and on the exercise of rights, including voting rights,

- Approving the final accounts and balance sheet of the Fund.

- Approving the Business Plan of the Fund.

2.2. The Investment Managers are responsible for:

- The investment of the Pension Fund assets in compliance with prevailing legislation and the detailed Investment Management Agreements,

- Tactical asset allocation and security selection around the strategic benchmark set by the Committee,

- Preparation of quarterly reports including a review of investment performance,
- Attending meetings of the Committee as required,
- Voting shares in accordance with the Council's policy except where the Council has made other arrangements.

2.3. The Custodian *(Northern Trust.)* **is responsible for:**

- Its own compliance with prevailing legislation,
- Providing valuations and accounting data summarizing details of all investment transactions within the fund,
- Safe custody and settlement of all investment transactions, collection of income, tax reclaims, and the administration of corporate actions.
- Providing a performance measurement service of the investment managers against their specific benchmarks
- Voting the Fund's shares in accordance with the investment manager's instructions.

2.4. The External Advisor *(P-Solve Asset Solutions.)* **is responsible for:**

- Advising and assisting the Executive Director of Finance and Corporate Governance and the Committee on the investment objective and investment strategy of the Fund and its implementation,
- Assisting the Executive Director of Finance and Corporate Governance and the Committee in their regular monitoring of the investment managers' performance,
- Assisting the Executive Director of Finance and Corporate Governance and the Committee in the selection and appointment of investment managers and custodians,
- Advising and assisting the Executive Director of Finance and Corporate Governance and the Committee on other investment related issues, which may arise from time to time,
- Providing continuing education and training to the Committee and Officers.

2.5. The Actuary *(Barnett Waddingham)* **is responsible for:**

- Undertaking a triennial valuation of the Fund's assets and liabilities and interim valuations as required, including those to enable compliance with the International Accounting Standard IAS19

- Providing advice as to the maturity of the Fund and its funding level in order to aid the Committee in balancing the short term and long term objectives of the Fund,

- Providing advice on the admission to and withdrawal of admitted bodies in the Fund.

2.6. The Executive Director of Finance and Corporate Governance is responsible for:

- Day to day administration of the Fund

- Investment accounting and preparing the annual report and statement of accounts of the fund

- Monitoring compliance with statutory requirements and the investment principles set out in this document.

- Ensuring that this document is regularly reviewed and updated in accordance with the Regulations.

- Ensuring proper resources are available to meet the Council's responsibilities.

3. PENSION FUND LIABILITIES

3.1 Overview

The Hammersmith and Fulham Pension Fund are broadly similar to other funds of comparable size in terms of its maturity. The actuary determined that the funding level was 74% at the 31st March 2010 valuation. The Committee has agreed with the actuary for the Council to make additional employer contributions over a period of 25 years to bring the funding level back to 100%.

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.

3.2 Scheme Benefits.

The Scheme is a defined benefit scheme. Each member's pension is specified in terms of a formula based on salary and service and is unaffected by the investment return achieved on the Fund's assets.

Full details of Scheme benefits are set out in the regulations. The Council has also published a guide for members of staff who are eligible to join the Scheme.

3.3 Funding the Benefits

As defined in the Scheme regulations, all active members of the Scheme are required to contribute a percentage of their pensionable pay to the Fund on a sliding scale based upon their level of earnings.

The Council and other employers in the Fund are responsible for meeting the balance of costs necessary to finance the benefits payable from the Fund. Employer's contribution rates are determined triennially based on the advice of the Fund's actuary and are subject to inter-valuation monitoring.

3.4 Actuarial Valuation

The Fund is valued by the actuary every three years in accordance with the Local Government Pension Scheme Regulations and monitored each year by the Executive Director of Finance and Corporate Governance.

The next valuation will be based on the value and position of the Fund as at 31st March 2013 and any changes in the contribution rate payable by the Council due to that valuation will take place from 1st April 2014.

4. INVESTMENT STRATEGY

4.1 Aims and Purpose of the Fund

The aims of the Fund are to:

- Enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers and admitted bodies,
- Manage employers' liabilities effectively,
- Ensure that sufficient resources are available to meet all liabilities as they fall due,
- Maximise the returns from investments within reasonable risk parameters.

The purpose of the Fund is to:

- Receive monies in respect of contributions, transfer values and investment income, and

- Pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses, as defined in the Local Government Pension Scheme Regulations

4.2 Investment Management Strategy

The Committee, after advice from P-Solve, the Fund's advisor, has agreed an investment strategy consisting of having four 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 diversification and specialisation and achieve optimum return against acceptable risk. Within the four portfolios the Committee has appointed external investment managers with clear strategic benchmarks which place maximum accountability for performance against that benchmark on the investment manager.

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

Additionally, the Panel 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.

4.3 Strategic Benchmarks and Performance Targets

Each investment manager has been set a strategic benchmark in order to achieve the overall investment objective for the Fund. The current percentage managed, benchmarks and performance targets for each investment manager are set out below:

- UK Equity (22.5%) - Majedie Asset Management to produce a return of 2% after fees above the FTSE All Share index returns over rolling three-year periods.
- Global (ex UK) Equity (22.5%) - MFS International (UK) Ltd to produce a return of 2% after fees above the FTSE World (ex UK) index returns over rolling three-year periods.
- Dynamic Asset Allocation (30.0%) – Baring Asset Management Ltd (18.75%) and Ruffer LLP (11.25%) to produce an absolute return of 4% in excess of cash based on the 3 month sterling LIBOR over rolling three-year periods.
- Matching Fund (25%) - Goldman Sachs Asset Management (12.5%) to produce an absolute return of 2% in excess of cash based on the 3 month sterling LIBOR over rolling three-year periods and Legal and General Investment Management (12.5%) to produce a return of two times the Liability Benchmark Portfolio minus 3 month Libor over rolling three year periods, where the Liability Benchmark Portfolio is the combination of gilts chosen for the Fund to measure the movement in liabilities.

Investment management performance is reviewed quarterly and annually upon receipt of independent data from Northern Trust, the Fund's custodian.

4.4 Reporting

The investment managers' performance is reported quarterly to the Committee. The Committee publishes this Statement of Investment Principles, a Funding Strategy Statement, a Governance Compliance Statement, a Communications Policy and Practice Statement and minutes of their meetings.

5. INVESTMENTS AND RISK

The powers and duties of the council to invest monies are set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The council is required to invest any monies which are not required immediately to pay pensions and any other benefits but must not invest any monies with its own cash balances. The Fund's cash is invested separately and since 1 April 2011, the Fund has been required to have a separate bank account. This bank account is with Northern Trust.

In making investments the regulations state that the Administering Authority must take account of the advisability of investing fund money in a wide variety of investments and the suitability of particular investments and types of investments. In doing so the council must obtain and consider the advice of persons properly qualified on investment matters.

5.1 Types of Investment

Investment can be made in accordance with the regulations in a broad spectrum of investments such as equities, fixed interest and other bonds, private equity fund of funds and property, both in the UK and overseas.

The regulations also specify other investment instruments that may be used such as bank deposits, stock lending, financial futures, hedge funds, traded options, insurance contracts, sub underwriting contracts and a contribution to a limited partnership in an unquoted securities investment partnership. The limits on the amount of monies that can be invested in each individual type of investment are specified in schedule 1 of the Regulations.

5.2 Investment Management

The Committee has appointed external investment managers under the terms of the Regulations whose roles are described in the Investment Strategy above. The managers are paid fees (one with a performance related element) based on percentage rates applied to the market value of the assets under management.

The Committee has appointed P-Solve Asset Solutions as the Fund’s advisor. They are paid fees based on an agreed schedule of work. A fee is agreed with the advisor in advance for any additional work over and above the agreed schedule.

The Committee has appointed Northern Trust as global custodian. They are paid fees based on the market value of the funds under management and the number of transactions made by the investment managers.

5.3 Investment Risk

The investment strategy of the Fund has been set so as to meet a return equivalent to the Liability Benchmark (see paragraph 3.1 above) 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 *price risk, currency risk, interest rate risk, and credit and liability 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, Pensions and Standards Committee and is reviewed on a regular basis.

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.

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.

Interest rate risk represents 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.

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.

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.

5.4 Realisation of Investments

The vast majority of the Fund's investments are readily marketable and may be easily realised if required. Some investments, such as private equity and limited partnership schemes are less easy to realise in a timely manner but the total value of these types of investments is not considered to have any adverse consequences for the Fund.

5.5 Stock Lending

The council does not engage in the lending of stocks or other securities from its pension fund.

6. CORPORATE SOCIAL RESPONSIBILITY

This statement is an outline of the Fund's approach to shareholder engagement. It provides the basis for the broad policies which the Fund believes constitute best practice and provides the framework within which it will enter into engagement with companies in which it invests.

The Fund recognises that the neglect of corporate governance and corporate social responsibility (CSR) may lead to poor or reduced shareholder returns.

The Committee has considered how the Fund may best implement a corporate social responsibility policy, given the current resources available to the Fund. Accordingly, the Committee has delegated CSR (social, environmental and ethical) policy to the appointed investment managers. The council 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.

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.

7. COMPLIANCE WITH THIS STATEMENT

The Committee will review the Fund's compliance with this Statement of Investment Principles and issue a revised version following any material change in the Council's policy.

8. COMPLIANCE WITH THE SIX MYNERS PRINCIPLES OF INVESTMENT 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 publication by CIPFA called "Investment Decision Making and Disclosure in the Local Government Pension Scheme: A guide to the application of the Myners Principles".

The principles, together with the council'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.***

Fully Compliant - The council has delegated the management and administration of the pension fund to the Audit, Pensions and Standards Committee ("The Committee") which meets quarterly. The responsibilities of The Committee are described in paragraph 2.1 above.

The Committee is made up of elected members of the council who each have voting rights and has representatives from the admitted and scheduled bodies within the Fund and from trade unions, as observers. The Committee has specific terms of reference which are reviewed and agreed annually, standing orders and operational procedures and reports to the full council. Members are not paid specifically for these duties.
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 advisors.

The 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.

Principle 2 - Clear objectives

An overall investment objective(s) should be set for the fund that takes account of the scheme’s 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.

Fully Compliant - The Committee has agreed in conjunction with its advisor an investment objective that is directly related to the Fund’s liabilities (See paragraph 3.1 above). The investment objective aims to enable employer contribution rates to be kept as nearly constant as possible and 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.

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.

Fully Compliant - The Committee has agreed in conjunction with its advisor an investment Strategy that is directly related to the Fund’s liabilities. The investment strategy is described in paragraphs 4 and 5 above.

The investment strategy is designed to give diversification and specialisation and achieve optimum return against acceptable risk (see paragraph 5.3 above).

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

Partially compliant - The Committee has appointed investment managers with clear index strategic benchmarks (see paragraph 4.3 above) 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, and independent detailed monitoring of the Fund's performance is carried out by P-Solve Asset Solutions, the Fund's advisor and by Northern Trust, the Fund's custodian who provide the performance figures.

The advisor is assessed on the appropriateness of asset allocation recommendations and the quality of advice given (see paragraph 2.4 above). The actuary is assessed on the quality and consistency of the actuarial advice received (see paragraph 2.5 above). Both the advisor and the actuary have fixed term contracts which when expired are tendered for under the OJEU procedures.

The Committee does not periodically make a formal assessment of its own effectiveness as a decision-making body but does receive quarterly reports as to how the Fund has performed against the investment objective set by the Committee. 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*

Partially compliant –

Majedie our UK Equity investment manager has adopted the Institutional Shareholders Committee Statement of Principles and MFS our overseas equity investment manager are signatories of the United Nations Principles of Responsible Investment (UNPRI).

Barings and Ruffer who manage our Dynamic Asset Allocation portfolios which have some equity exposure have not adopted the principles but have corporate governance and socially responsible investment policies which are broadly in line with the principles.

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 (see paragraph 6 above). 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.

This Statement of Investment Principles is included in the Pension Fund Annual Report which is 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.***

Fully compliant - The Governance Compliance Statement, the Statement of Investment Principles, the Funding Strategy Statement 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 and internal intranet. Monitoring results of the fund's performance are also included. An extract from the accounts is sent to stakeholders annually.

FUNDING STRATEGY STATEMENT

Regulation 76A of the Local Government Pension Scheme Regulations 1997 (the LGPS Regulations) and Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (the LGPS Regulations) require administering authorities to prepare, maintain and publish a Funding Strategy Statement. The Statement describes the London Borough of Hammersmith & Fulham's strategy, in its capacity as Administering Authority, for the funding of the London Borough of Hammersmith & Fulham Pension Fund (The Fund).

LONDON BOROUGH OF HAMMERSMITH & FULHAM PENSION FUND
FUNDING STRATEGY STATEMENT

Overview

This Statement has been prepared in accordance with Regulation 76A of the Local Government Pension Scheme Regulations 1997 (the LGPS Regulations) and Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (the LGPS Regulations). The Statement describes the London Borough of Hammersmith & Fulham's strategy, in its capacity as Administering Authority, for the funding of the London Borough of Hammersmith & Fulham Pension Fund (the Fund).

As required by Regulation 76A (2) (a) the Statement has been prepared having regard to guidance published by CIPFA in March 2004.

Consultation

In accordance with Regulation 76A(1), all employers participating within the London Borough of Hammersmith & Fulham Pension Fund have been consulted on the contents of this Statement and their views have been taken into account in finalising the Statement. However, the Statement describes a single strategy for the Fund as a whole.

In addition, as required by Regulation 76A(2)(b), the Administering Authority has had regard to the Fund's Statement of Investment Principles published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the Investment Regulations).

The Fund Actuary, Barnett Waddingham has been consulted on the contents of this Statement.

Policy Purpose

The three main purposes of this Funding Strategy Statement are:

- To establish a clear and transparent strategy, specific to the Fund, which will identify how employers' pension liabilities are best met going forward.
- To support the regulatory requirement in relation to the desirability of maintaining as nearly constant employer contribution rates as possible.
- To take a prudent longer-term view of funding the Fund's liabilities.

The Aims of the Fund

The aims of the Fund are:

1. <u>To enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the scheduled bodies, admission bodies and to the taxpayers.</u>

   The Administering Authority recognises that the requirement to keep employer contribution rates as nearly constant as possible can run counter to the following requirements:

- the regulatory requirement to secure solvency,
- the requirement that the costs should be reasonable, and
- maximising income from investments within reasonable cost parameters (see below)

Producing low volatility in employer contribution rates can require material investment in assets which ‘match’ the employer’s liabilities. In this context, ‘match’ means assets that behave in a similar manner to the liabilities as economic conditions alter. For the liabilities represented by benefits payable by the Local Government Pension Scheme, such assets would tend to comprise gilt-edged investments.

Other classes of assets, such as equities, are perceived to offer higher long term rates of return, on average, and consistent with the requirement to maximise the returns from investments, the Administering Authority invests a substantial proportion of the Fund in such assets. However, these assets are more risky in nature, and that risk can manifest itself in volatile returns over short-term periods.

This short-term volatility in investment returns can produce a consequent volatility in the measured funding position of the Fund at successive valuations, with knock on effects on employer contribution rates. The impact on employer rates can be mitigated by use of smoothing adjustments at each valuation within the valuation funding model.

The Administering Authority recognises that there is a balance to be struck between the investment objectives adopted, the smoothing mechanisms used at valuations, and the resultant smoothness of employer contribution rates from one valuation period to the next.

The Administering Authority also recognises that the position is potentially more volatile for Admission Bodies with short term contracts where utilisation of smoothing mechanisms is less appropriate.

2. <u>To ensure that sufficient resources are available to meet all liabilities as they fall due</u>.

   The Administering Authority recognises the need to ensure that the Fund has, at all times, sufficient liquid assets to be able to pay pensions, transfer values, costs, charges and other expenses. It is the Administering Authority’s policy that such expenditure is met, in the first instance, from incoming employer and employee contributions to avoid the expense of selling assets. The Administering Authority monitors the position on a monthly basis to ensure that all cash requirements can be met.

3. <u>To manage employers’ liabilities effectively.</u>

   The Administering Authority seeks to ensure that all employers’ liabilities are managed effectively. In a funding context, this is achieved by seeking regular actuarial advice, ensuring that employers and Audit and Pensions Committee members are properly informed, and through regular monitoring of the funding position.

4. <u>To maximise the income from investments within reasonable risk parameters.</u>

   The Administering Authority recognises the desirability of maximising investment income within reasonable risk parameters. Investment returns higher than those available on government stocks are sought through investing a substantial proportion of the Fund's investments in other asset classes such as equities. The Administering Authority ensures that risk parameters are reasonable by:

   - Restricting investment to the levels permitted by the Investment Regulations.
   - Restricting investment to asset classes generally recognised as appropriate for UK pension funds.
   - Analysing the potential risk represented by those asset classes in collaboration with the Fund Actuary, Investment Advisor and Fund Managers.

Purpose of the Fund

The purpose of the Fund is:

1. To pay out all scheme benefits, transfer values, costs, charges and expenses.
2. To receive contributions, transfer values and investment income.

Responsibilities of the key parties

The three parties whose responsibilities to the Fund are of particular relevance are the Administering Authority, the Individual Employers and the Fund Actuary.

Their key responsibilities are as follows:

Administering Authority

The Administering Authority's key responsibilities are:

1. <u>Collecting employer and employee contributions and, as far as the Administering Authority is able to, ensure these contributions are paid by the due date</u>.

   Individual employers must pay contributions in accordance with Regulations 79, 80 and 81 of the LGPS Regulations. The Administering Authority will ensure that all employers are aware of these requirements especially the requirement of the Pensions Act 1995 that members' contributions are paid by the 19th of the month following the month that it is paid by the member. If contributions are not paid on time, the Administering Authority will notify the employer that the requirements of the Pensions Act 1995 have been breached and that unless the employer pays all of the overdue contributions without any further delay, they may be reported to the Pensions Regulator.

   The Administering Authority will ensure that action is taken to recover assets from Admission Bodies whose Admission Agreement has ceased by

   - Requesting that the Fund Actuary calculates the deficit at the date of the closure of the Admission Agreement

- Notifying the Admission Body that it must meet any deficit at the cessation of the Agreement.

2. Invest surplus monies in accordance with the regulations.

   The Administering Authority will comply with Regulation 11 of the Investment Regulations.

3. Ensure that cash is available to meet liabilities as and when they fall due.

   The Administering Authority recognises this duty and discharges it in the manner set out in the Aims of the Fund above.

4. Manage the valuation process in consultation with the Fund Actuary.

   The Administering Authority ensures it communicates effectively with the Fund Actuary to:

   - agree timescales for the provision of information and provision of valuation results
   - ensure provision of data of suitable accuracy
   - ensure that the Fund Actuary is clear about the Funding Strategy
   - ensure that participating employers receive appropriate communication throughout the process
   - ensure that reports are made available as required by Guidance and Regulation

5. Prepare and maintain a Statement of Investment Principles and a Funding Strategy Statement after due consultation with interested parties.

   The Administering Authority will ensure that both documents are prepared and maintained in the required manner.

6. Monitoring all aspects of the Fund's performance and funding.

   The Administering Authority monitors the funding position of the Fund on a quarterly basis, and the investment performance of the Fund on a monthly basis.

Individual Employers will:

1. Deduct contributions from employees' pay.
2. Pay all contributions, including their employer contribution as determined by the Fund Actuary, promptly by the due date.
3. Exercise discretions within the regulatory framework.
4. Pay for added years in accordance with agreed arrangements.
5. Notify the Administering Authority promptly of all changes to membership, or other changes, which affect future funding.

The Fund Actuary

It is the responsibility of the Fund Actuary to:

1. Prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the Funding Strategy Statement.

   Valuations will also be prepared in accordance with generally accepted actuarial methods and reported on in accordance with Guidance Note 9 issued by the Board for Actuarial Standards, to the extent that the Guidance Note is relevant to the LGPS.

2. Prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

   Such advice will take account of the funding position and Strategy of the Fund, along with other relevant matters.

Solvency

The Administering Authority will seek to secure the solvency of the Fund. For this purpose the Administering Authority defines solvency as being achieved when the value of the Fund's assets is greater than or equal to the value of the Fund's liabilities when measured using 'ongoing' actuarial methods and assumptions. 'Ongoing' actuarial methods and assumptions are taken to be measurement by use of the projected unit method of valuation, using assumptions generally recognised as suitable for an open, ongoing UK pension fund with a sponsoring employer of sound covenant.

The financial assumptions used to assess the funding level will have regard to the yields available from the investments held by the Fund. The Administering Authority has also agreed with the Fund Actuary that these assumptions make allowance for the higher long term returns that are expected on the assets actually held by the Fund, and understands the risks of such an approach if those additional returns fail to materialise.

Consistent with the aim of enabling employer contribution rates to be kept as nearly constant as possible, and having regard to the risks inherent in such an approach, the Administering Authority has also agreed with the Fund Actuary the use of explicit smoothing adjustments in making the solvency measurement, if appropriate.

Funding Strategy

Where a valuation reveals that the Fund is in surplus or deficiency against this solvency measure, employer contribution rates will be adjusted to target restoration of the solvent position over a period of years (the recovery period). The recovery period applicable for each participating employer is set by the Administering Authority in consultation with the Fund Actuary and the employer, with a view to balancing the various funding requirements against the risks involved, due to such issues as the financial strength of the employer and the nature of its participation in the Fund.

The Administering Authority recognises that a large proportion of the Fund's liabilities are expected to arise as benefit payments over long periods of time. For employers of sound covenant, the Administering Authority is prepared to agree to recovery periods which are longer than the average future working lifetime of the membership of that employer. The Administering Authority recognises that such an approach is consistent with the aim of keeping employer contribution rates as nearly constant as possible. However, the Administering Authority also recognises the risk in relying on long recovery periods and has agreed with the Fund Actuary a period of no longer than 25 years. The Administering Authority's policy is to agree recovery periods with each employer, which are as short as possible within this framework.

For employers whose participation in the fund is for a fixed period it is unlikely that the Administering Authority and Fund Actuary would agree to a recovery period longer than the remaining term of participation other than in exceptional circumstances when it may permit recovery over a period not exceeding 10 years, subject to security, e.g. an indemnity or bond or other contingent asset, of amount and form acceptable to the Administering Authority, being maintained.

Consistent with the requirement to keep employer contribution rates as nearly constant as possible, the Administering Authority permits some employers to be treated as a group for the purposes of setting contribution rates. In particular, contribution rates could be very volatile for smaller employers due to the increased likelihood that demographic movements would have a material effect. The Administering Authority recognises that grouping can give rise to cross subsidies from one employer to another over time. The Administering Authority's policy is to consider the position carefully at each valuation and to notify each employer that is grouped that this is the case, and which other employers it is grouped with. If the employer objects to this grouping, it will be offered its own contribution rate. For employers with more than 50 contributing members, the Administering Authority would look for evidence of homogeneity between employers before considering grouping. For employers whose participation is for a fixed period grouping is unlikely to be permitted.

Again, consistent with the requirement to keep employer contribution rates as nearly constant as possible, the Administering Authority will consider, at each valuation, whether new contribution rates should be payable immediately, or should be reached by a series of steps over future years. The Administering Authority will discuss with the Fund Actuary the risks inherent in such an approach, and will examine the financial impact and risks associated with each employer. The Administering Authority's policy is that in the normal course of events no more than three equal annual steps will be permitted. Further steps may be permitted in extreme cases, but the total is very unlikely to exceed six steps.

Identification of risks and counter measures

The Administering Authority's overall policy on risk is to identify all risks to the Fund and to consider the position both in aggregate and at an individual risk level. The Administering Authority will monitor the risks to the Fund, and will take appropriate action to limit the impact of these both before, and after, they emerge wherever possible. The main risks to the Fund are:

Demographic

The main risks include changing retirement patterns (such as early retirements), take up of the commutation option and longevity. The Administering Authority will ensure that the Fund Actuary investigates these matters at each valuation or, if appropriate, more frequently, and reports on developments. The Administering Authority will agree with the Fund Actuary any changes that are necessary to the assumptions underlying the measure of solvency to allow for observed or anticipated changes.

If significant demographic changes become apparent between valuations, the Administering Authority will notify all participating employers of the anticipated impact on costs that will emerge at the next valuation and will review the bonds that are in place for Transferee Admission Bodies.

Regulatory

The risks relate to changes to regulations, National pension requirements or HMRC rules. The Administering Authority will keep abreast of all proposed changes and, where possible, express their opinion during consultation periods after careful consideration. The Administering Authority's policy will be to ask the Fund Actuary to assess the impact on costs of any changes and, where these are likely to be significant, the Administering Authority will notify Employers of this likely impact and the timing of any change.

Governance

This covers the risk of unexpected structural changes in the Fund membership (for example the closure of an employer to new entrants or the large scale withdrawal or retirement of groups of staff), and the related risk of the Administering Authority not being made aware of such changes in a timely manner.

The Administering Authority's policy is to require regular communication between itself and employers, and to ensure regular reviews of such items as bond arrangements, financial standing of non-tax raising employers and funding levels.

Statistical/Financial

This covers such items as the performances of markets, movement in market yields, fund investment managers, asset reallocation in volatile markets, pay and/or price inflation varying from anticipated levels or the effect of possible increases in employer contribution rate on service delivery and on Fund employers. The Administering Authority's policy will be to ask the actuary to monitor such aspects to ensure that all assumptions used are still justified.

Solvency measure

The Administering Authority recognises that allowing for future investment returns in excess of those available on government bonds introduces an element of risk, in that those additional returns may not materialise. The Administering Authority's policy will be to ask the actuary to monitor the underlying position to ensure that the funding target remains realistic relative to the low risk position.

Recovery period

The Administering Authority recognises that permitting surpluses or deficiencies to be eliminated over a recovery period rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements. The Administering Authority's policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the permitted length of recovery period to no longer than 25 years.

Stepping

The Administering Authority recognises that permitting contribution rate changes to be introduced by annual steps rather than immediately introduces a risk that action to restore solvency is insufficient in the early years of the process. The Administering Authority's policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the number of permitted steps to three annual steps or, in exceptional circumstances, up to six annual steps.

Links to investment policy set out in the Statement of Investment Principles

The Administering Authority has produced this Funding Strategy Statement having taken an overall view of the level of risk inherent in the investment objective set out in the Statement of Investment Principles and the funding policy set out in this Statement.

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 and fixed interest gilts.

However, the Fund's asset allocation as set out in the Statement of Investment Principles invests in a broad range of asset classes which are expected but not guaranteed to produce higher returns than index-linked and fixed interest gilts and above the investment objective of the Fund over the long term albeit with greater volatility.

The Administering Authority has agreed with the Fund Actuary that the funding target on the ongoing basis will be set after making some allowance for this higher expected return. However the Administering Authority recognises that outperformance is not guaranteed and that, in the absence of any other effects, if the higher expected returns are not achieved the solvency position of the Fund will deteriorate.

Consistent with the aim of enabling employer contribution rates to be kept as stable as possible, the Administering Authority has agreed with the Fund Actuary the use of a market related funding model which uses smoothed yields and asset values.

To meet the funding plan for the Fund and to bring the funding level back to 100% an investment return as shown in the 2010 valuation report by the Fund Actuary is required over the next 25 years, the recovery period, in addition to the employers and employees contributions. This required investment return is the weighted average of future expected returns from the various asset classes based on the actual asset allocation of the Fund.

The Fund Actuary has derived the following key long term financial assumptions for the main asset classes held by the fund at the 31 March 2010 actuarial valuation.

Financial Assumptions	March 2010 % p.a.
Investment Return	
Equities/absolute return funds	7.3%
Gilts	4.5%
Bonds	5.6%

The Fund actuary takes a weighted average of the above assumptions to derive the discount rate used to place a current value of the liabilities at the valuation date. The weighting is the weight in each of the asset classes.

This results in the following discount rate which has been shown alongside the Fund actuary's long term assumption for pension increases, inflation and salary increases. These are the key financial assumptions used to place a current value on the liabilities, or pension promises as made by the fund.

Financial Assumptions	March 2010 % p.a.
Discount rate	6.7%
Pay Increases	5.0%
Price Inflation	3.5%
Pension Increases	3.0%

Some short term adjustments have also been allowed for as described in the 31 March 2010 actuarial valuation.

The asset allocation of the Fund consists of four portfolios, UK Equity, Global (ex UK) Equity, Dynamic Asset Allocation and a Matching Fund (to match some of the Fund's liabilities). Each portfolio represents 25% of the total Fund. The investment strategy is designed to give diversification and specialisation and achieve optimum return against acceptable risk.

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

In addition, £15 million is committed to private equity, through an investment of £7.5million with each of two fund of funds managers.

Future monitoring

The Administering Authority plans to review this Statement as part of each triennial valuation process unless circumstances arise which require earlier action.

The Administering Authority will monitor the funding position of the Fund on an approximate basis at regular intervals between valuations, and will discuss with the Fund Actuary whether any significant changes have arisen that requires action.

GOVERNANCE COMPLIANCE STATEMENT

Regulation 73A of the Local Government Pension Scheme Regulations 1997 and Regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2008 (the LGPS Regulations). state that an administering authority must prepare a Governance Compliance Statement setting out—

(a) whether they delegate their function, or part of their function, in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the authority;

(b) if they do so—

(i) the terms, structure and operational procedures of the delegation;

(ii) the frequency of any committee or sub-committee meetings;

(iii) whether such a committee or sub-committee includes representatives of employing authorities (including authorities which are not Scheme employers) or members, and, if so, whether those representatives have voting rights;

(c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying.

LONDON BOROUGH OF HAMMERSMITH & FULHAM PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

1. OVERVIEW

1.1 This Statement has been prepared in accordance with Regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2008 (the LGPS Regulations). The Statement describes the London Borough of Hammersmith & Fulham's (the Council) governance structures and arrangements in its capacity as Administering Authority of the London Borough of Hammersmith & Fulham Pension Fund (the Fund).

2. PURPOSE OF STATEMENT

2.1 The main purpose of this Governance Compliance Statement is to establish whether the administering authority delegate their function, or part of their function, in relation to maintaining the Pension Fund to a committee, a sub-committee or an officer of the administering authority; and if they do delegate that function or part of that function:

- to state the terms, structure and operational procedures of the delegation; and
- to state the frequency of any committee or sub-committee meetings; and
- to state whether the committee or sub-committee includes representatives of employing authorities or members, and if so, whether those representatives have voting rights.

2.2 The statement shows how any delegation, or the absence of a delegation, currently complies with each of the best practice principles in the guidelines published by Communities and Local Government (CLG) and in accordance with guidance issued by CIPFA entitled "Delivering Good Governance in Local Government Pension Funds", and to the extent that it does not so comply, the reasons for not complying.

2.3 The guidelines cover nine principles:

- Structure
- Committee Membership and Representation
- Selection and role of lay members
- Voting
- Training/Facility Time/Expenses
- Meetings (Frequency/Quorum)
- Access
- Scope
- Publicity

3. TERMS OF REFERENCE, STRUCTURE AND OPERATIONAL PROCEDURES

3.1 The Council as administering authority of the Pension Fund has delegated its functions in relation to maintaining the Pension Fund to the Audit and Pensions Committee. The Terms of Reference of the Committee are reproduced below:

AUDIT AND PENSIONS COMMITTEE
TERMS OF REFERENCE

1. **Membership**

1.1 The Committee will have the following membership:

4 Administration Councillors, 2 Opposition Councillors

1.2 The Chairman will be drawn from one of the Administration Councillors; the Vice-Chairman will be an Opposition Councillor.

1.3 The Committee may co-opt non-voting independent members as appropriate.

1.5 The agenda of meetings of the Committee will be divided into separate sections for Audit and Pensions matters.

1.6 The Pension Fund's external investment managers will be required to attend meetings of the Committee when dealing with Pensions matters and to submit reports and make presentations as required.

1.7 The Trades Unions and representatives from the admitted and scheduled bodies in the Pensions Fund shall be invited to attend and participate in meetings considering Pensions matters, but shall not have a formal vote.

1.8 The Committee may ask the Head of Internal Audit, a representative of External Audit, the Risk Management Consultant, Assistant Director (Business Support) and any other official of the organisation to attend any of its meetings to assist it with its discussions on any particular matter.

2. **Quorum**

2,1 The quorum of the Committee shall be 3 members.

3. **Voting**

3.1 All Councillors on the Committee shall have voting rights. In the event of an equality of votes, the Chairman of the Committee shall have a second casting vote. Where the Chairman is not in attendance, the Vice-Chairman will take the casting vote.

4. **Procedures**

4.1 Except as provided herein, Council Procedure Rules (as applicable to all Committees) shall apply in all other respects to the conduct of the Committee.

4.2 Meetings of the Committee shall be held in public, subject to the provisions for considering exempt items in accordance with sections 100A-D of the Local Government Act 1972 (as amended).

5. **Meetings**

5.1 The Audit and Pensions Committee will meet at least four times a year.

5.2 Meetings will generally take place in the spring, summer, autumn, and winter. The Chairman of the Committee may convene additional meetings as necessary.

5.3 The Chief Executive may ask the Committee to convene further meetings to discuss particular issues on which the Committee's advice is sought.

6. **Reporting**

6.1 The Audit and Pensions Committee will formally report back in writing to the full Council at least annually.

7. **Responsibilities**

(a) Audit

7.1 The Audit and Pensions Committee will advise the Executive on:

- the strategic processes for risk, control and governance and the Statement on Internal Control;

- the accounting policies and the annual accounts of the organisation, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors;

- the planned activity and results of both internal and external audit;

- the adequacy of management responses to issues identified by audit activity, including the external auditor's annual letter

- the Chief Internal Auditor's annual assurance report and the annual report of the External Auditors.
- assurances relating to the corporate governance requirements for the organisation;
- (where appropriate) proposals for tendering for either Internal or External Audit services or for purchase of non-audit services from contractors who provide audit services.

7.2 The Committee's responsibilities in relation to the annual accounts will include:

- to approve the Council's Statement of Accounts, in accordance with the deadlines set out in the Accounts & Audit Regulations 2003;
- acting as the Approval of Accounts Committee, to be held in June;
- to consider any report as necessary from the external auditor under Statement of Auditing Standard 610;
- to re-approve the Council's Statement of Accounts following any amendments arising from the external audit, in accordance with the deadlines set out in the Accounts & Audit Regulations 2003.

7.3 The Committee's responsibilities in relation to risk management will encompass the oversight of all risk analysis and risk assessment, risk response, and risk monitoring. This includes:

- the establishment of risk management across the organisation, including partnerships;
- awareness of the Council's risk appetite and tolerance;
- reviewing of the risk portfolio (including IT risks);
- being appraised of the most significant risks;
- determining whether management's response to risk and changes in risk are appropriate.

7.4 The Council has nominated the Committee to be responsible for the effective scrutiny of the Treasury Management Strategy and policies.

(b) Pensions - Decision-Making Powers (The following powers are hereby delegated on behalf of the Council)

7.5 To determine the overall investment strategy and strategic asset allocation of the Pension Fund.

7.6 To appoint the investment manager(s), custodian, actuary and any independent external advisors felt to be necessary for the good stewardship of the Pension Fund.

7.7 To monitor the qualitative performance of the investment managers, custodians, actuary and external advisors to ensure that they remain suitable.

7.8 To review on a regular basis the investment managers' performance against established benchmarks, and satisfy themselves as to the managers' expertise and the quality of their internal systems and controls,

7.9 To prepare, publish and maintain the Statement of Investment Principles, and monitor compliance with the statement and review its contents,

7.10 To prepare, publish and maintain the Funding Strategy Statement, the Governance Compliance Statement, and the Communications Policy and Practice Statement and revise the statements to reflect any material changes in policy,

7.11 To approve the final accounts and balance sheet of the Pension Fund and approve the Annual Report.

7.12 To receive actuarial valuations of the Pension Fund regarding the level of employers' contributions necessary to balance the Pension Fund.

7.13 To oversee and approve any changes to the administrative arrangements and policies and procedures of the Council for the payment of pensions, compensation payments and allowances to beneficiaries.

7.14 To consider any proposed legislative changes in respect of the Compensation and Pension Regulations and to respond appropriately.

7.15 To approve the arrangements for the provision of AVCs for fund members.

7.16 To receive and consider the Audit Commission's report on the governance of the Pension Fund.

4. COMPLIANCE WITH THE GUIDANCE ISSUED BY COMMUNITIES AND LOCAL GOVERNMENT (CLG)

The guidance provides a detailed description of each of the best practice principles against which compliance should be measured. The principles are set out in **bold** type below, together with details as to whether the Council complies with them or not.

4.1 Structure

a) 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 - The Council, as Administering Authority, delegates its function in maintaining the Fund to a committee, the Audit and Pensions Committee (the Committee). The Council agrees the appointments to the Committee and the discharge of its functions under its constitution.

The day to day administration of the Fund, including administration of benefits, the investment of pension fund monies, the monitoring of fund performance and the entering into of pension fund admission agreements with external providers subject to appropriate actuarial advice is delegated by the Council to the Executive Director of Finance and Corporate Governance.

b) 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.

Partially Compliant - representatives of Trade Unions and participating LGPS employers, and admitted bodies are invited to attend the Committee and receive copies of the committee papers. Scheme members, pensioner and deferred members have not been invited although committee meetings are open to the general public.

c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.

The Council does not have a secondary committee or panel.

d) 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.

The Council does not have a secondary committee or panel.

4.2 Committee Membership and Representation

a) 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).

Partially Compliant - representatives of Trade Unions and participating LGPS employers and admitted bodies are invited to attend the Committee. Scheme members, pensioner and deferred members have not been invited. The Committee has not appointed an independent professional observer but has appointed expert advisors who attend each Committee meeting.

b) 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.

Partially Compliant – all lay members on the Committee are sent committee papers with dates of meetings. All who attend meetings may contribute to the decision making process. Training normally takes place during actual Committee meetings. Training outside these meetings has been offered to elected councillors and trade union representatives only.

4.3 Selection and role of lay members

a) 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 – all committee and lay members are fully aware of their status, role and function.

b) 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 - all Committee members have to make a declaration of any interest in specific matters on the agenda at the start of every committee meeting.

4.4 Voting

a) 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 - There are six councillors who sit on the Committee, four from the majority party and two from the opposition party, all of whom have voting rights. In addition trade union members and representatives from the admitted and scheduled bodies in the fund are invited to attend the Committee meetings. Trade Union members and representatives from the admitted and scheduled bodies are allowed to voice opinions but have no voting rights.

4.5 Training/Facility Time/Expenses

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

Compliant – training for councillors who sit on the Committee, is organised as and when required, meetings take place in the evenings and councillors receive allowances in accordance with the Council's allowances policy.

b) 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 – the policy applies to all members of the Committee. The Council does not have a secondary committee or panel or any other form of secondary forum.

4.6 Meetings (frequency/quorum)

a) That an administering authority's main committee or committees meet at least quarterly.

Compliant – The Committee meets at least four times a year. The meetings generally take place in the spring, summer, autumn, and winter. The Chairman of the Committee may convene additional meetings as necessary.

b) 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.

The Council does not have a secondary committee or panel.

c) 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.

Partially Compliant – Trade Union members and representatives of participating LGPS employers and admitted bodies are invited to every Committee meeting and included in the formal governance arrangements. Scheme members, pensioner and deferred members have not been invited although committee meetings are open to the general public.

4.7 Access

a) 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 – All members invited to the Committee have equal access to committee papers, documents and advice.

4.8 Scope

a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements

Compliant – The Committee considers and makes decisions on general scheme and other administrative issues as well as the management and investment of the funds under its supervision.

4.9 Publicity

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

Compliant – This statement will be published on the Council's website and will be included in the Pension Fund Annual Report which is also available on the Council's website. Any member can also request a copy of this statement. All representatives of trade union members, admitted and scheduled bodies in the fund receive committee papers and are invited to the Committee.

5.0 REVIEW OF THIS STATEMENT

This Statement will be revised and a new version published by the Committee following any material change in the Council's policy on any of the matters included in the Statement.

COMMUNICATIONS POLICY & PRACTICE STATEMENT

Regulation 106B of the 1997 Regulations, introduced in December 2005, required administering authorities to prepare, maintain and publish a written statement of their policy concerning communication with members, representatives of members and employing authorities. The first statement had to be published by 1 April 2006.

On 1st April 2008, regulation 67 of the administration regulations carried forward this requirement into the 2008 scheme.

COMMUNICATIONS POLICY & PRACTICE STATEMENT

The council's Local Government Pension Scheme (LGPS) which includes a number of admitted and scheduled bodies is administered on the council's behalf by the London Pensions Fund Authority (LPFA). The Council's communications policy and practice therefore operates in liaison and cooperation through the contract with that authority

POLICY

The London Borough of Hammersmith & Fulham pension's communication policy aims to achieve:

Clarity of message - To eliminate any potential confusion and to ensure a clear and consistent message is obvious to all customers.

Accuracy and timeliness of information - To ensure all communications are made in good time and contain accurate information. To provide customers with a proactive information service that is factual and precise.

Provision of an effective channel for feedback and comment – To ensure that all scheme employers, members and other interested parties have access to an effective channel for feedback and comment about the Council, the LPFA and the Local Government Pension Scheme.

Effective customer targeting - To ensure that all communications are appropriate to their target customers in terms of style, content, medium and delivery. To ensure the customer has ready access to information which is relevant and material to their situation.

Equality of access to information - To address, where possible, the requirements of a diverse customer base with regard to information access. To ensure all communications reach as many customers as is possible, regardless of situation.

AUDIENCE

The audience for London Borough of Hammersmith & Fulham pension's communications fall into the following broad headings each with their own appropriate 'message and media'.

Scheme members (current, prospective and pensioners)

Current and prospective scheme members need a clear and easily understandable message, timing is usually more important than complexity. Mass market media (e.g. internet, newsletters) tend to be more appropriate for regular communication but a 'personal touch' is needed for direct contact (e.g. letters, telephone calls). Accuracy of information is vital to the member when deciding on their financial future.

Scheme employers

Employers require a proactive and accurate flow of information. Personal contact should be used often to develop familiarity and trust. As with scheme members, employers will be making important and sometimes difficult decisions based on the information provided therefore it needs to be clear and unambiguous.

Audit and Pensions Committee

Members of the Audit and Pensions Committee (The Committee) require accurate data and clear messages from officers in order to form appropriate opinions and take informed decisions. The format and content of officer reporting should be consistent and unambiguous. The constitution, structure and operation of the PFIP, reporting lines and responsibilities in place should be designed to ensure an effective flow of information to Committee members at all times.

PRACTICE

Scheme members

Scheme Literature – a comprehensive range of guides to the scheme are available to members either from their employer, direct from the council's pensions team or may be downloaded from the website.

Annual accounts – all members receive a copy of the Pensions Fund accounts on a yearly basis.

Newsletters – scheme members, pensioner members and deferred benefit members will receive a targeted newsletter to their home address at least once a year which will include details of any changes to the scheme.

Annual Benefit Statements – current and deferred scheme members receive a Benefit Statement to their home address on an annual basis showing the current and prospective value of their benefits in the scheme.

Email, telephone and correspondence – scheme members may telephone, write to or email the council's pension team or LPFA using the contact details at the end of this document.

Pay advice – pensioner members receive a pay advice every month. P60s are sent to pensioners' home addresses annually.

Prospective members

A short guide to the scheme is available from employers and is included in information packs for all new employees.

Equality of access

Special Requirements – we will provide communications in large print, Braille and in audio format where possible.

The council and the LPFA commits to work alongside employers, trade unions, and other organisations to ensure that access to scheme information is made available to scheme members and pensioners where English is not the first language.

Scheme employers

Employer's Guide – this comprehensive guide is available to all scheme employers either in hard copy or via the council's website. Further on line information regarding the scheme is also available.

Employer Newsletter – an annual e-newsletter to employers is planned for introduction during 2006-7. The newsletter would contain current news, changes to the scheme and other items of interest to employers.

Email, telephone and correspondence – scheme employers may telephone, write to or email the council's pension team or LPFA using the contact details at the end of this document.

Audit and Pensions Committee

Reporting – regular performance (investment, financial and administrative) reports are provided.

Briefings – the Leader and Deputy Leader of the council meet regularly with the Executive Director of Finance and Corporate Governance in order to be kept up to date with current issues related to the authority and the LGPS.

Staff

Training – all pensions administration staff are encouraged to participate in training. The LPFA staff in particular are encouraged to take the LPFA in-house Certificate and Diploma in Pensions Administration qualification.

Appraisal and Assessment – all council and LPFA staff undergo twice yearly appraisals which provide for open discussion of work issues and development items.

The Wider Audience

As stated earlier the members of this audience are many and varied and will be communicated with either directly (via phone, letter or email) or using:

Internet – LPFA hosts a number of websites including a corporate site, a scheme member site, a scheme employer site and a training site.

Membership of local and national bodies – from the local London Pensions Officers Group to the NAPF the council and the LPFA are members of many local and national bodies.

RIGHTS TO INFORMATION AND DATA PROTECTION

Rights to Information

Nothing within this policy statement affects rights to access or receive information under the Freedom of Information Act or the Disclosure Requirements of the Local Government Pension Scheme.

The council and LPFA's corporate websites contain Freedom of Information Statements and links to information available

Data Protection

The council and LPFA are registered under the Data Protection Act 1998 and are therefore required to protect all personal information held on paper or computer. Scheme members have the right to check that the details held are accurate. The council and the LPFA may only pass your details to named third parties under strictly controlled conditions and for very specific purposes. Members who wish to apply to access their data under the Data Protection Act should make contact as specified in the contacts list.

Review

We will monitor the effective application of this policy. The policy will be subject to revision in the light of significant changes to the LGPS or the Authority's structures or procedures.

Glossary

Actuary – An independent consultant who advises the Council on the financial position of the fund. Every three years the actuary reviews the assets and liabilities of the fund and produces the actuarial valuation which recommends the employers contribution rates.

Additional Voluntary Contributions (AVC) – An option available to individuals to secure additional pension benefits by making regular payments to the Pension Fund's AVC provider in addition to their contribution to the Pension Fund.

Admitted Body – Body whose staff can become members of the Pension Fund by virtue of an admission agreement made between the Authority and relevant body.

Asset Allocation – The apportionment of a fund's asset between asset classes and/or world markets. The long-term strategic asset allocation of a fund will reflect the fund's investment objectives. In the short term, the fund manager can aim to add value through tactical asset allocation decisions.

Benchmark – A yardstick against which the investment policy or performance of a fund manager can be compared.

Cash Transfer Values In/Out - The capital value of a benefit entitlement paid into or withdrawn from the Fund when an employee joins or leaves the scheme with a pension transfer.

Corporate Bonds - Fixed interest securities and index-linked securities issued by companies registered either in the U.K. or overseas. They represent 'loans' to the companies which are repayable on a stated future date. The term is used to cover all bonds other than those issued by governments in their own currencies.

Custody - The administering of securities by a financial institution. The custodian keeps a record of a client's investments and may also collect income; process tax reclaims and provides other services, such as performance measurement according to client instructions. The custodian physically holds the securities for safe-keeping

Deferred Pension – The pension benefit payable from normal retirement age to a member of the Fund who has ceased to contribute as a result of leaving employment or opting out of the pension scheme before the state retirement age.

Defined Benefit Scheme - A type of pension scheme where the pension that will ultimately be paid to the employee is fixed, usually as a percentage of final salary. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the pension promised.

Dividend – The part of a company's after tax earning which is distributed to the shareholders in the form of cash or shares. The directors of the company decide how much dividend is to be paid and when. The dividend is neither automatic nor guaranteed for ordinary shareholders.

Dynamic Asset Allocation Portfolio – A portfolio that involves the movement of assets through different investment markets as markets conditions change.

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.

Fixed Interest Securities – Investments in mainly 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.

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.

Indexed Linked Securities – Bonds on which the interest and ultimate capital repayment are recalculated on the basis of changes in the Retail Price Index.

LIBOR – London Inter-Bank Offer Rate. Interest rate at which prime banks will offer to lend money in the London Inter-Bank market.

Market Value – The price at which an investment can be bought or sold at a given date.

Myners Principles - A set of recommendations relating to the investment of pension funds which were prepared by Paul Myners in 2001 at the request of the Chancellor of the Exchequer and which were subsequently endorsed by Government. Their significance is that pension funds are expected to follow these principles or, if they do not, provide an explanation as to why they have decided not to do so (see the "Statement of Investment Principles").

Pooled Investment Vehicles - Pooled Investment Vehicles are 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.

Private Equity – Funds put up by companies to finance new and growing businesses. Also known as venture capital.

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

Transaction Costs – Those costs associated with managing a portfolio, notably brokerage costs and taxes.

Unrealised Gains/Losses – The increase (decrease) at year end in the market values of investments held by the fund since the date of their purchase.

Valuation - A summary of an investment portfolio showing the holdings and their value as at a certain date.