

**London Borough of Hammersmith & Fulham
Pension Fund
Annual Report
2012-2013**



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Chairman's report

The Audit, Pensions & Standards Committee is responsible for overseeing the management of the London Borough of Hammersmith & Fulham Pension Fund including investment management and pension administration issues. As Chairman of this Committee, I am pleased to introduce the Pension Fund's annual report for the year 2012-13.

During the year the value of the Fund rose by £84m following positive absolute investment returns over the year. The Fund's investment return beat the target return by 3.2% and placed the Fund in the top 15% of local authority funds in terms of performance, which is a very welcome result.

I reported last year that the Committee had taken a decision in March 2012 to increase the allocation of the Fund's investments with the investment manager Ruffer, to provide greater diversification. This was implemented at the beginning of the financial year and the Committee agreed a change to the Statement of Investment Principles in June to reflect this.

In September the Committee approved the Fund's Statement of Accounts and received the external auditor's Annual Governance Report on the accounts.

The Committee has continued to monitor the Fund closely at every meeting, as the uncertainty in world markets persisted throughout the year. The Committee challenged the investment advisers and investment managers as necessary to ensure the Fund's investments are being managed effectively.

The next actuarial valuation of the Fund is currently being undertaken by the Fund Actuary as at 31st March 2013. The results will be available later in the year. The Committee will be reviewing both the funding strategy as well as the investment strategy to ensure the Fund remains on track to meet the objective of ensuring there are sufficient assets to meet all the liabilities. This, along with the introduction of the new Local Government Pension Scheme from April 2014, will ensure 2013/14 is another busy year for the Committee.

I would like to thank all those involved in the management of the Pension Fund during the year including my fellow Committee members, officers, advisers and investment managers.

Councillor Michael Adam

Chairman of Audit, Pensions & Standards Committee

Management report

The day to day management of the Pension Fund is my responsibility as the section 151 officer for the London Borough of Hammersmith and Fulham.

The management of the Fund's investments and accounting is undertaken on my behalf by the Tri-borough Pensions team. The team provide this service to Hammersmith and Fulham, Royal Borough of Kensington and Chelsea and Westminster City Council ensuring there is resilience for the service not achievable from a single borough team. 2012/13 was the first full financial year for this new arrangement and it is already proving to be valuable.

The Fund's investments returned 15.1% in 2012/13, which was positive both in absolute terms and because it was 3.2% in excess of the target set by the Fund. There were no changes of investment manager during the year and the only change to allocation was a shift of 5% out of equities into the Dynamic Asset Allocation portfolio in April 2012 following a decision by the Committee in March 2012.

The administration of the benefits and membership aspects of the Fund is undertaken through a framework contract with Capita Employee Benefits. The contract is managed and the policy aspects of benefits dealt with by staff in the Human Resources Department at Hammersmith and Fulham. The introduction of the new Local Government Pension Scheme in April 2014 has been a focus of work this year and will continue to be so up to and beyond implementation.

The number of employers in the Fund increased further in the year to 35, as more academy schools opened. The pattern of falling numbers of active members seen in recent years continued in 2012/13, resulting in benefits being paid out of the Fund being higher than contributions coming in. These emerging trends will form part of the considerations of the triennial valuation results due later in 2013.

Jane West

Executive Director of Finance and Corporate Governance

Introduction

The Pension Fund is part of the national Local Government Pension Scheme (LGPS) and is administered locally by Hammersmith and Fulham Council. It is a contributory defined benefit pension scheme established by the Superannuation Act 1972, 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.

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and from the Fund's investments. The contributions are set by the Fund's actuary at the actuarial valuation which is carried out every three years.

The benefits payable from the Fund are set out in the Local Government Pension Scheme regulations and in summary are:

- A guaranteed pension based on final salary and length of service;
- Option to take up to 25% of pension as a tax-free lump sum;
- Death and survivor benefits;
- Early payment of pensions in the event of ill health;
- Pension increases in line with Consumer Price Inflation (CPI).

A new LGPS scheme will be introduced with effect from 1st April 2014. This will continue to be a defined benefit scheme, but instead of final salary, it will be a Career Average Revalued Earnings (CARE) scheme, so that a scheme member's pension will be based on their earnings throughout their career, rather than solely on their final salary. Consultation is on-going on the detailed regulations required to implement the scheme, as well as a consideration of future governance arrangements for the LGPS as a whole.

This annual report starts with the Management and Performance section which explains the governance and management arrangements for the Fund, as well as summarising the financial position and the approach to risk management.

The Investment section follows and details the Fund's investment strategy, arrangements and performance. This is followed by Scheme Administration which sets out how the administration of the scheme's benefits and membership is undertaken. Section 4 outlines the funding position of the Fund with a statement from the Fund's actuary and section 5 provides the Fund's annual accounts and notes.

The report concludes with a list of contacts in section 6 and a glossary of some of the more technical terms in section 7.

1. Management and Performance

Governance Arrangements

The London Borough of Hammersmith & Fulham Council has delegated decision making powers in respect of pensions matters to the Audit, Pensions and Standards Committee (the Committee). The Committee is made up of six elected representatives of the Council – four from the administration and two opposition party representatives. 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 meets at least four times a year and has the following terms of reference:

- To determine the overall investment strategy and strategic asset allocation of the Pension Fund;
- 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;
- To monitor the qualitative performance of the investment managers, custodians, actuary and external advisors to ensure that they remain suitable;
- 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;
- To prepare, publish and maintain the Statement of Investment Principles, and monitor compliance with the statement and review its contents;
- 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;
- To approve the final accounts and balance sheet of the Pension Fund and approve the Annual Report;
- To receive actuarial valuations of the Pension Fund regarding the level of employers' contributions necessary to balance the Pension Fund;
- To oversee and approve any changes to the administrative arrangements and policies and procedures of the Council for the payment of pensions, compensation payments and allowances to beneficiaries;
- To consider any proposed legislative changes in respect of the Compensation and Pension Regulations and to respond appropriately;
- To approve the arrangements for the provision of AVCs for fund members;
- To receive and consider the auditor's report on the governance of the Pension Fund.

The Committee reports to the full Council annually on its activities. The Committee obtains and considers advice from the Executive Director of Finance and Corporate Governance and her staff, and as necessary from the Fund's appointed actuary, advisors and investment managers.

The current membership of the Audit & Pensions Committee is as follows:

Councillor Michael Adam	Chairman
Councillor PJ Murphy	Vice Chairman
Councillor Charlie Dewhirst	
Councillor Robert Iggulden	
Councillor Lucy Ivimy	
Councillor Michael Cartwright	
Eugenie White	Co-Opted member

Governance Compliance Statement

The Local Government Pension Scheme (Administration) Regulations 2008 require Pension Funds to prepare, publish and maintain a governance compliance statement; and to measure its governance arrangements against a set of best practice principles. This measurement should result in a statement of full, partial or non compliance with a further explanation provided for any non or partial compliance.

The key issues covered by the best practice principles are:

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

The Fund's published statement can be found in the Pension Fund section of the following website:

[http://www.lbhf.gov.uk/Directory/Council and Democracy/Plans performance and statistics/Performance information/Statement of accounts/68526 Statement of accounts.asp](http://www.lbhf.gov.uk/Directory/Council%20and%20Democracy/Plans%20performance%20and%20statistics/Performance%20information/Statement%20of%20accounts/68526%20Statement%20of%20accounts.asp)

Scheme Management and Advisers

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 and this includes the Pensions and Treasury Teams.

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 continue to be managed separately in accordance with each borough's strategy and so each continues to have sovereignty over decision making. However, officers are continually seeking to improve efficiency and resilience and to minimise the cost of running the Pension Funds, in line with the tri-borough working aims.

Officers

Executive Director of Finance & Corporate Governance	Jane West
Bi-Borough Director of Finance – London Borough of Hammersmith & Fulham and Royal Borough of Kensington & Chelsea	Hitesh Jolapara
Tri-Borough Pensions Team	Jonathan Hunt Alex Robertson Nicola Webb
Principal Pensions Manager	Les Green

External Advisers

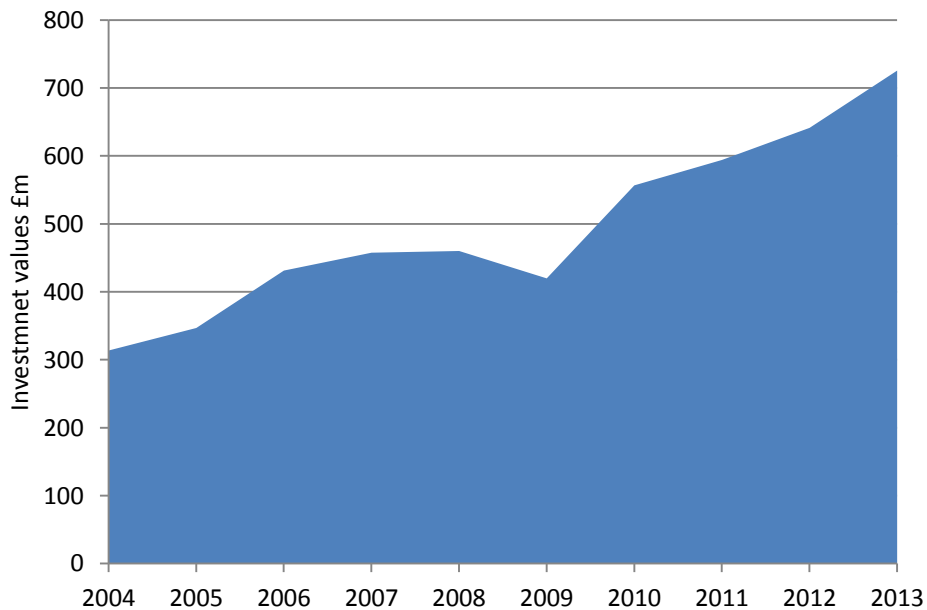
Investment Adviser	PSolve
Investment Managers	Majedie Asset Management MFS International (UK) Limited Baring Asset Management Limited Ruffer LLP Goldman Sachs Asset Management Legal & General Investment Management Invesco Unigestion
Custodian & Bankers	Northern Trust
Actuary	Barnett Waddingham
Auditor	KPMG
Legal Adviser	Eversheds
Scheme Administrators	Capita Employee Benefits
AVC Providers	Zurich Assurance Equitable Life Assurance Society

Financial Summary and performance

The investment return in 2012/13 was positive both in absolute terms and relative to the Fund's target. The return was 15.1%, which was 3.2% above the target set by the Fund. There were no changes of investment manager during the year and the only change to allocation was a shift of 5% out of equities into the Dynamic Asset Allocation portfolio managed by Ruffer LLP in April 2012 following a decision by the Committee in March 2012. The Investment Policy and Performance report in section 2 provides more detail on the Fund's investments and performance.

The table below shows how the value of the Fund's investments have increased over time by showing the total value at 31st March every year for the last ten years:

Value of the Fund over the last ten years



The Pension Fund Account, Net Assets Statement and Notes to the Accounts set out in section 5 provide more detail about the financial transactions during the year and the value of assets at the end.

Risk Management

The Fund has recognised that the most significant long term risk is that the Fund's assets are not sufficient to meet the liabilities. In the light of this, the Fund has set a "Liability Benchmark" to measure the movement in the liabilities and also to assist in monitoring investment performance to ensure it exceeds it.

In order to achieve this level of performance, the Fund has decided to invest in assets, the value of which can fluctuate significantly. To mitigate this risk, an investment strategy which covers a wide range of asset classes and geographical areas has been implemented, to ensure diversification. All of the investments are undertaken in line with the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009 and only following advice from the Fund's investment adviser.

All of the Fund's assets are managed by external investment managers and they are required to provide an audited internal controls report regularly to the Fund which sets out how they ensure the Fund's assets are managed in accordance with the Investment Management Agreement the Council has signed with each investment manager. A range of investment managers are used to diversify manager risk. All the Fund's assets are held for safekeeping by the custodian, who is independent of all the investment managers. They are also required to provide an audited internal controls report to the Fund on a regular basis.

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

2. Investment Policy and Performance

The Fund’s investment policy, objectives and strategy are summarised below and set out in detail in the Statement of Investment Principles, which can be found at the link shown later in this section. One of the Fund’s key objectives is to manage employers’ liabilities effectively and one of the key risks for the Fund is that the assets will fall short of the liabilities. As a result the investment policy is set and performance measured by reference to a benchmark which reflects the liabilities.

Investment Benchmark and Objective

The benchmark used to measure the estimated movement in liabilities, the “Liability Benchmark” is defined using the following range of index linked gilts, designed to closely match the Fund’s liabilities.

45%	Index Linked Treasury Gilt 1.25% 2017
20%	Index Linked Treasury Gilt 1.25% 2027
20%	Index Linked Treasury Gilt 1.25% 2055
10%	Index Linked Treasury Gilt 1.125% 2037
5%	Index Linked Treasury Gilt 0.75% 2047

The investment benchmark for the Fund as a whole is the Liability Benchmark plus 2.2% per annum. The investment objective is to achieve the Liability Benchmark plus 2.5% per annum.

Statement of Investment Principles

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require Pension Funds to prepare, maintain and publish a statement setting out the investment policy of the Fund. In addition Pension Funds are required to demonstrate compliance with the six “Myners Principles”.

The “Myners Principles” are a set of recommendations relating to the investment of pension funds which were originally prepared by Lord Myners in 2001 at the request of the Chancellor of the Exchequer and which were subsequently endorsed by Government. The current version of the principles covers the following areas:

- Effective decision making;
- Clear objectives;
- Risk & liabilities;
- Performance Measurement;
- Responsible ownership;
- Transparency and reporting.

The Fund's published statement can be found in the Pension Fund section of the following website:

<http://www.lbhf.gov.uk/Directory/Council and Democracy/Plans performance and statistics /Performance information/Statement of accounts/68526 Statement of accounts.asp>

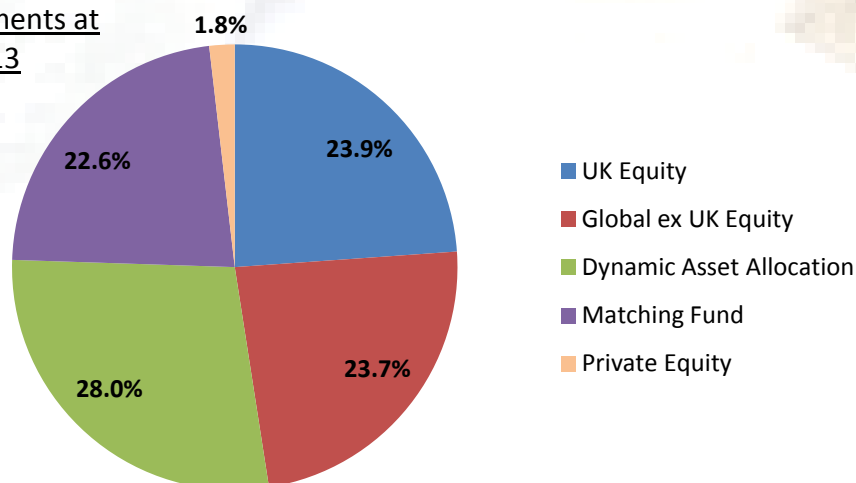
Investment Strategy

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

The table and graph below shows how the Fund was split between the four main portfolios at 31/03/13. The split at 31/03/12 is shown in the table for comparison.

Portfolio	Benchmark at 31/03/2013	Market Value at 31/03/2013 £000s	% of Fund at 31/03/2013	Market Value at 31/03/2012 £000s	% of Fund at 31/03/2012
UK Equity	22.5%	173,322	23.9%	165,450	25.8%
Global ex UK Equity	22.5%	171,675	23.7%	167,753	26.2%
Dynamic Asset Allocation	30.0%	203,026	28.0%	153,953	23.9%
Matching Fund	25.0%	164,316	22.6%	141,442	22.1%
Other	0%	13,336	1.8%	13,142	2.0%
TOTAL	100%	725,675	100.0%	641,380	100.0%

Split of investments at 31st March 2013



The main change to the split of the portfolios in the year 2012/13 was an increase in the proportion allocated to the Dynamic Asset Allocation portfolio. A decision was taken in March 2012 to move assets from the UK and Global Equity portfolios and to allocate them to the Dynamic Asset Allocation portfolio. This was implemented in April 2012. The “Other” category is made up mainly of private equity investments – the Fund has committed to making investments of up to £15m.

Investment Managers

The Fund has appointed external investment managers within the four main portfolios. The investment managers have clear benchmarks and targets, which place maximum accountability for performance on the manager. The detail of these is set out in the Statement of Investment Principles. The table below shows how the Fund’s assets were allocated between the investment managers at 31/03/13, and at 31/03/12 for comparison.

Investment Manager	Market Value at 31/03/2013	% of Fund at 31/03/2013	Market Value at 31/03/2012	% of Fund at 31/03/2012
UK Equity				
Majedie Asset Management	173,322	23.9%	165,450	25.8%
Global ex UK Equity				
MFS International (UK) Ltd	171,675	23.7%	167,753	26.2%
Dynamic Asset Allocation				
Baring Asset Management Ltd	123,116	17.0%	114,060	17.8%
Ruffer LLP	79,910	11.0%	39,533	6.2%
Matching Fund				
Goldman Sachs Asset Management	62,919	8.6%	59,638	9.3%
Legal and General Investment Mngt	101,397	14.0%	81,804	12.8%
Private Equity				
Invesco	7,265	1.0%	7,600	1.2%
Unigestion	6,071	0.8%	5,530	0.8%
Other				
Baring English Growth Fund	0	0.0%	12	0.0%
TOTAL	725,675	100.0%	641,380	100.0%

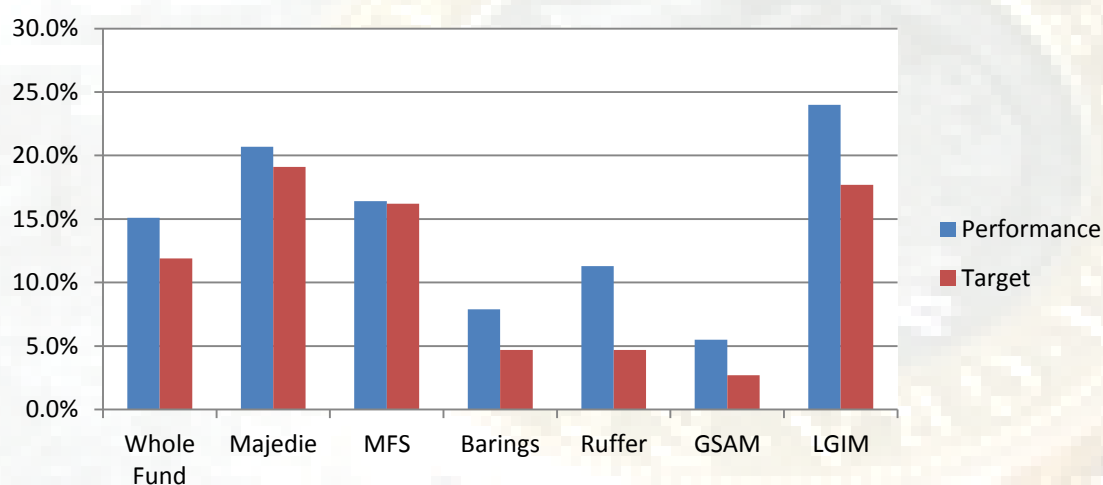
Investment Performance

The table below shows the performance of the Fund against the target in 2012/13, the previous financial year, and the annualised performance over three and five years.

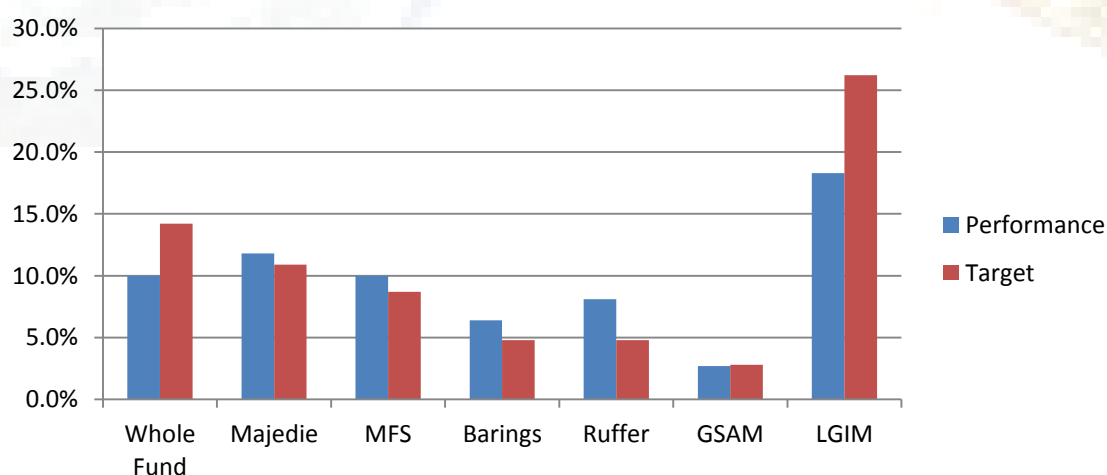
	2012/13	2011/12	3 years	5 years
Performance	15.1%	8.2%	10.0%	10.0%
Target (Liability Benchmark + 2.5%)	11.9%	22.0%	14.2%	8.0%
Out / (under) performance against target	3.2%	(13.8%)	(4.2%)	2.0%

Each of the investment managers has a benchmark and target set within their Investment Management Agreements with the Fund. Performance is measured quarterly and reported to the Committee. The graphs below show the performance of the investment managers against their targets over 2012/13 and annualised over three years.

2012/13 performance against targets



Three Years annualised performance against targets



The graphs show that all the investment managers outperformed their targets in 2012/13, which led to outperformance against target for the Fund as a whole over the year. In the longer term the two investment managers running the matching fund portfolios underperformed their targets over three years and the outperformance of the other portfolios was not enough to offset this at the whole Fund level.

Responsible Investment

The Fund recognises that the neglect of corporate governance and corporate social responsibility may lead to poor or reduced shareholder returns. Following consideration of how to address the issue, in the light of the resources available to the Fund, it has been decided to delegate responsibility for the consideration of responsible investment matters to the Fund's investment managers. The Committee believes this is the most efficient approach for a Fund of this size.

The investment managers are required to report to the Fund on how they implement their responsible investment policy including voting decisions they take on behalf of the Fund in their quarterly reports.

Custody and Banking

The Fund has appointed a global custodian, independent to the investment managers, to be responsible for the safekeeping of all of the Fund's investments – this is Northern Trust. They are also responsible for the settlement of all investment transactions and the collection of income. The Fund's bank account is also held at Northern Trust. Funds not immediately required to pay benefits are invested in Northern Trust's AAA rated money market fund.

3. Scheme Administration

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 defined benefit pension scheme and the benefits are currently based on final salary and length of scheme membership.

Service Delivery

Although the LGPS is a national scheme, it is administered locally. The London Borough of Hammersmith and Fulham has a statutory responsibility to administer the pension benefits payable from the Pension Fund on behalf of the participating employers and the past and present members and their dependents. Capita Employee Benefits have been contracted under a framework to perform the pension administration service for the London Borough of Hammersmith and Fulham and the Council monitors their performance. The framework allows other London boroughs to enter into a call off contract for a range of pension administration services.

Key Service Standards

Capita work to an agreed set of targets based on the number of working days from the date all of the required information is available to them. The following table sets out their performance during 2012/13.

Work area	Total Number	Within Target	% Within Target	Average Days
Starters	229	229	100.0	7.8
Transfer Value In (Quote)	86	84	97.7	6.0
Transfer Value In (Actual)	45	45	100.0	3.7
Transfer Value Out (Quote)	89	86	96.6	4.3
Transfer Value Out (Actual)	52	50	96.2	4.1
Refund	16	16	100.0	5.1
Preserved Benefit	450	435	96.7	13.9
Estimate (Benefit)	798	791	99.1	3.5
Death in Service	17	17	100.0	5.0
Death on Pension	18	14	77.8	3.0
Quote AVCs	18	18	100.0	5.0
Quote ARCs	14	14	100.0	2.7

Membership of the Fund

The Fund provides pensions not only for employees of the London Borough of Hammersmith and Fulham, but also for the employees of a number of scheduled and admitted bodies. Scheduled Bodies are organisations which have the right to be a member of the Local Government Pension Scheme under the regulations e.g. academies. Admitted bodies participate in the scheme via an admission agreement, which is a legal document made between the Council and the organisation. Examples of admitted bodies are not for profit organisations with a link to the Council and contractors who have taken on the Council's services and therefore staff have been transferred.

The table below shows that the number of employers has been growing over the last five years. This is in part due to an increase in academies and free schools and partly due to outsourcing of Council services.

	2008/09	2009/10	2010/11	2011/12	2012/13
Employers	20	25	29	30	35

A full list of the Fund's employers is set out at the end of this section.

The table below shows the Fund's membership over the last five years. It demonstrates how the number of active contributing members in the Pension Fund has been falling over the last five years and the number of pensioners and deferred members has been rising. This pattern is common across local government pension schemes and demonstrates the maturity of those schemes.

	31 st March 2009	31 st March 2010	31 st March 2011	31 st March 2012	31 st March 2013
Contributors	4,297	4,176	4,064	3,837	3,782
Deferred	4,714	4,900	5,217	5,409	5,546
Pensioners & Dependents	3,903	4,067	4,174	4,265	4,379
Total Membership	12,914	13,143	13,455	13,511	13,707

Employer List

Scheduled Bodies	Admitted Bodies
London Borough of Hammersmith & Fulham Bentworth Academy Burlington Danes Academy Conway Academy Fulham College Academy Trust Hammersmith Academy Lady Margaret Academy London Oratory School Mortlake Crematorium Board Sacred Heart High School West London Free School	Crime Reduction Initiatives Disabilities Trust E C Harris LLP Eden Food Service ETDE Infrastructure F M Conway Ltd Family Mosaic Family Mosaic Supporting People Fulham Palace Trust Glencross Cleaning Ltd H & F Bridge Partnership H&F Community Law Centre Inspace Partnerships Ltd Irish Cultural Centre Keir Keir - Non HR Contract Medequip Assistive Technology P H Jones Ltd Quadron Serco Tendis Thames Reach Turners Urban Partnership Group

Communication policy statement

The Local Government Pension Scheme (Administration) Regulations 2008 require Pension Funds to prepare, publish and maintain a communication policy statement. This statement sets out the methods used by the Fund to communicate with the various stakeholders, including scheme members, employers and their representatives.

The Fund's Communication policy statement can be found on the following website:

http://www.lbhf.gov.uk/Directory/Council_and_Democracy/Plans_performance_and_statistics/Performance_information/Statement_of_accounts/68526_Statement_of_accounts.asp

Sources of information

Further information about the benefits payable from the Pension Fund can be found on the national Local Government Pension Scheme website www.lgps.org.uk. For further information about the administration of the scheme in Hammersmith and Fulham, visit the administrator's LGPS website www.mylgppension.co.uk

Internal Dispute Resolution Procedure

Members of pension schemes have statutory rights to ensure that complaints, queries and problems concerning pension rights are properly resolved.

To facilitate this process, an Internal Disputes Resolution Procedure has been established. In the first instance, members are expected to take up matters with Les Green at the following address: pensions@lbhf.gov.uk, telephone number 020 8753 1878. If the matter remains unresolved, a stage 1 appeal may be made to Steve Birks, Director of Pension Operations at Capita Employee Benefits using the email address: lbhf.pensions@capita.co.uk and thereafter, if necessary a further appeal may be made to Debbie Morris, Bi-borough Director of HR for Hammersmith & Fulham and Kensington & Chelsea.

If the problem remains unresolved, members then have the right to refer the matter to The Pensions Advisory Service (TPAS) which has a network of pension advisers who will try to resolve problems before they are referred on to the Pensions Ombudsman. However, the TPAS service may be invoked at any stage of the appeal process. Both TPAS and the Pensions Ombudsman can be contacted at:

11 Belgrave Road
London
SW1V 1RB

Additional Voluntary Contributions

The Fund's AVC providers are Zurich Assurance and the Equitable Life Assurance Society. 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. 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, but are recorded in a disclosure note.

4. Actuarial Information

Summary of the last triennial valuation

The Fund is required to arrange for an actuary to conduct an actuarial valuation of the Fund's assets and liabilities once every three years. This enables the employer contribution rates to be set for the coming three years. The last triennial valuation of the Fund was undertaken as at 31st March 2010. The next one will be calculated as at 31st March 2013 and the results will be available later in the 2013 calendar year.

The results of the valuation in 2010 are shown in the table below:

Value of Assets	£532m
Liabilities	(£718m)
Deficit	(£186m)
Funding Level	74%
Future Service Contribution Rate	13.1%
Past Service Recovery Contribution Rate	8.4%
Total Employer Contribution Rate	21.5%

These results show that the Fund had assets sufficient to meet 74% of the liabilities at the time of the last valuation. The actuary set an employer contribution rate of 13.1% of payroll to meet the cost of service built up in the Fund in future. An additional contribution of 8.4% of payroll was set to recover the deficit over a 25 year period. Individual employers pay adjusted rates to reflect the circumstances of their own membership.

Funding Strategy Statement

The Local Government Pension Scheme (Administration) Regulations 2008 require Pension Funds to prepare a funding strategy statement which sets out how the Fund will manage its liabilities and return to full funding. The strategy is considered by the Fund Actuary when undertaking the triennial valuation and setting the employer contribution rates. The statement is reviewed every three years in conjunction with the actuarial valuation.

The Fund's published statement can be found in the Pension Fund section of the following website:

[http://www.lbhf.gov.uk/Directory/Council and Democracy/Plans performance and statistics/Performance information/Statement of accounts/68526 Statement of accounts.asp](http://www.lbhf.gov.uk/Directory/Council%20and%20Democracy/Plans%20performance%20and%20statistics/Performance%20information/Statement%20of%20accounts/68526%20Statement%20of%20accounts.asp)

Statement of the Fund Actuary

The statement below has been provided by the Fund Actuary, Barnett Waddingham.

Introduction

The latest full triennial valuation of the London Borough of Hammersmith and Fulham Pension Fund was carried out by us 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 March 2011.

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 the difference between each participating employer's notional share of value of the Fund's assets and 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% 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

Developments since 2010 and the 2013 valuation

Since March 2010, investment returns have been better than expected. This will have a positive effect on the financial position of the Fund and we expect that the funding level should be slightly higher than at 31 March 2010, when measured on consistent assumptions.

It is likely that a greater allowance for future mortality improvements will be made at the 2013 valuation which will lower the funding level compared to adopting the mortality assumptions adopted in 2010. However we expect this may be offset by other changes such as allowing for changes made to the inflation indices by the Office for National Statistics.

There may also be other changes to the assumptions and methodology reflecting more recent experience and data that has become available.

The contribution rates resulting from the 2013 valuation will take effect from 1 April 2014 and will allow for any changes to the benefits in the LGPS from that date.



Alison Hamilton FFA

Partner



Anna Short FFA

Associate

10th May 2013

5. Pension Fund Accounts

This section sets out the full audited financial statements of the London Borough of Hammersmith and Fulham Pension Fund for the year ended 31st March 2013.

The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In 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;
- Complied with the Code;
- Kept proper accounting records which were up to date;
- 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 2013 and income and expenditure for the year for the financial year 2012/13.

Jane West, Executive Director of Finance and Corporate Governance

Fund Account 2012/13

	Note	2012/13		2011/12	
		£000	£000	£000	£000
Dealings with members, employers and others directly involved in the scheme					
Contributions					
From Employers	6	23,136		23,234	
From Members	6	6,445	29,581	6,906	30,140
Individual Transfers In from other Pension Funds			1,575		1,906
Other Income			36		20
Benefits					
Pensions	7	(26,525)		(24,284)	
Lump Sum Retirement Benefits	7	(5,353)	(31,878)	(6,852)	(31,136)
Payments to and on account of leavers					
Individual Transfers Out to other Pension Funds			(6,149)		(2,575)
Other Expenditure			(20)		(60)
Administrative Expenses	8		(632)		(867)
Net Additions (Withdrawals) from dealings with members			(7,487)		(2,572)
Returns on Investments					
Investment Income	9		9,930		9,579
Taxes on Income (Irrecoverable Withholding Tax)			(131)		(133)
Profit and losses on disposal of investments and changes in value of investments					
Realised	12		12,206		37,698
Unrealised	12		73,595		1,572
Investment Expenses	10		(2,667)		(3,222)
Net Returns on Investments			92,933		45,494
Net Increase (Decrease) in the net assets available for benefits during the year			85,446		42,922
Opening Net Assets of the Scheme			638,640		595,718
Closing Net Assets of the Scheme			724,086		638,640

Net Asset Statement as at 31st March 2013

	Note	31 March 2013 £000	31 March 2012 £000
Investment Assets			
Index Linked Securities	13	23,755	13,211
Equities	13	297,086	277,622
Pooled Investment Vehicles	13	374,420	326,655
Private Equity	13&15	12,687	13,142
Commodities	13	3,585	-
Cash Deposits	13	12,909	8,366
Other Investment Balances			
Amounts Outstanding on Sale of Investments	13	1,223	1,041
Investment Income Due	13	760	1,470
Investment Liabilities			
Amounts Outstanding on Purchase of Investments	13	(750)	(127)
Total Investment Assets	13	725,675	641,380
Current Assets	20	199	224
Current Liabilities	21	(1,114)	(1,067)
Cash Balances		(674)	(1,897)
Net assets of the fund available to fund benefits at the period end.		724,086	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. The accounts do not take account of liabilities to pay pensions and benefits which fall due after the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 19 of these accounts.

Notes to the Pension Fund Accounts

Note 1: Description of Hammersmith and Fulham Pension Fund

a) General

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.

b) Audit, Pensions & 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 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.

c) Investment Principles

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999 require administering authorities to prepare and review from time to time a written statement recording the investment policy of their Pension Fund. The Committee approved a Statement of Investment Principles on 28th June 2012 and this is available in the

Pension Fund Annual Report on the Council’s Internet site. The Statement shows the Authority’s compliance with the Myner’s principles of investment management.

The Committee has delegated the management of the fund’s investments to professional investment managers (note 11), appointed in accordance with the regulations, and whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

d) Membership

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

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

The following table is a membership summary of the scheme:

	31 March 2013	31 March 2012
Contributing employees	3,782	3,837
Pensioners receiving benefit	4,379	4,265
Deferred Pensioners	5,546	5,409

Restated

Details of the scheduled and admitted bodies in the scheme are shown in Notes 6 (contributions receivable) and 7 (benefits payable.)

e) Tri Borough Working

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

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

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

Note 2: Basis of preparation of financial statements

The Statement of Accounts summarises the fund's transactions for 2012/13 and its position at year-end as at 31st March 2013. 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.

Note 3: Summary of significant accounting policies

Fund Account – revenue recognition

a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment Income

Dividends from quoted securities are accounted for when the security is declared ex-dividend. Interest income is accrued on a daily basis. Investment income is reported gross of withholding taxes which are accrued in line with the associated investment income. Irrecoverable withholding taxes are reported separately as a tax charge. Investment income arising from the underlying investments of the Pooled Investment Vehicles is reinvested within the Pooled Investment Vehicles and reflected in the unit price.

Fund Account – Expense Items

d) Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Lump sums are accounted for in the period in which the member becomes a

pensioner. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

e) Taxation

The Fund is an exempt approved fund under the Income and Corporation Taxes Act 1988 and is therefore not liable to certain UK income tax on investment income or to capital gains tax. As the Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities including expenditure on investment expenses. Where tax can be reclaimed, investment income in the accounts is shown gross of UK tax. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

f) Administration expenses

Expenses are accounted for on an accruals basis to ensure expenses for the full accounting period are accounted for in the fund account. All staff costs of the pension administration team are charged direct to the fund.

g) 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.

Net Assets Statement

h) Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. 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 published bid prices or those quoted by their managers.

The values of the investment in Private Equity fund of funds 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.

i) Foreign Currency Transactions

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 reporting date.

j) Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand and deposits with financial institutions.

k) Financial Liabilities

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

l) Actuarial Present Value of Promised Retirement Benefits

Paragraph 6.5.2.8 of the CIPFA Code of Practice on Local Authority Accounting sets out that the actuarial present value of promised retirement benefits should be disclosed and based on the requirements of IAS19 Post Employment Benefits and relevant actuarial standards. As permitted under IAS26 Accounting and Reporting by Retirement Benefit Plans, the financial statements include a report from the Actuary by way of disclosing the actuarial present value of retirement benefits. (Note 19)

m) Additional Voluntary Contributions

Additional Voluntary Contributions for the defined benefit scheme are not included within the accounts in accordance with the relevant regulations and are paid over to be invested separately from the pension fund. More information is given in Note 22.

n) Recharges from the General Fund

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 permit the Council to charge administration costs to the Fund. A proportion of the relevant Council costs has been charged to the Fund on the basis of actual time spent on Pension Fund business. Costs incurred in the management and administration of the Fund are set out separately.

Note 4: Critical Judgements in applying accounting policies

a) Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers in accordance with industry standards.

b) Pension Fund Liability

The Fund's liability is calculated triennially by the appointed actuary as permitted under IAS 26. The most recent triennial valuation was as at 31st March 2010 so the next one is due as at 31st March 2013. The methodology used follows generally agreed guidelines and is in accordance with IAS 19. The estimates are sensitive to changes in the underlying assumptions underpinning the valuations.

Note 5: Events after the Balance Sheet

At the 31st August 2013 the market value of the investments of the Fund had increased to approximately £726.48 million due to the rise in global stock markets since the date of the balance sheet.

Note 6: Contributions receivable

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

The tables below and overleaf show a breakdown of the total amount of employers' and employees' contributions made during the year by the Council and each admitted body.

	Employers'		Employees'	
	2012/13	2011/12	2012/13	2011/12
	£000	£000	£000	£000
LB Hammersmith and Fulham	19,923	20,698	5,507	5,976
LBHF Councillors	38	74	17	18
Sub-Totals Administering Authority	19,961	20,772	5,524	5,994
Mortlake Crematorium Board	53	53	14	14
London Oratory School	105	89	46	40
Burlington Danes Academy	113	106	52	49
Hammersmith Academy	64	49	30	24
Conway Academy	8	7	2	2
West London Free School	33	11	9	3
Bentworth Academy	22	-	6	-
Lady Margaret Academy	65	-	18	-
Sacred Heart High School	101	-	29	-
Fulham College Academy Trust	27	-	8	-
Sub-Totals Scheduled Bodies	591	315	214	132

	Employers'		Employees'	
	2012/13	2011/12	2012/13	2011/12
	£000	£000	£000	£000
F M Conway Ltd	61	85	21	34
Urban Partnership Group	51	50	14	13
H&F Community Law Centre	6	5	2	2
Family Mosaic	86	111	27	35
Disabilities Trust	4	5	1	2
Thames Reach	6	6	2	2
Medequip Assistive Technology	9	14	2	3
Eden Food Service	256	243	79	80
Fulham Palace Trust	41	54	12	15
Family Mosaic Supporting People	15	20	6	8
Glencross Cleaning Ltd	3	3	1	1
Inspace Partnerships Ltd	59	58	19	19
H & F Bridge Partnership	938	374	134	154
Keir	138	141	43	44
Keir - Non HR Contract	4	4	2	2
P H Jones Ltd	5	5	2	2
Irish Cultural Centre	6	6	1	1
E C Harris LLP	7	49	2	20
Crime Reduction Initiatives	5	1	2	1
Quadron	240	244	68	69
Serco	481	499	210	218
Tendis	21	21	6	6
Turners	120	149	43	49
ETDE Infrastructure	22	-	8	-
Sub-Totals Admitted Bodies	2,584	2,147	707	780
Grand Totals	23,136	23,234	6,445	6,906

Note 7: Benefits Payable

The tables below and overleaf show a breakdown of the total amount of benefits payable for 2012/13.

	Pensions		Pensions Increases	
	2012/13	2011/12	2012/13	2011/12
	£000	£000	£000	£000
LB Hammersmith and Fulham	(17,813)	(16,787)	(7,996)	(6,870)
LBHF Councillors	(1)	(1)	-	-
Sub-Totals Administering Authority	(17,814)	(16,788)	(7,996)	(6,870)
Mortlake Crematorium Board	(38)	(40)	(7)	(5)
London Oratory School	(2)	(2)	-	-
Burlington Danes Academy	(18)	(17)	(1)	(1)
Sub-Totals Scheduled Bodies	(58)	(59)	(8)	(6)
H&F Community Law Centre	(33)	(26)	(12)	(3)
H&F Police Consultative Group	(5)	(5)	(2)	(1)
ROOM the National Council	(4)	(4)	(2)	(1)
Family Mosaic	(98)	(90)	(19)	(15)
Greenwich Leisure Ltd	(2)	(2)	(1)	(1)
Blythe Neighbourhood Council	(1)	(1)	-	-
Inspace Partnerships Ltd	(42)	(42)	(4)	(2)
Keir	(1)	-	-	-
Turners	(14)	(15)	-	-
Urban Partnership Group	(3)	(3)	-	-
Disabilities Trust	(8)	-	(1)	-
EC Harris LLP	(12)	(4)	-	-
Eden Food Service	(17)	(14)	(1)	-
F M Conway Ltd	(16)	(12)	-	-
H & F Bridge Partnership	(236)	(236)	(20)	(10)
Quadron	(30)	(27)	(1)	(1)
Serco	(58)	(45)	(6)	(1)
Sub-Totals Admitted Bodies	(580)	(526)	(69)	(35)
Grand Totals	(18,452)	(17,373)	(8,073)	(6,911)

	Lump Sum Retirement Benefits & Interest on Lump Sums		Lump Sum Death Benefits	
	2012/13	2011/12	2012/13	2011/12
	£000	£000	£000	£000
LB Hammersmith and Fulham LBHF Councillors	(4,753)	(5,564)	(331)	(744)
Sub-Totals Administering Authority	(4,753)	(5,564)	(350)	(744)
Mortlake Crematorium Board	-	-	(17)	-
London Oratory School	(15)	(12)	-	-
Burlington Danes Academy	-	(6)	-	-
Sub-Totals Scheduled Bodies	(15)	(18)	(17)	-
H&F Community Law Centre	(33)	-	-	-
Family Mosaic	(5)	(102)	-	-
Disabilities Trust	(2)	-	-	-
EC Harris LLP	-	(78)	-	-
Eden Food Service	(11)	(78)	(71)	(6)
F M Conway Ltd	-	(68)	-	-
Quadron	-	(58)	-	-
Keir	(10)	-	-	-
Turners	(37)	(3)	-	-
Serco	(49)	(133)	-	-
Sub-Totals Admitted Bodies	(147)	(520)	(71)	(6)
Grand Totals	(4,915)	(6,102)	(438)	(750)

Note 8: Administration Expenses

The table below shows a breakdown of the administration expenses for the year.

	2012/13	2011/12
	£000	£000
Provision of Pension Administration	(407)	(555)
Support services including IT	(179)	(181)
External audit fees	(21)	(32)
External audit fees re 2010/11	0	(26)
Actuarial fees	(22)	6
Other Fees	(3)	(79)
	<u>(632)</u>	<u>(867)</u>

Note 9: Investment Income

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

	2012/13	2011/12
	£000	£000
Dividends from Equities	8,774	9,220
Income from Index-Linked Securities	232	178
Interest on Cash Deposits	133	140
Currency profit/(loss)	342	(179)
Private Equity/Other	449	220
	<u>9,930</u>	<u>9,579</u>

Note 10: Investment Expenses

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

	2012/13	2011/12
	£000	£000
Management fees	(2,518)	(3,033)
Custody and performance monitoring fees	(110)	(91)
Investment consultancy	(39)	(98)
	<u>(2,667)</u>	<u>(3,222)</u>

Note 11: Investment Strategy

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

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

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

Additionally, the Committee has agreed to invest in four private equity fund of funds. Two are managed by Invesco, which has approximately 75% invested in the United States and 25% in

Europe, and the other two are managed by Unigestion which are invested almost entirely in Europe.

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

	31 March 2013		31 March 2012	
	Market Value £000	Total %	Market Value £000	Total %
Majedie Asset Management	173,322	23.9	165,450	25.8
MFS International (UK) Ltd	171,675	23.6	167,753	26.1
Baring Asset Management Ltd	123,116	17.0	114,060	17.8
Ruffer LLP	79,910	11.0	39,533	6.2
Goldman Sachs Asset Management	62,919	8.7	59,638	9.3
Legal and General Investment Management	101,397	14.0	81,804	12.7
Invesco Private Equity	7,265	1.0	7,600	1.2
Unigestion Private Equity	6,071	0.8	5,530	0.9
Barings English Growth Fund	-	0.0	12	0.0
	725,675	100.0	641,380	100.0

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 ratings agencies.

Note 12: Reconciliation of movement in investments

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

	2012/13 £000	2011/12 £000
Market Value of Investment Assets at 1st April	641,380	594,164
Movements in Year		
Purchase of Investments	161,265	205,195
Sale of Investments	(166,163)	(198,541)
Realised Profit/(Loss) on Sales	12,206	37,698
Unrealised Profit/(Loss) in Market Value	73,595	1,572
Change in Cash Deposits	4,543	(13)
Change in Debtors and Creditors	(1,151)	1,305
Market Value of Investment Assets At 31st March	725,675	641,380

The table below shows a reconciliation of the movement in the total investment assets of each fund manager in 2012/2013.

Fund Manager	Value at 31 March 2012	Purchase of Investments	Sale of Investments	Realised Profit/ (Loss) on sales	Unrealise d Profit/ (Loss) in Market value	Change in Cash Deposits	Change in Debtors and Creditors	Value at 31 March 2013
	£000	£000	£000	£000	£000	£000	£000	£000
Majedie Asset Management MFS	165,450	45,447	(61,369)	6,594	18,205	(976)	(29)	173,322
International (UK) Ltd	167,753	54,424	(70,828)	5,009	16,290	(1,004)	31	171,675
Baring Asset Management Ltd	114,060	114	0	0	8,942	0	0	123,116
Ruffer LLP	39,533	60,588	(31,768)	756	6,083	5,871	(1,153)	79,910
Goldman Sachs Asset Management Legal and General	59,638	0	(2)	2	3,279	2	0	62,919
Investment Management	81,804	0	0	0	19,592	1	0	101,397
Invesco Private Equity	7,600	122	(1,853)	288	557	551	0	7,265
Unigestion Private Equity	5,530	570	(343)	21	195	98	0	6,071
Barings English Growth Fund	12	0		(464)	452			0
Totals	641,380	161,265	(166,163)	12,206	73,595	4,543	(1,151)	725,675

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 £499,743 (£467,851 in 2011/12). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

Note 13: Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities split by UK and Overseas, by category and net assets statement heading as at the balance sheet date. No financial assets were reclassified during the accounting period. All investments are quoted unless stated.

Designated at fair value through Profit and Loss	31 March 2013		31 March 2012	
	£000	£000	£000	£000
United Kingdom				
Index Linked Securities - Public Sector		14,398		7,632
Equities		88,668		100,574
Pooled Investment Vehicles				
Managed Fund - Majedie UK Equity Funds	76,981		66,562	
Managed Fund - L & G LDI Bespoke Fund	101,396		81,804	
Managed Fund - Goldman Sachs Libor Plus 1 Fund	62,916		59,637	
Managed Fund - Baring Dynamic Asset Allocation Fund	123,116		114,060	
Managed Fund - Ruffer Illiquid Strategies Fund of Funds	3,487		1,570	
Managed Fund - Ruffer Baker Steel Gold Fund	1,030		684	
Managed Fund - Ruffer Mid & Smaller Companies Fund	443		-	
Managed Fund - Ruffer Protection Strategies Internl Fund	463		-	
Managed Fund - Private Equity (Unquoted)	-	369,832	12	324,329
Commodities - Gold Bullion Securities 0% Undated Notes		3,585		-
Total United Kingdom		476,483		432,535
Overseas				
Index Linked Securities - Public Sector		9,357		5,579
Equities				
North America	111,824		93,855	
Japan	14,695		8,923	
Europe (ex UK)	57,533		49,756	
Pacific Basin	11,260		11,058	
Other	13,106	208,418	13,456	177,048
Pooled Investment Vehicles				
Managed Fund - Dynamic Investment Fund	621		761	
Managed Fund - Ruffer Japanese Fund	2,672		1,206	
Managed Fund - Red Kite Compass Fund	865		371	
Managed Fund - Ruffer Global Smaller Companies Fund	430			
Managed Fund - Private Equity (Unquoted)				
Invesco - North America	6,714		7,600	
Unigestion - Europe	5,973		5,530	15,468
		17,275		
Total Overseas		235,050		198,095

Note 15: Contingent Liabilities and Contractual Commitments

As at 31st March 2013, the fund had a commitment to invest a further £1.7million in two of the private equity fund of funds managed by Invesco and Unigestion. It is anticipated that these commitments will be spread over the next two to three years.

Note 16: Stock Lending Agreements

The Fund did not participate in stock lending or underwriting.

Note 17: Nature and extent of risks arising from financial instruments

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

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 closely match the fund's liabilities as measured at the actuarial valuation, in the following proportions: 45% Index-Linked Treasury Gilt 1 1/4% 2017, 20% Index-Linked Treasury Gilt 1 1/4% 2027, 10% Index-Linked Treasury Gilt 1 1/8% 2037, 5% Index-Linked Treasury Gilt 0 3/4% 2047 and 20% Index-Linked Treasury Gilt 1 1/4% 2055.

a) Market Risk

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

The aim of the investment strategy is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. Responsibility for the Fund's investment strategy rests with the Audit Pensions and Standards 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.

Interest Rate Risk

The fund invests in financial assets for the primary purpose of obtaining a return on its investments. Fixed Interest securities and cash are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The 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.

Currency Risk

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

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

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 2013 the balance on this facility stood at £1,193,223. These borrowings are of a limited short term nature.

Note 18: Funding Arrangements

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

The latest full triennial valuation of the London Borough of Hammersmith and Fulham Pension Fund was carried out by Barnett Waddingham, the fund's actuary, as at 31 March 2010 in accordance with the Funding Strategy Statement of the Fund and Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008. The results were published in the triennial valuation report dated 31 March 2011 and this is available on the Council's Internet site.

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

2010 Valuation Results

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

Contribution Rates

The contribution rates were calculated using the Projected Unit Method.

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

- a) the additional annual accrual of benefits allowing for future pay increases and increases to pension in payment when these fall due; plus
- b) an amount to reflect the difference between each participating employer's notional share of value of the Fund's assets and 100% of their liabilities in the Fund in respect of service to the valuation date.

Asset Value and Funding Level

The smoothed market value of the Fund's assets as at 31 March 2010 for valuation purposes was £531.7m which represented 74% 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

Development since 2010 and the 2013 Valuation

Since March 2010, investment returns have been better than expected. This will have a positive effect on the financial position of the Fund and we expect that the funding level should be slightly higher than at 31 March 2010, when measured on consistent assumptions.

It is likely that a greater allowance for future mortality improvements will be made at the 2013 valuation which will lower the funding level compared to adopting the mortality assumptions adopted in 2010. However we expect this may be offset by other changes such as allowing for changes made to the inflation indices by the Office for National Statistics.

There may also be other changes to the assumptions and methodology reflecting more recent experience and data that has become available.

The contribution rates resulting from the 2013 valuation will take effect from 1 April 2014 and will allow for any changes to the benefits in the LGPS from that date.

Alison Hamilton FFA
Partner, Barnett Waddingham
02 May 2013

Note 19: Actuarial present value of promised retirement benefits

The table overleaf shows the total net liability of the Fund as at 31st March 2013. The figures have been prepared by Barnett Waddingham, the fund's actuary, only for the purposes of providing the required information required by IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

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

	31 March 2013 £'000	31 March 2012 £'000
Present Value of Promised Retirement Benefits*	1,171,217	1,079,048
Fair Value of Scheme Assets (bid value)	(725,674)	(638,640)
Net Liability	<u>445,543</u>	<u>440,408</u>

*Present Value of Promised Retirement Benefits comprises of £984,337,000 (£918,319,000 in 2011/2012) and £186,880,000 (£160,729,000 in 2011/2012) in respect of vested benefits and non-vested benefits respectively as at 31 March 2013.

Note 20: Current Assets

	31st March 2013 £000	31st March 2012 £000
Debtors		
Contributions due - employers	123	45
Contributions due - employees	43	134
Administration Expenses	-	13
Sundry debtors	33	32
	<u>199</u>	<u>224</u>

Analysis of debtors

	31st March 2013 £000	31st March 2012 £000
Central government bodies	-	-
Other entities and individuals	199	224
	<u>199</u>	<u>224</u>

Note 21: Current Liabilities

	31st March	31st March
	2013	2012
Creditors	£000	£000
Unpaid Benefits	(256)	(429)
Investment Management Expenses	(855)	(637)
Administration Expenses	(3)	-
Sundry creditors	-	(1)
	<u>(1,114)</u>	<u>(1,067)</u>

Analysis of creditors

	31st March	31st March
	2013	2012
	£000	£000
Central government bodies	0	0
Other entities and individuals	(1,114)	(1,067)
	<u>(1,114)</u>	<u>(1,067)</u>

Note 22: Additional Voluntary Contributions

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 one member who contributed £66.24 during the year for death-in-service benefits.

The total market value of the separately invested AVCs with Equitable Life Assurance at the 5th April 2013 was £225,969.65.

At the year end there were 66 members of the Zurich Assurance AVC scheme. The total value of the contributions paid to Zurich in 2012/2013 was £27,317.90 and the total market value of the separately invested AVC's with Zurich Assurance at 5 April 2013 was £962,966.24

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.

Note 23: Related Parties

The Council was a related party to the fund. Details of the relationship are disclosed in Note 1 to the Pension Fund Accounts. In accordance with the regulations the Council's expenses in administering the scheme are charged direct to the Fund. The amount charged by the Council for 2012/2013 was £586,213 (2011/2012 £740,954).

During 2012/2013 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 £4,127 in interest to the Council during 2012/2013. At 31st March 2013 the Council owed the Pension Fund £519,702.

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 2012/2013 were identified.

Independent auditor's report to the members of London Borough of Hammersmith and Fulham

This is included in the Council's Statement of Accounts which can be found at the following link:

[http://www.lbhf.gov.uk/Directory/Council and Democracy/Plans performance and statistics /Performance information/Statement of accounts/68526 Statement of accounts.asp](http://www.lbhf.gov.uk/Directory/Council%20and%20Democracy/Plans%20performance%20and%20statistics/Performance%20information/Statement%20of%20accounts/68526%20Statement%20of%20accounts.asp)



6. Contacts

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Email: pensionfund@lbhf.gov.uk

Principal Pensions Manager

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Town Hall
King Street
London
W6 9JU
Email: pensions@lbhf.gov.uk

Capita Employee Benefits

London Borough of Hammersmith and Fulham Team
PO Box 195
Mowden Hall
Darlington
DH1 9FS
Telephone: 01737 366139 or 366037
Email: lbhf.pensions@capita.co.uk

National Local Government Pension Scheme information website

www.lgps.org.uk

The Pensions Advisory Service (TPAS)

11 Belgrave Road
London SW1V 1RB
Telephone: 0845 601 2923
Email: www.pensionsadvisoryservice.org.uk/online-enquiry

The Office of the Pensions Ombudsman

11 Belgrave Road
London, SW1V 1RB
Telephone: 020 7630 2200
Email: enquiries@pensions-ombudsman.org.uk

7. Glossary

Active member: Current employee who is contributing to a pension scheme.

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

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

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

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

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

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

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

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

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

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

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.

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

Private Equity: Investments in companies not quoted on public stock exchanges. Commonly these are start up businesses (also known as venture capital) or buyouts of companies with a view to restructuring and selling on.

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

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

Unrealised Gains/Losses: The increase or decrease in the market value of investments held by the fund since the date of their purchase.