



Pension Fund Annual Report and Accounts

For the year ended 31 March 2017

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1.

Preface and Introduction

Report from Chair of the Pensions Sub-Committee

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

The Pensions Sub-Committee is responsible for overseeing the management of the London Borough of Hammersmith & Fulham Pension Fund including investment management and pension administration issues. As the current Chairman of this Committee, I am pleased to introduce the Pension Fund's annual report for the year 2016-17.

During the year, the value of the Fund increased by over £147m to £1,003m reflecting the continued recovery in the global economy since last year. The Sub-Committee continues to monitor the Fund closely at every meeting and challenges the investment advisers as necessary to ensure the Fund's investments are being managed effectively.

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

The Council has been active in the transfer of assets under management to the London Collective Investment Vehicle (CIV) to gain efficiencies and fee reductions. The £88.8m Ruffer portfolio transferred to CIV in June 2016. The Fund has also benefitted from lower fees negotiated by the CIV on its Legal and General Passive Equities Portfolio. Work was also undertaken to transfer the Majedie portfolio to the

CIV, with a further £127m being transferred in May 2017. This pooling will continue over the coming years to improve the efficiency of the Fund.

During the year there have been on-going issues with data quality and transfer of information between parties that administer the Fund. Further details are in the Administration Management Performance section of the Annual Report. A plan of action is in place to address these issues during the summer, which the Pension Fund Committee will be actively monitoring to ensure service improvements are achieved.

I would like to thank all those involved in the management of the Pension Fund during the year especially those who served on the Sub-Committee during 2016-17.



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

Introduction

The London Borough of Hammersmith and Fulham Pension Fund is part of the national Local Government Pension Scheme (LGPS) and is administered locally by Hammersmith and Fulham Council. It is a contributory defined benefit pension scheme established under statute, which provides for the payment of benefits to employees and former employees of 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 returns from the Fund's investments. The employer contributions are set by the Fund's actuary at the triennial actuarial valuation, undertaken most recently as at 31st March 2013.

The benefits payable from the Fund are set out in the Local Government Pension Scheme regulations. Prior to 1st April 2014, the LGPS was a final salary scheme which paid pensions on the basis of final salary and length of service. Since 1st April 2014 the scheme has been a Career Average Revalued Earnings (CARE) scheme, so that a scheme member's pension is based on their earnings throughout their career, rather than solely on their final salary.

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

- A pension based on career average earnings (revalued in line with the Consumer Prices Index)
- Pensionable pay to include non-contractual overtime and additional hours

- Flexibility for member to pay 50% contributions for 50% of the pension benefit
- Normal pension age to equal the individual member's State Pension Age
- Option to trade £1 of pension for a £12 tax-free lump sum at retirement
- Death in service lump sum of three times pensionable pay and survivor benefits
- Early payment of pensions in the event of ill health

The Fund is governed by the Public Service Pensions Act 2013 and the LGPS Regulations 2013 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2016. The content and format of this annual report is prescribed by the LGPS Regulations 2013.

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

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

Introduction (continued)

This annual report comprises the following sections:

- **Management and Financial Performance** which explains the governance and management arrangements for the Fund, as well as summarising the financial position and the approach to risk management.
- **Investment Policy and Performance** detailing the Fund's investment strategy, arrangements and performance.
- **Scheme Administration** which sets out how the Scheme's benefits and membership are administered.
- The funding position of the Fund with a statement from the Fund's actuary.
- **The Fund's annual accounts** for the year ended 31 March 2017
- **List of contacts** and a glossary of some of the more technical terms
- **Appendices** setting out the various regulatory policy statements of the Fund:
 - Governance Compliance Statement
 - Statement of Investment Principles
 - Communication Policy
 - Funding Strategy Statement
- Further information about the Local Government Pension Scheme can be found at www.lbhfpensionfund.org

An aerial night photograph of a city, likely Beijing, showing a dense urban landscape with numerous illuminated buildings and a complex highway interchange. The right half of the image is covered by a semi-transparent green overlay. On this green background, the text '2. Management and Financial Performance' is written in white. A thin white horizontal line is positioned between the number '2.' and the main title.

2. Management and Financial Performance

Governance Arrangements

PENSION FUND COMMITTEE

The London Borough of Hammersmith & Fulham Council has delegated responsibility for pension matters to the **Audit, Pensions and Standards Committee** (the Committee). The Committee comprises nine elected representatives of the Council – five from the administration and four opposition party representatives. Members of the admitted bodies and representatives of the Trade Unions may attend the committee meetings but have no voting rights. In order to manage the workload of the committee, it has delegated decisions in relation to all pensions matters to the Pensions Sub-committee.

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

Terms of Reference for the Sub-Committee are:

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

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

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

The current membership of the Pensions Sub-Committee is set out below. All members served for the full year in 2016/17.

Councillor	Committee Attendance 2016/17
Iain Cassidy (Chair)	4/4
Michael Adam (Vice Chair)	4/4
Nicholas Botterill	3/4
PJ Murphy	3/4
Guy Vincent	3/4

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

LOCAL PENSION BOARD

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

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

Terms of Reference for the Local Pension Board can be found on the Pension Fund website at

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

The membership of the Board is as follows:

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

The current membership of the Pensions Board is set out below. All members served for the full year 2016/17.

Board Member	Employer/Employee	Attendance 2016/17
Cllr Ali Hashem (Chair)	Employer	2/2
Cllr Rory Vaughan	Employer	2/2
Richard Gregg	Employer	2/2
Eric Kersey	Employee	2/2
Orin Miller	Employee	1/2
Neil Newton	Employee	2/2

MEMBER AND OFFICER TRAINING

During 2016-17 knowledge was gained at various meetings with investment managers in addition to individual attendance at conferences and seminars.

Further relevant training is planned for 2017-18 based on self-assessments completed by Sub-Committee and board members in accordance with the policy.

CONFLICTS OF INTEREST

The Pension Fund is governed by elected members acting as trustees and the Code of Conduct for elected members' sets out how any conflicts of interests should be addressed. The Members Code of Conduct is in Part 5 of the Council Constitution at

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

The Code includes general provisions on ethics and standards of behaviour which require elected members to treat others with respect and not to bully, intimidate or do anything to compromise the impartiality of those who work for or on behalf of the Council. The Code also contains rules about "disclosable pecuniary interests" and sets out the action an elected member must take when they have such an interest in Council business, for instance withdrawing from the room or chamber when the matter is discussed and decided in committee, unless dispensation has been obtained from the Council's Monitoring Officer.

GOVERNANCE COMPLIANCE STATEMENT

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

The key issues covered by the best practice principles are:

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

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

Scheme Management and Advisors

EXTERNAL PARTIES

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

OFFICERS

Strategic Finance Director (section 151) Officer	Hitesh Jolapara	
Tri-Borough Pensions Team	George Bruce to October 2016	Nicola Webb to November 2016
	Peter Carpenter from October 2016	Peter Metcalfe to March 2017
	Nikki Parsons	Sue Hands from March 2017
	Alex Robertson	
Director of Human Resources	Debbie Morris	
Pensions Manager	Maria Bailey	

Contact details are provided in Section 7 of this report.

Risk Management

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

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

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

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

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

Risk Management (continued)

Risks arising from financial instruments are outlined in the notes to the Pension Fund Accounts (Note 15).

The Funding Strategy Statement (at Appendix 4) sets out the key risks, including demographic, regulatory, governance, to not achieving full funding in line with the strategy. The actuary reports on these risks at each triennial valuation or more frequently if required.

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

Risk Management (continued)

THIRD PARTY RISKS

The Council has outsourced the following functions of the Fund:

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

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

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

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

The results of these reviews are summarised below and cover 99.5% of investment holdings at 31 March 2017.

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

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

Financial Performance

The Fund asset value increased by £147m to £1,003m as at 31 March 2017 due to the recovery in global markets since the uncertainty of 2015/16.

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

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

ANALYTICAL REVIEW

	2013/14	2014/15	2015/16	2016/17
Fund Account	£'000	£'000	£'000	£'000
Dealings with members				
Contributions	(32,356)	(30,082)	(30,617)	(32,274)
Pensions	35,094	33,982	37,858	40,770
Net (additions)/withdrawals from dealings with members	2,738	3,900	7,241	8,496
Management expense	5,548	7,216	7,762	6,530
Net investment returns	(9,510)	(11,167)	(12,631)	(12,799)
Change in market value	(37,519)	(105,595)	9,784	(148,740)
Net (increase)/decrease in the Fund	(38,743)	(105,646)	12,156	(146,513)

Over the four-year period, pensions paid have exceeded contributions by £22m in total. This reflects the maturity of the Fund membership in that there are fewer contributors than beneficiaries.

Net investment returns in 2016/17 have improved significantly in comparison to the previous years, reflecting the recovery of global equity markets after a period of instability at the beginning of 2016.

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

Financial Performance (continued)

	2013/14	2014/15	2015/16	2016/17
Net Asset Statement	£'000	£'000	£'000	£'000
Bonds	26,286	31,923	36,771	0
Equities	320,772	371,885	136,937	112,475
Pooled investment vehicles	399,886	443,015	671,300	881,865
Commodities	1,890	2,540	1,976	0
Derivatives	164	(709)	(368)	0
Cash deposits	17,027	15,410	7,544	7,856
Other	(1,131)	717	1,504	486
Total Investment Assets	764,894	864,781	855,664	1,002,682
Current assets	(1,070)	4,840	1,842	4,373
Current Liabilities	(995)	(1,146)	(1,187)	(4,223)
Total Net Assets available to fund benefits	762,829	868,475	856,319	1,002,832

The points to note are:

- 2016/17 saw the implementation of the Fund's investment allocation strategy impact as the Fund disinvested from directly held bonds and reduced its equities, in favour of pooled investments which allow the Fund to pool the risk
- The overall value of pooled investment vehicles increased by £211m (31%) during the year

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

Financial Performance (continued)

ANALYSIS OF DEALINGS WITH SCHEME MEMBERS

In common with many funds within the local government pension scheme, the fund is maturing. As a result, benefits payable have exceeded contributions receivable for the past few years. To meet this, the investment strategy provides for a mixture investment income and capital growth.

	2013/14	2014/15	2015/16	2016/17
	£'000	£'000	£'000	£'000
Contributions receivable				
- Members	(6,306)	(6,658)	(6,795)	(6,937)
- Employers	(22,692)	(21,944)	(22,412)	(22,494)
- Transfers in	(3,324)	(1,445)	(1,375)	(2,090)
- Other	(34)	(35)	(35)	(753)
Total Income	(32,356)	(30,082)	(30,617)	(32,274)
Benefits/Expenses				
- Pensions	26,887	28,155	29,076	30,002
- Lump sum retirements and death benefits	4,882	4,955	5,536	5,685
- Transfers out	3,325	856	3,230	5,046
- Refunds	0	16	16	37
Total Expenditure	35,094	33,982	37,858	40,770
Net Dealings with Members	2,738	3,900	7,241	8,496

The key variances were due to the following:

- Lump sums rose by 3% due to more members retiring than in previous years.
- Transfers out were nearly 56% higher than in 2015/16 because of an upsurge in staff turnover.
- Transfers in were higher, reflecting the number of new starters joining the scheme and members choosing to transfer in benefits on commencement of employment.

Financial Performance (continued)

ANALYSIS OF OPERATIONAL EXPENSES

The costs of running the pension fund are shown below.

	2015/16	2016/17
	£'000	£'000
Administration		
Employees	77	138
Supplies and services	527	381
Other costs	2	1
	606	520
Governance and Oversight		
Employees	74	103
Investment advisory services	100	66
Governance and compliance	54	43
External audit	21	24
Actuarial fees	19	31
	268	267
Investment Management		
Management fees	4,774	4,310
Performance fees	1,646	997
Transaction costs	73	382
Custodian fees	395	54
	6,888	5,743
Total	7,762	7,337

Costs as a percentage of total net assets were compared to all other local government pension funds in 2015/16. At 0.34% of net assets costs were well below the national average of 0.5%.

The key variances were due to the following:

- A reduction in supplies and services costs in 2016/17 as the new administration service with Surrey CC beds in following the one-off costs associated with the change to Surrey CC in September 2015.
- The reduction in investment management costs in 2016/17 reflects participation in the London CIV which has led to economies of scale through sharing management fees and transaction costs
- There has also been a reduction in investment management costs through investment in pooled equity and pooled property vehicles where costs incurred by sub-funds are not recorded in the Fund's financial statements although they do impact upon returns achieved.

Administration Management Performance

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

PERFORMANCE INDICATORS

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

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

Staff shortages, new legislative requirements, implementing new online pension systems and dealing with a backlog of inaccuracies in member records inherited from the previous administrator have all had a negative impact on the performance indicators shown above. Work is on-going to address the backlog issues, and performance has improved during the year. Members of the Sub-Committee receive regular reports on administration performance to monitor delivery of service improvements.

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

ORBIS

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

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

Scheme employers can use the new system to:

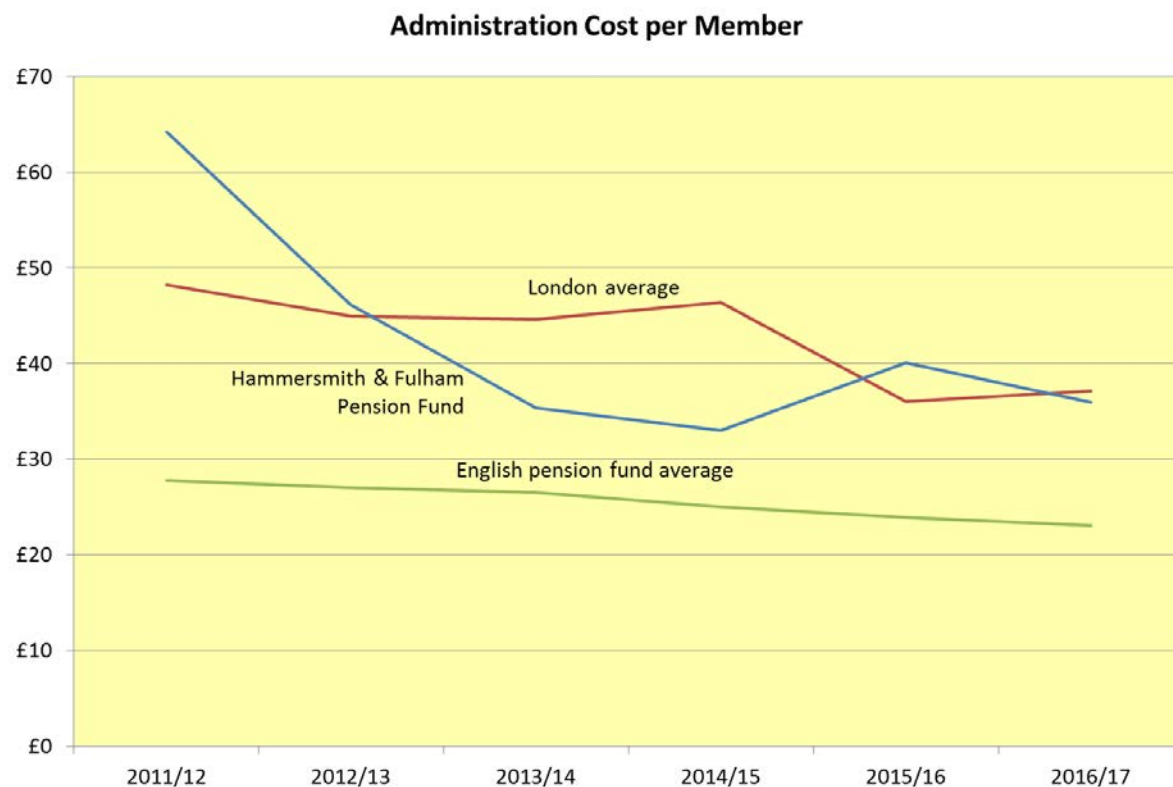
- Submit starter and leaver details and other changes online
- View and update employee details
- Run benefit calculations, e.g. early retirements

COMPLAINTS RECEIVED

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

No new complaints have been lodged with the Ombudsman in 2016/17.

Administration Management Performance (continued)



STAFFING INDICATORS

The administration of the Fund comprises:

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

The contract for administering the Fund was tendered in 2014 resulting in Surrey County Council being appointed from September 2015. Costs rose in 2015/16 as a result of the changeover of administrator, which incurred some one-off transition costs such as software licences. The new administration arrangements are bedding in and costs are reducing. At the same time Surrey are implementing the ORBIS online portal for pension scheme members and employees which should further enhance the service provided to members.

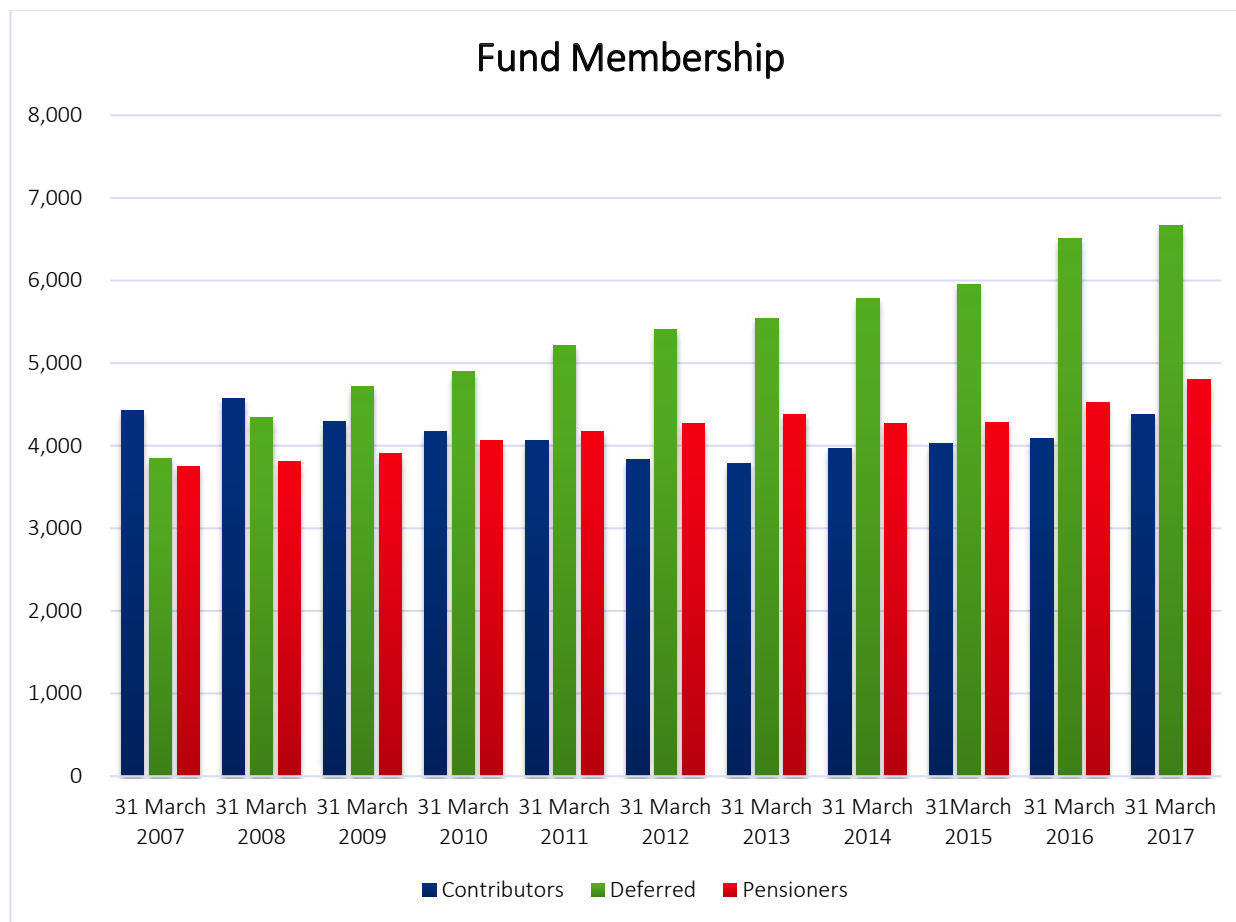
Although costs are close to the average for London borough pension funds as shown in the chart, the sub-committee is committed to keeping costs down and keeps costs under regular review.

Administration Management Performance (continued)

MEMBERSHIP NUMBERS AND TRENDS

Overall membership has increased by 32% over the past 11 years from 12,020 to 15,853.

However, over this period the number of contributing members to the Pension Fund has declined steadily from 2007/08 to 2012/13. The introduction of auto-enrolment in 2013 and the increase in employers admitted into the Scheme has started to reverse this trend. Nonetheless the number of pensioners and deferred members has continued to rise in common with other local government pension funds, reflecting the increasing maturity of the Fund.



Administration Management Performance (continued)

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

Reason for Leaving	2013/14	2014/15	2015/16	2016/17
Ill Health Retirement	11	10	10	10
Early Retirement	37	23	3	29
Total	48	33	46	39

Administration Management Performance (continued)

CONTRIBUTING EMPLOYERS AND CONTRIBUTIONS RECEIVED

Below is a list of the current active contributing employers and the contributions received for 2016/17 (Figures include early retirement and deficit funding contributions).

	Employees Contributions ²	Employers Contributions	Total Contributions
	£'000	£'000	£'000
Administering Authority Employers			
LONDON BOROUGH OF HAMMERSMITH AND FULHAM	4,512	14,531	19,043
Queensmill School	97	382	479
Addison Primary School	33	132	165
All Saints Primary School	10	42	52
Bayonne Nursery School	17	67	84
Brackenbury Primary School	33	130	163
Cambridge School (Special)	19	76	95
Fulham Primary School	15	61	76
Jack Tizard School (Special)	46	183	229
James Lee Nursery School	10	39	49
Larmenier & Sacred Heart Primary School	20	84	104
Melcombe Primary School	35	140	175
Normand Croft Community School for Early Years & Primary Education	18	73	91
Queens Manor Primary School	11	39	50

	Employees Contributions ²	Employers Contributions	Total Contributions
Randolph Beresford Early Years Centre Nursery School	46	168	214
Sir John Lillie Primary School	30	120	150
St Augustine's Primary School	13	50	63
St John XXIII Catholic Primary School (previously called Pope John)	22	90	112
St Johns CE Primary School	23	90	113
St Mary's Primary School	17	67	84
St Peter's Church of England Primary School	16	64	80
St. Thomas of Canterbury Primary School	12	48	60
The Good Shepherd Primary School	19	79	98
Vanessa Nursery School	17	64	81
William Morris Sixth Form School	53	200	253
Wood Lane High School	17	66	83
Wormholt Park Primary School	33	123	156
Kenmont Primary School	13	54	67
Flora Gardens Primary School	27	103	130
Miles Coverdale Primary School	26	104	130
Old Oak Primary School	24	98	122
St Paul's Primary School	23	91	114
Wendall Park Primary School	35	101	136
St Stephens CoE Primary School	32	128	160
Sullivan Primary School	6	23	29
Total Contributions from Administering Authority	5,380	17,910	23,290

² Includes early retirement and deficit contributions

Administration Management Performance (continued)

SCHEDULED BODIES

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

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

	Employees Contribution ³	Employers' Contributions	Total Contributions
Scheduled Bodies			
Mortlake Crematorium Board	20	53	73
London Oratory School	64	136	200
Burlington Danes Academy	87	183	270
Hammersmith Academy	50	169	219
Sacred Heart Academy	51	161	212
Conway Academy	11	42	53
West London Free School	68	227	295
Bentworth Academy	11	49	60
Lady Margaret Academy	43	152	195
Swift ARK Academy	26	104	130
Fulham College Academy Trust (Girls)	44	150	194
Bridge Academy	71	254	325
Lena Gardens Academy	9	37	46

³ Includes early retirement and deficit contributions

	Employees Contribution ⁴	Employers' Contributions	Total Contributions
Scheduled Bodies			
Hurlingham and Chelsea Academy	28	101	129
Fulham Boys Free School	11	41	52
Fulham College Academy Trust (Boys)	45	161	206
Greenside Academy	18	69	87
Thomas' Academy	16	60	76
Langford Academy	10	38	48
Futures (Phoenix) Academy	20	76	96
Brightwells Academy	39	154	193
Total Contributions From Scheduled Bodies	742	2,417	3,159

⁴ Includes early retirement and deficit contributions

Administration Management Performance (continued)

ADMITTED BODIES

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

EMPLOYER ANALYSIS

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

	Active	Ceased	Total
Administering Authority	1	-	1
Scheduled Body	21	-	21
Admitted Body	23	20	43
Total	45	20	65

	Employees Contribution ⁵	Employers Contributions	Total Contributions
Admitted Bodies			
3BM	99	210	309
Disabilities Trust	1	2	3
Eden Food Services	44	146	190
ETDE Infrastructure	6	20	26
Family Mosaic Housing	18	56	74
FM Conway	13	39	52
Fulham Palace Trust	12	43	55
Glencross Cleaning Ltd	2	2	4
H & F Bridge Partnership	50	85	135
Medequip Assistive Technology Ltd	2	5	7
Pinnacle PSG Ltd - Estates Services	64	187	251
Pinnacle PSG Ltd - Housing Management	24	69	93
Quadron Services Ltd	63	190	253
Serco	191	422	613
Urban Partnership Group	16	63	79
Amey	100	301	401
Mitie	96	270	366
Civica	2	9	11
HATS	7	32	39
Innovate	2	8	10
Starbus	0	2	2
Hestia	1	2	3
Agilisys Ltd.	2	4	6
Total Contributions From Admitted Bodies	815	2,167	2,982
Grand Total	6,937	22,494	29,431

⁵ Includes early retirement and deficit contributions



3.

Investment Policy and Performance

Investment Policy

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

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

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

The SIP also sets out the Fund's approach to responsible investment and corporate governance issues, and how the Fund demonstrates compliance with the "Myners Principles". These Principles are a set of recommendations relating to the investment of pension funds originally prepared by Lord Myners in 2001 and subsequently endorsed by Government. The current version of the Myners Principles covers the following areas:

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

The Fund's SIP can be found at Appendix 2.

For 2017/18, the LGPS (Management and Investment of Funds) Regulations 2016, requires the Fund to publish an Investment Strategy Statement (ISS), which replaces the Statement of Investment Principles.

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

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

The full version of the document includes the following:

- Appendix A – Compliance with CIPFA Pensions Panel Principles
- Appendix B – Stewardship Code
- Appendix C – Risk Register
- Appendix D – Information on the London CIV

The ISS can be obtained from:

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

Email: pensionfund@lbhf.gov.uk

Asset Allocation

The strategic asset allocation is agreed by the Pensions Sub-Committee and the Fund's advisers. The allocation effective during the year ended 31 March 2017 was as follows:

Asset Class	Target Allocation (original)	Target Allocation (revised)
UK equities	22.5%	22.5%
Overseas Equities	22.5%	
Secure Income	20%	
Dynamic Asset Allocation	10%	
Absolute Return Bonds	10%	47.5%
Inflation Opportunities	10%	20%
Long Lease Property	5%	15%
TOTAL	100%	100%

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

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

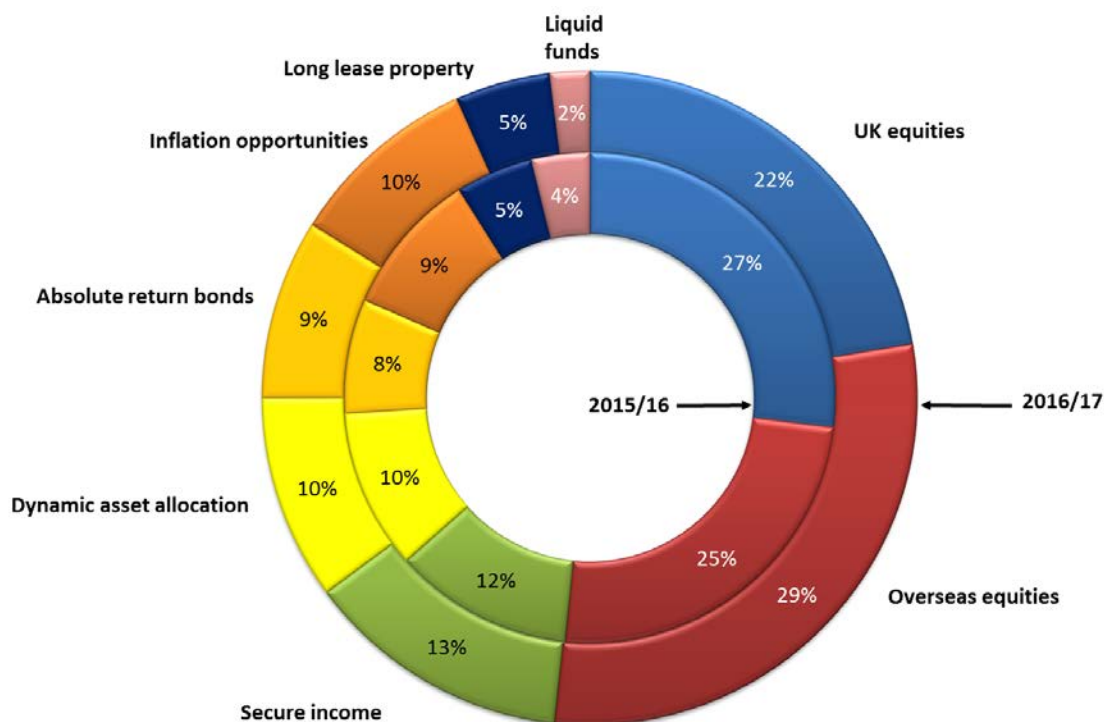
Adviser on matters relating to fund manager arrangement and performance.

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

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

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

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

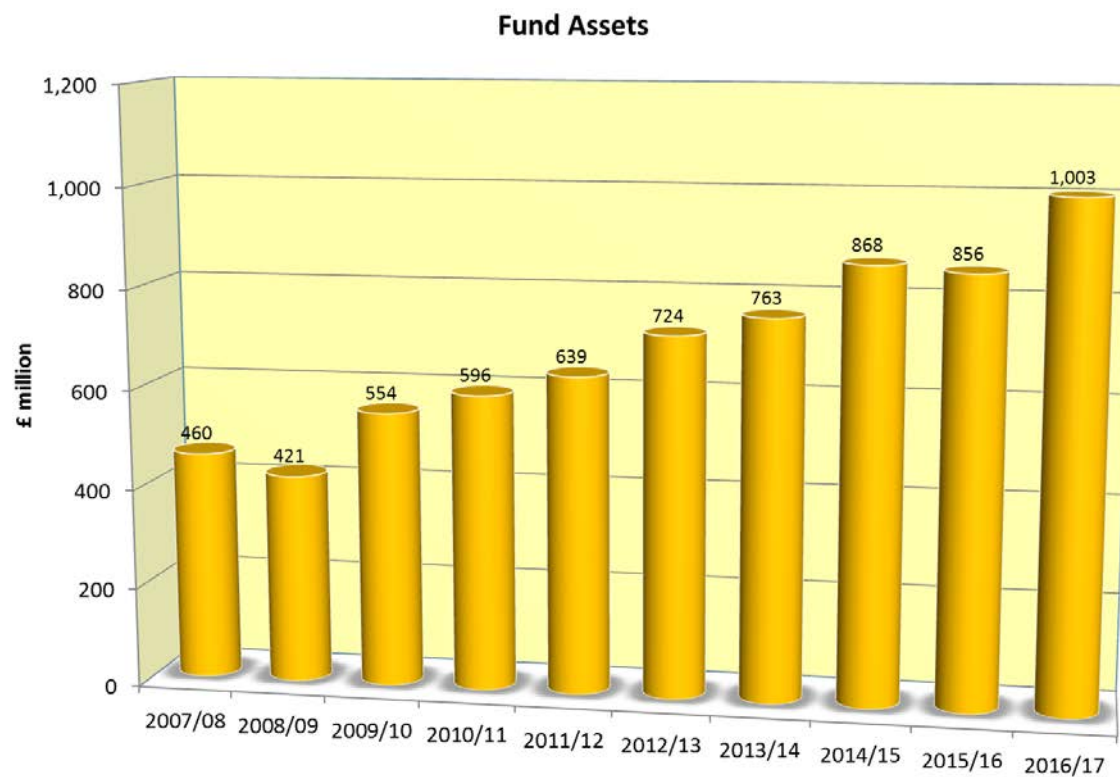


Asset Allocation (continued)

FUND VALUE

The value of the Fund has more than doubled over the past ten years. The slight fall in value in 2015/16 reflected uncertainty around the strength of the global economy and China in particular, but the Fund recovered well in 2016/17 with a 17% increase in the value of investments during the year.

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

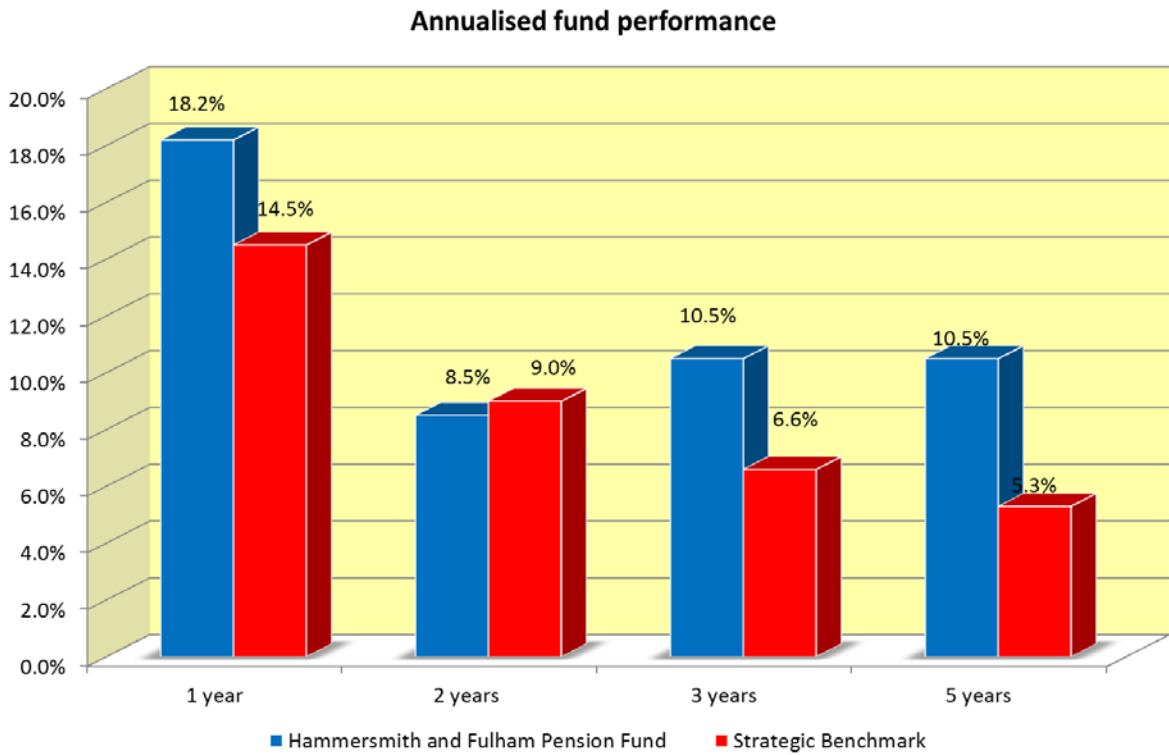


Investment Performance

The Fund’s overall performance in 2016/17 exceeded the benchmark for the year as shown below.

Annualised performance has also exceeded the benchmark since inception, and over the past 3 and 5 years.

At 18.2%, investment returns for 2016/17 are slightly below the LGPS average of 20.2%.



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

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

Investment Performance (continued)

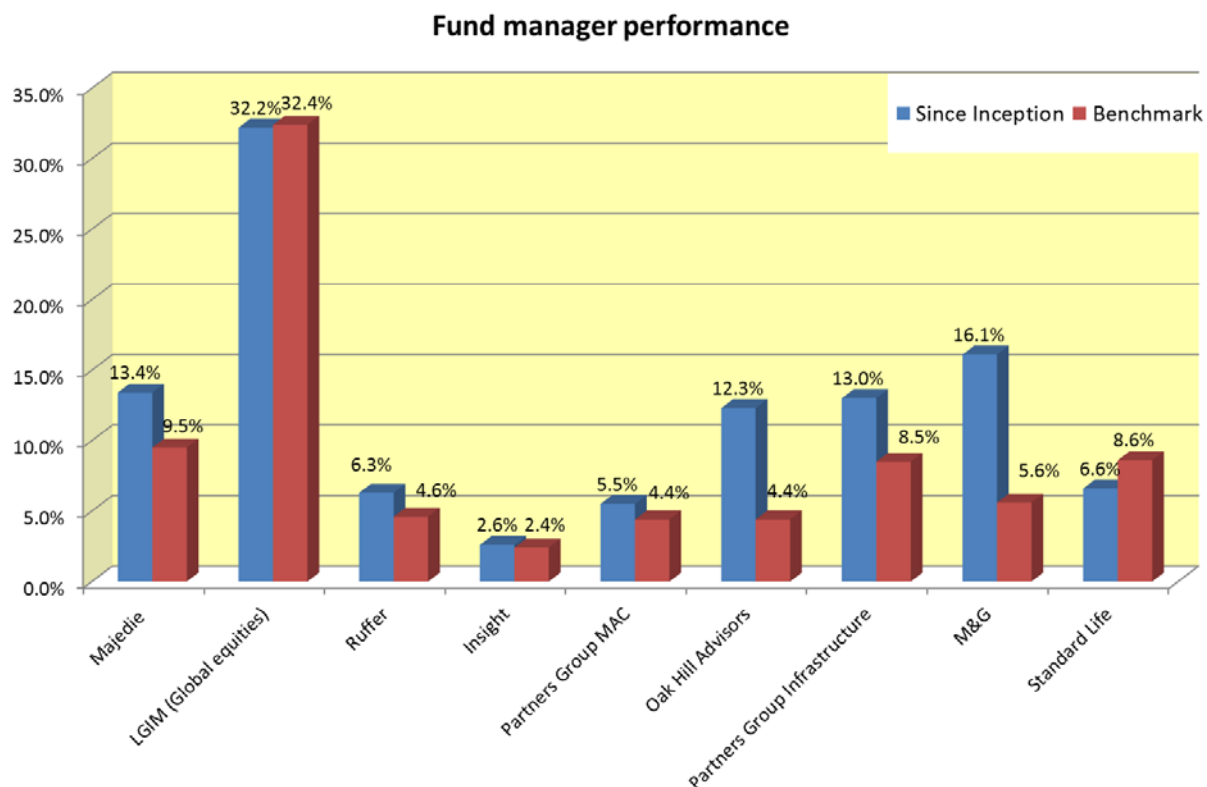
The overall performance of each manager is measured over rolling three and five year periods, as

inevitably there will be short-term fluctuations in performance.

Overall each Fund Manager has achieved their target since inception.

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

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



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

Corporate Governance

RESPONSIBLE INVESTMENT POLICY

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

The Fund investment managers, acting in the best financial interests of the Fund, are expected to consider, amongst other factors, the effects of social, environmental and ethical issues on the performance of a company when undertaking the acquisition, retention or realisation of investments for the Fund. In line with this policy the Fund has used infrastructure funds to invest in sustainable technologies such as solar and wind power.

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

PROFESSIONAL BODIES

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

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

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

VOTING

Majedie is the only manager continuing to manage investments on a segregated basis. They use Institutional Shareholder Services (ISS), a leading provider of corporate governance research, to provide advice about voting in line with good corporate governance principles. During 2016/17 they voted at 258 meetings on 3,074 resolutions – 97% in line with management's recommendations and 95% in line with ISS advice.

COLLABORATIVE VENTURES

The Fund has been working closely with other London LGPS funds in the London Collective Investment Vehicle set up to enable greater buying power, reduced fees and enhanced governance arrangements. The Hammersmith and Fulham Pension Fund is a shareholder in London LGPS CIV Limited.

Following FCA approval in 2016, the CIV has started to trade and the Hammersmith and Fulham Pension Fund transferred the Ruffer mandate (valued at £102m) into the CIV in June 2016.

Corporate Governance (continued)

SEPARATION OF RESPONSIBILITIES

The Fund has appointed a global custodian (Northern Trust), independent to the investment managers, to be responsible for the safekeeping of all of the Fund's investments. Northern Trust are also responsible for the settlement of all investment transactions and the collection of income.

The Fund's bank account is held with Lloyd's Bank. Funds not immediately required to pay benefits are held as interest bearing operational cash with Lloyds Bank.

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

FUNDING STRATEGY STATEMENT

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

Its purpose is:

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

STEWARDSHIP CODE

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

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

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

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



4.

Scheme Administration

Scheme Administration

SERVICE DELIVERY

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

The Council administers the scheme for 65 employers (a complete list of employers is provided in section 2) These employers include not only the Council, but also academy schools within the borough and a small number of organisations linked to the Council which have been “admitted” to the pension fund under agreement with the Council.

A not-for-profit contractual arrangement is in place with Surrey CC for the provision of pension administration services. Performance of this service against targets within the contract is reported on page 20. The Council’s Human Resources provide oversight of the administration service.

COMMUNICATION POLICY STATEMENT

The Local Government Pension Scheme Regulations 2013 require Pension Funds to prepare, publish and maintain a communication policy statement, which can be found on page 109. The Communication Policy details the overall strategy for involving stakeholders in the pension fund. A key part of this strategy is a dedicated pension fund website, which includes a great deal more information about the benefits of the pension fund and this can be accessed via the following link:

www.lbhfpensionfund.org

INTERNAL DISPUTE RESOLUTION PROCEDURE

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

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

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

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

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

No complaints received in 2016/17 have been referred to the Pensions Ombudsman.

Both TPAS and the Pensions Ombudsman can be contacted at:

11 Belgrave Road
Pimlico
London
SW1V 1RB

A photograph of a rowing team in a yellow boat on a river. The team consists of five men wearing sunglasses and athletic gear. They are in a yellow boat with "ONYX" written on the side. The background shows a crowd of spectators on a grassy bank and several buildings, including a large white one with a dormer. The right side of the image is overlaid with a semi-transparent orange rectangle.

5.

Actuarial Information

Report by Actuary

INTRODUCTION

The last full triennial valuation of the Hammersmith and Fulham Pension Fund (“the Fund”) was carried out as at 31 March 2016 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated March 2017.

This statement gives an update on the funding position as at 31 March 2017 and comments on the main factors that have led to a change since the full valuation.

2016 VALUATION

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

- The Fund as a whole had a funding level of 88% i.e. the assets were 88% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £114m which is lower than the deficit at the previous valuation in 2013.
- To cover the cost of new benefits a total contribution rate of 15.5% of pensionable salaries would be needed.
- The contribution rate for each employer was set based on the annual cost of new benefits plus any adjustment required to pay for their share of the deficit.
- Full details of all the assumptions underlying the valuations are set out in our valuation report.

UPDATED POSITION

Using assumptions consistent with those adopted at the 2016 valuation, we estimate that the funding position at 31 March 2017 has improved compared with the position as at 31 March 2016.

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



Graeme Muir FFA

Partner, Barnett Waddingham LLP

A large, circular orange and white Underground roundel sign. A blue rectangular banner is superimposed across the center, featuring the word "HAMMERSMITH" in white, bold, sans-serif capital letters. The sign is set against a background of a blurred station interior with a teal overlay.

HAMMERSMITH

6.

Pension Fund Accounts

Statement of Responsibilities

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

THE COUNCIL'S RESPONSIBILITIES

The Council is required to:

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

RESPONSIBILITIES OF THE STRATEGIC DIRECTOR OF FINANCE

The Strategic Director of Finance is responsible for the preparation of the Pension Fund Statement of Accounts which, in terms of the CIPFA Code of Practice on Local Authority Accounting in Great Britain ('the Code'), is required to present fairly the financial position of the Pension Fund at the accounting date and the income and expenditure for the year then ended.

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

- selected suitable accounting policies and then applied them consistently except where policy changes have been noted in these accounts;
- made judgments and estimates that were reasonable and prudent;
- complied with the Code.

The Strategic Director of Finance has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

CERTIFICATE OF THE STRATEGIC DIRECTOR OF FINANCE

I certify that the Statement of Accounts (set out on pages 41 to 112) present a true and fair view of the financial position of the London Borough of Hammersmith and Fulham Pension Fund as at 31 March 2017 and income and expenditure for the year for the financial year 2016/17.

Hitesh Jolapara
Strategic Director of Finance, Section 151 Officer

Date: 30th June 2017

Independent Auditors Report

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

We have audited the pension fund financial statements of Hammersmith and Fulham Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). 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 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited.

Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF THE STRATEGIC DIRECTOR OF FINANCE AND THE AUDITOR

As explained more fully in the Statement of the Strategic Finance Director's Responsibilities, the Strategic Director of Finance is responsible for the preparation of the Authority's Statement of Accounts, which include the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Independent Auditors Report (continued)

SCOPE OF THE AUDIT OF THE PENSION FUND 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 pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Strategic Director of Finance; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

OPINION ON THE PENSION FUND FINANCIAL STATEMENTS

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2017 and of the amount and disposition at that date of the fund's assets and liabilities; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

OPINION ON OTHER MATTERS

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts is consistent with the pension fund financial statements.

Andrew Sayers

for and on behalf of KPMG LLP, Appointed Auditor

KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL

29 September 2017

Pension Fund Accounts and Explanatory Notes

FUND ACCOUNT

2015/16		Notes	2016/17
£'000			£'000
Dealings with members, employers and others directly involved in the fund			
Contributions			
(22,412)	From Employers	6	(22,494)
(6,795)	From Members	6	(6,937)
(1,375)	Individual Transfers in from Other Pension Funds		(2,090)
(35)	Other income		(753)
(30,617)			(32,274)
Benefits			
29,076	Pensions	7	30,002
5,536	Commutation, Lump Sum Retirement and Death Benefits	7	5,685
Payments to and on Account of Leavers			
3,230	Individual Transfers Out to Other Pension Funds		5,046
16	Refunds to Members Leaving Service		37
37,858			40,770

Pension Fund Accounts and Explanatory Notes (continued)

2015/16		Notes	2016/17
£'000			£'000
7,241	Net (Additions)/Withdrawals from Dealings with Members		8,496
7,762	Management Expenses	8	6,530
	Returns on Investments		
(12,771)	Investment Income	9	(12,822)
140	Taxes on Income (Irrecoverable Withholding Tax)		23
9,784	(Profit) and loss on disposal of investments and changes in the market value of investments	11	(148,740)
(2,847)	Net return on investments		(161,539)
12,156	Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year		(146,513)
(868,475)	Opening Net Assets of the Scheme		(856,319)
(856,319)	Closing Net Assets of the Scheme		(1,002,832)

Net Assets Statement for the year ended 31 March 2017*

2015/16		Notes	2016/17
£'000			£'000
Investment assets			
36,771	Bonds	14	-
136,937	Equities	14	112,475
671,300	Pooled Investment Vehicles	14	881,865
1,976	Commodities	14	-
104	Derivative Contracts Forward foreign exchange	14	-
7,544	Cash Deposits	14	7,856
Other Investment Balances:			
278	Amounts outstanding on sale of investments	14	76
1,242	Investment income due	14	521
Investment Liabilities			
(472)	Derivative Contracts Forward foreign exchange:		-
(16)	Amounts outstanding on purchase of investments	14	(111)
855,664	Net investment assets	14	1,002,682

Net Assets Statement for the year ended 31 March 2017* (continued)

2015/16		Notes	2016/17
£'000			£'000
677	Current Assets	20	1,539
(1,187)	Current Liabilities	21	(4,223)
1,165	Cash Balances		2,834
856,319	Net Assets of the Fund Available to Fund Benefits at the Period End		1,002,832

* The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in Note 19.

Note 1 Description of Hammersmith and Fulham Pension Fund

a) General

The Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Hammersmith and Fulham Council. It is a contributory defined benefits scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of Hammersmith and Fulham Council and the admitted and scheduled bodies in the Fund. These benefits include retirement pensions and early payment of benefits on medical grounds and payment of death benefits where death occurs either in service or in retirement. The benefits payable in respect of service from 1st April 2014 are based on career average revalued earnings and the number of years of eligible service. The benefits payable in respect of service prior to 1st April 2014 are based on an employee's final salary and the number of years eligible service. Pensions are increased each year in line with the Consumer Price Index.

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

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

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and from returns on the Fund's investments. Contributions from employees are made in accordance with the Local Government Pension Scheme Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2017. Employer contributions are set based on the triennial actuarial funding valuation, as detailed in Note 18.

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

b) Pensions Sub-Committee

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

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

c) Pension Board

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

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

d) Investment Principles

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require administering authorities to prepare and review from time to time a written statement recording the investment strategy of their Pension Fund. The Statement of Investment Principles was last approved on 17th March 2015 and this is available on the Council's website at the link below. The Statement shows the Authority's compliance with the Myner's principles of investment management.

https://www.lbhf.gov.uk/sites/default/files/section_at_tachments/statement_of_investment_principles_2015_0.pdf

The Sub-committee has delegated the management of the Fund's investments to regulated investment managers (see note 10), appointed in accordance with the regulations, and whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

e) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal pension arrangements outside the scheme.

Organisations participating in the Hammersmith and Fulham Pension Fund include:

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

The following table summarises the membership numbers of the scheme:

31 March 2016		31 March 2017
45	Number of employers with active members	45
4,092	Active members	4,383
4,628	Pensioners receiving benefits	4,800
6,504	Deferred Pensioners*	6,670
15,224		15,853

Note 2 Basis of preparation of financial statements

The Statement of Accounts summarise the Fund's transactions for 2016/17 and its position at year end as at 31st March 2017. The accounts been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The accounts have been prepared on an accruals basis, apart from transfer values which have been accounted for on a cash basis.

The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year, nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the Net Asset Statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The authority has opted to disclose this information in a note to the accounts (Note 19).

Note 3 Summary of significant accounting policies

FUND ACCOUNT – REVENUE RECOGNITION

a) Contribution Income

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

Note 3 Summary of significant accounting policies (continued)

f) Management Expenses

The Code does not require a breakdown of management expenses, however disclosure of expenses in accordance with the CIPFA guidance “Accounting for Local Government Pension Scheme Management costs” is provided in the interests of greater transparency.

All expenses are accounted for on an accruals basis to ensure expenses for the full accounting period are accounted for in the fund account. Staff costs associated with the running of the Fund are charged to the Fund along with an element of overhead charges.

The Sub-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.

NET ASSETS STATEMENT

g) Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. 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. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. 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, the investments in the Partners Multi Asset Credit fund and the Partners Infrastructure fund which, by their nature, will be realised over a long period of time.

h) Derivatives

The only derivatives held by the Fund are forward foreign exchange contracts for the purpose of managing currency risk. The value of forward foreign exchange contracts is based on market forward exchange rates at the year end and determined as the gain or loss that would arise if the contract were matched at the year end with an equal and opposite contract.

Note 3 Summary of significant accounting policies (continued)

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

The actuarial present value of promised retirement benefits should be disclosed and based on the requirements of IAS 19 and relevant actuarial standards. As permitted under the Code, the fund has opted to disclose the actuarial present value of retirement benefits by way of a note to the Net Assets Statement (Note 19).

m) Additional Voluntary Contributions

Members of the Fund may choose to make additional voluntary contributions (AVCs) into a separate scheme run by Zurich Assurance in order to obtain additional pensions benefits. The company is responsible for providing the investors with an annual statement showing their holding and movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. They are disclosed in Note 22. There are also some residual policies with Equitable Life, which are disclosed in Note 22, but it is not open for new members.

n) Recharges from the General Fund

The LGPS (Management and Investment of Funds) Regulations 2016 permit the Council to charge administration costs to the Fund. A proportion of the relevant Council costs have been charged to the Fund on the basis of actual time spent on Pension Fund business. Costs incurred in the administration and the oversight and governance of the Fund are set out separately in Note 8.

Note 4 Critical judgements in applying accounting policies

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

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

A) PENSION FUND LIABILITY

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

The effect of changes in individual assumptions can be measured. A 0.5% increase in the discount rate would result in a decrease in the pension liability of £144.2m. A 0.2% increase in the pay inflation assumption would increase the value of liabilities by £6.1m, and a one-year increase in assumed life expectancy would increase liabilities by £49.6m.

B) UNQUOTED PRIVATE EQUITY INVESTMENTS

The fair value of private equity investments is unavoidably subjective. The valuations are based on forward-looking estimates and judgements involving many factors. Unquoted private equity assets are valued by the investment managers in accordance with industry standards. The value of private equity investments at the balance sheet date was £8.08m.

The fair value of the Partners multi credit asset fund and the Partners infrastructure fund is also to some extent subjective. A number of the underlying assets are traded in private markets only and therefore judgements need to be made about value, using factors such as the enterprise value and net debt. The value in the net assets statement is £60.9m.

Note 5 Events after the Balance Sheet date

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

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 contributions determined by the Fund's actuary to maintain the solvency of the Fund. The table below shows a breakdown of the total amount of employers' and employees contributions.

	Employer's Contributions				Employees' Contributions	
	Normal		Deficit Recovery			
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
	£'000	£'000	£'000	£'000	£'000	£'000
Administering Authority	9,809	9,676	8,101	8,101	5,380	5,249
Scheduled bodies	1,526	1,310	890	742	742	643
Admitted bodies*	2,115	2,478	53	105	815	903
	13,450	13,464	9,044	8,948	6,937	6,795

* There were no augmentation contributions included within Deficit contributions received during the year (£51k in 2015/16).

Note 7 Benefits payable

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

	Pensions		Lump Sum Retirement Benefits		Lump Sum Death Benefits	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
	£'000	£'000	£'000	£'000	£'000	£'000
Administering Authority	(28,466)	(27,850)	(4,372)	(4,565)	(515)	(641)
Scheduled bodies	(1,358)	(142)	(542)	(14)	(77)	0
Admitted bodies*	(178)	(1,084)	(179)	(124)		(192)
	(30,002)	(29,076)	(5,093)	(4,703)	(592)	(833)

Note 8 Management Expenses

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

2015/16		2016/17
£'000		£'000
606	Administration Expenses	520
268	Oversight and Governance	267
6,888	Investment Management Expenses	5,743
7,762		6,530

Investment management expenses are further analysed below in line with the CIPFA Guidance on Accounting for Management Costs in the LGPS.

2015/16		2016/17
£'000		£'000
4,774	Management fees	4,310
1,646	Performance fees	997
73	Custody fees	54
395	Transaction costs*	382
6,888		5,743

*Transaction costs incurred on segregated assets only.

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

Note 9 Investment Income

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

2015/16		2016/17
£'000		£'000
1,327	Income from Bonds	35
10,079	Equity dividends	9,975
55	Interest and cash deposits	16
1,310	Private Equity/Other	2,796
12,771	Total	12,822

Note 10 Investment Management Arrangements

In March 2015 the Pensions sub-committee agreed a revised investment strategy and Statement of Investment Principles. The changes from the previous strategy were implemented during 2015-16. The portfolios with Majedie (UK equities) and Ruffer (absolute return) have not changed.

The liability matching portfolio previously held with Legal & General Investment Management (LGIM) was replaced by two multi asset credit portfolios with Partners Group and Oak Hill, an inflation opportunities investment with M&G and a long lease property fund with Standard Life in the early part of the year.

The management of the Fund's absolute return bonds portfolio was changed from Goldman Sachs to Insight in October 2015. The MFS active overseas equity portfolio was replaced with a passive equity portfolio managed by LGIM in November 2015.

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

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

As shareholders of London LGPS CIV Ltd. (the organisation set up to run pooled LGPS investments in London), the Fund has purchased £150,000 of regulatory capital. This is in the form of unlisted UK equity shares. Ruffer assets transferred into the London Collective Investment Vehicle during 2016/17. It is anticipated that more of the Fund's existing investment portfolios will be transferred into the London Collective Investment Vehicle during 2017/18 as and when suitable offerings become available.

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

Note 10 Investment Management Arrangements (continued)

The market value and proportion of investments managed by each fund manager at 31 March 2017 was as follows:

31 March 2016	%	Fund Manager	31 March 2017	%
Market Value			Market Value	
£'000			£'000	
215,374	25.17	Majedie Asset Management	224,141	22.40
319	0.04	MFS International (UK) Ltd	0	0.00
207,706	24.27	LGIM Passive equities	294,433	30.39
89,898	10.51	Ruffer LLP*	101,628	10.10
64,848	7.58	Insight Investments	89,121	8.90
41,451	4.84	LGIM Liquidity fund	10,827	0.01
52,178	6.10	Partners Group MAC fund	52,593	5.20
1,439	0.17	Partners Group Infrastructure fund	8,743	0.90
47,555	5.56	Oak Hill Advisers	70,334	7.00
81,552	9.53	M & G	94,998	9.50
43,925	5.13	Standard Life	47,037	4.70
5,728	0.67	Invesco Private Equity	5,366	0.50
3,541	0.41	Unigestion Private Equity	2,945	0.30
150	0.02	London LGPS CIV Ltd	516	0.10
855,664	100.00%	Total Investments at 31 March 2017	1,002,682	100.00%

Note 11 Reconciliation in movement in investments

2016/17	Market value 1 April 2016	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2017
Fund Manager	£'000	£'000	£'000	£'000	£'000
Majedie Asset Management	212,050	45,135	(80,224)	40,291	217,252
Ruffer LLP	85,045	186,946	(181,189)	10,414	101,216
Insight Investment	64,848	22,000	(440)	2,713	89,121
Legal & General Inv Mngt	207,605	783,117	(764,908)	68,619	294,433
Legal & General Inv Mngt Liquidity Fund	41,451		(30,758)	135	10,828
Partners Group Multi Asset Credit	52,171		(923)	1,339	52,587
Partners Group Infrastructure	1,439	12,488	(6,526)	906	8,307
Oak Hill Advisers	47,555	16,000	(300)	7,080	70,335
M & G Investments	81,552	1,898	(200)	11,747	94,997
Standard Life	43,925		(225)	3,336	47,036
Invesco Private Equity	5,301		(1,503)	1,335	5,133
Unigestion Private Equity	3,524	17	(1,278)	682	2,945
London CIV	150		(5)	5	150
Total	846,616	1,067,601	(1,068,479)	148,602	994,340
Cash Deposits	7,544			181	7,856
Other Investment Balances:					
Investment Income due	1,242				521
Spot FX	0			(42)	0
Pending trade purchases	(16)				(111)
Pending trade sales	278			(1)	76
Net investment assets	855,664	1,067,601	(1,068,479)	148,740	1,002,682

Note 11 Reconciliation in Movement in Investments (continued)

15/16	Market value 1 April 2015	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2016
Fund Manager	£'000	£'000	£'000	£'000	£'000
Majedie Asset Management	223,849	43,581	(37,883)	(17,497)	212,050
MFS International (UK) Ltd	220,739	60,220	(271,808)	(9,151)	0
Ruffer LLP	80,345	254,864	(248,027)	(2,137)	85,045
Goldman Sachs Asset Management	64,126	0	(64,781)	655	0
Insight Investment	0	64,617	0	231	64,848
Legal & General Inv Mngt	132,185	197,095	(131,042)	9,367	207,605
Legal & General Inv Mngt Liquidity Fund	80,036	58,255	(97,000)	160	41,451
Partners Group Multi Asset Credit	37,500	12,143	(27)	2,555	52,171
Partners Group Infrastructure	0	1,533	(214)	120	1,439
Oak Hill Advisers	0	50,000	(286)	(2,159)	47,555
M & G Investments	0	79,341	0	2,211	81,552
Standard Life	0	39,777	0	4,148	43,925
Invesco Private Equity	5,798	17	(1,425)	911	5,301
Unigestion Private Equity	4,076	85	(1,544)	907	3,524
London CIV	0	150	0	0	150
Total	848,654	861,678	(854,037)	(9,679)	846,616
Cash Deposits	15,410			(108)	7,544
<u>Other Investment Balances</u>					
Investment Income due	1,018				1,242
Pending trade purchases	(886)			1	(16)
Pending trade sales	585			2	278
Cash Deposits	15,410			(108)	7,544
Net investment assets	864,781	861,678	(854,037)	(9,784)	855,664

Note 12 Investments exceeding 5% of net assets

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

31 March 2016 Market Value		Holding	31 March 2017 Market Value	
£'000	% Holding		£'000	% Holding
192,377	22.50	Legal & General World ex UK Dev equity index fund	294,432	29.36
81,552	9.50	M & G Inflation Opportunities Fund V	94,998	9.47
64,848	7.60	Insight Investment Bonds Plus Fund	89,121	8.89
75,196	8.80	Majedie UK Focus Fund	77,950	7.77
47,555	5.60	Oak Hill Advisers Diversified Credit Strategies Fund	53,734	5.36
52,071	6.10	Partners Group Multi Asset Credit 2014 Fund	52,587	5.24
43,925	5.10	Standard Life Long Lease Property Fund	47,037	4.69
587,524	65.20	Total Top Holdings	709,859	70.78
856,319		Total Value of Investments	1,002,832	

Note 13 Analysis of Derivatives

OBJECTIVES AND POLICIES FOR HOLDING DERIVATIVES

The Pension Fund investment managers use forward foreign exchange contracts to reduce currency risk when undertaking investment transactions in foreign currencies. This is in line with their investment management agreements with the Fund. The Fund held no other types of derivative at 31 March 2017 or 31 March 2016.

FORWARD CURRENCY CONTRACTS

Outstanding exchange traded forward currency contracts are as follows:

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value	Liability Value
		£'000		£'000	£'000	£'000
Up to one month	USD	51	GBP	(41)	0	0
One to three months	JPY	4,984	GBP	(36)	0	0
Net forward currency contracts at 31 March 2017					0	0
Prior year comparative:						
Open forward currency contracts at 31 March 2016					104	(472)
Net forward currency contracts at 31 March 2016						(368)

Note 14a Classification of Financial Instruments

The following table shows the classification of the Fund's financial instruments and also shows the split by UK and overseas.

The carrying value is the same as the fair value for all financial instruments held by the Fund.

31 March 2016				31 March 2017		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost		Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£'000	£'000	£'000		£'000	£'000	£'000
<u>Financial Assets</u>						
			Index Linked Securities	0		
17,115	-	-	UK Public Sector	0	-	-
19,656	-	-	Overseas Public Sector		-	-
	-	-	Equities		-	-
95,736	-	-	UK	98,241	-	-
150	-	-	UK unquoted	14,234		
41,051			Overseas			
	-	-	Pooled Investment Vehicles		-	-
207,604	-	-	Global Passive Funds	665,907	-	-
102,685	-	-	UK Equity Funds	89,121	-	-
-			LDI Bespoke Funds			
64,848	-	-	Absolute Return Bond Funds	52,587	-	-
47,555	-	-	Multi Asset Credit Funds	10,827	-	-
52,170		-	Multi Asset Credit Fund (unquoted)			-
41,451		-	Sterling Liquidity Funds	47,037		-
81,552		-	Inflation Opportunity Funds			-
43,925		-	Property Funds			-
8,826			Private Equity (unquoted)	16,386		

Note 14a Classification of Financial Instruments (continued)

31 March 2016			31 March 2017		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£'000	£'000	£'000	£'000	£'000	£'000
19,245					Other Managed Funds
1,976					Commodities
104					Derivative contracts – forward foreign exchange
1,242			521		Investment Income due
278			76		Pending Trade Sales
	7,544			7,856	Cash deposits with managers
	677			1,539	Debtors
	1,165			2,834	Cash balances
848,608	9,386	-	994,937	12,229	-
FINANCIAL LIABILITIES					
(472)					Derivative contracts – forward foreign exchange
(16)			(111)		Pending Trade Purchases
		(1,187)			Creditors
848,120	9,386	(1,187)	994,826	12,229	(4,223)
856,319	Grand Total		1,002,832		

Note 14b Net Gains and Losses on Financial Instruments

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

31 March 2016		31 March 2017
£'000		£'000
Financial Assets		
(6,146)	Designated at fair value through profit and loss	146,148
(108)	Loans and receivables	181
(6,254)		146,329
Financial Liabilities		
(3,530)	Designated at fair value through profit and loss	(751)
-	Financial liabilities at amortised cost	-
(3,530)		(751)
(9,784)	Total	145,578

Note 14c Valuation of Financial Instruments carried at Fair Value

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

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

Level 2 – Quoted prices are not available for financial instruments at this level. The valuation techniques used to determine fair value use inputs that are based significantly on observable market data.

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

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

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

31 March 2016			31 March 2017		
Quoted Market Price Level 1	Using Observable Inputs Level 2	With Significant Unobservable Inputs Level 3	Quoted Market Price Level 1	Using Observable Inputs Level 2	With Significant Unobservable Inputs Level 3
£'000	£'000	£'000	£'000	£'000	£'000
Financial Assets					
603,084	174,823	70,701	317,946	608,017	68,974
9,386	-	-	12,229	-	-
612,470	174,823	70,701	330,175	608,017	68,974
Financial Liabilities					
(16)	(472)	-	(111)	-	-
(1,187)	-	-	(4,223)	-	-
(1,203)	(472)	-	(4,334)	-	-
611,267	174,351	70,701	325,841	608,017	68,974
856,319			1,002,832		
Grand Total					

Note 15 Nature and extent of risks arising from Financial Instruments

RISK AND RISK MANAGEMENT

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.

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

a) Market Risk

In order to meet the Fund's objective of being fully funded within 22 years of the 2013 actuarial valuation, the fund managers have been set differing targets appropriate to the types of assets they manage. 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 their benchmarks over the long term, albeit with greater volatility. This diversification reduces exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level.

The aim of the investment strategy is to maximise the opportunity for gains across the whole Fund portfolio within a tolerable level of risk of an overall reduction in the value of the Fund. Responsibility for the Fund's investment strategy rests with the Pensions sub-committee and is reviewed on a regular basis.

b) Price Risk

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

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

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

Price Risk Assets exposed to price risk	Value	Value on 10% price increase	Value on 10% price decrease
	£'000	£'000	£'000
As at 31 March 2016	846,835	931,518	762,151
As at 31 March 2017	994,340	1,093,774	894,906

Note 15 Nature and extent of risks arising from Financial Instruments (continued)

Interest Rate Risk

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

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

Assets exposed to interest rate risk	Value	Value on 1% price increase	Value on 1% price decrease
	£'000	£'000	£'000
As at 31 March 2016	300,436	303,440	297,432
As at 31 March 2017	210,364	212,468	208,261

Currency Risk

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

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

In order to mitigate the risk, one of the Fund's investment managers enters into forward foreign exchange contracts (accounted for as derivatives) to hedge the currency risk which arises from undertaking non sterling transactions. In addition, several of the pooled investment vehicles partially or fully hedge the currency back into sterling. These actions reduce the overall currency risk the Fund is exposed to.

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

Assets exposed to currency risk	Value	Value on 10% foreign exchange rate increase	Value on 10% foreign exchange rate decrease
	£'000	£'000	£'000
As at 31 March 2016	252,627	277,890	227,365
As at 31 March 2017	360,756	396,831	324,680

Note 15 Nature and extent of risks arising from Financial Instruments (continued)

b) Credit Risk

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

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

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 Fund therefore takes steps to ensure that there are adequate cash resources to meet its commitments. This will particularly be the case for cash to meet the pensioner payroll costs; and also cash to meet investment commitments. The Fund has immediate access to its cash holdings.

The only assets in the Fund which cannot be liquidated within a month are detailed in the table below. These amounted to 12.1% of the Fund's Net Assets at 31st March 2017 (12.6% at 31st March 2016). The remaining investments can all be liquidated within days.

Manager	Portfolio	Value at 31 March 2017	Value at 31 March 2016
		£'000	£'000
Partners Group	Multi Asset Credit	52,587	52,171
Partners Group	Infrastructure	16,386	1,439
Standard Life	Property	43,925	43,925
Invesco	Private Equity	5,301	5,302
Unigestion	Private Equity	3,524	3,525
		121,723	106,362

Note 16 Contingent liabilities and contractual commitments

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

	31 March 2017 £000	31 March 2016 returns £000
Invesco Partnership Fund V L.P.	451	1,212
Unicapital Investments V	0	46
Partners Group Direct Infrastructure Fund 2015	38,553	41,844
	39,004	43,102

Note 17 Stock Lending Arrangements

The Fund did not participate in stock lending or underwriting.

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 2013 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 28th March 2014 and this is available on the Council's website at the link below. This valuation set the employer contribution rates from 1st April 2014.

https://www.lbhf.gov.uk/sites/default/files/section_attachments/actuarial_valuation_report_2013.pdf

The 2013 valuation certified a common contribution rate of 21.9% of pensionable pay to be paid by each employing body participating in the Fund, based on a funding level of 83%. In addition, each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

The actuary's smoothed market value of the scheme's assets at 31 March 2016 was £716m and the actuary assessed the present value of the funded obligation at £863m indicating a net liability of £147m.

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

- i. The rate of accumulation of income and capital on new investments over the long-term and the increase from time to time of income from existing investments.
- ii. Future rises in pensionable pay due to inflation and pension increases.
- iii. Withdrawals from membership due to mortality, ill health and ordinary retirement.
- iv. Progression of pensionable pay due to promotion.

The contribution rate is set on the basis of the cost of future benefit accrual, increased to bring the funding level back to 100% over a period of 22 years, as set out in the Funding Strategy Statement. It is set to be sufficient to meet the additional annual accrual of benefits allowing for future pay increases and increases to pension payments when these fall due, plus an amount to reflect each participating employer's notional share of value of the Fund's assets compared with 100% of their liabilities in the Fund in respect of service to the valuation date.

The next actuarial valuation of the Fund will be as at 31st March 2016 and will be published in 2017.

Note 19 Actuarial Present Value of Promised Retirement Benefits

The table below shows the total net liability of the Fund as at 31st March 2017. The figures have been prepared by Barnett Waddingham, the Fund's actuary, only for the purposes of providing the information required by IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pension's legislation.

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

31 March 2016		31 March 2017
£'000		£'000
1,357,358	Present Value of Promised Retirement Benefits*	1,656,377
(856,319)	Fair Value of Scheme Assets (bid value)	(1,000,383)
501,039	Net Liability	655,994

*Present Value of Promised Retirement Benefits comprises of £1,613,367k (£1,311,744k at 31 March 2016) and £43,010k (£45,614k at 31 March 2016) in respect of vested benefits and non-vested benefits respectively as at 31 March 2017.

ASSUMPTIONS

The assumptions applied by the actuary are set out below:

Financial Assumptions	31 March 2016 %	31 March 2017 %
RPI increases	3.3	3.6
CPI increases	2.4	2.7
Salary increases	4.2	4.2
Pension increases	2.4	2.7
Discount rate	3.7	2.7

DEMOGRAPHIC ASSUMPTIONS

The post mortality tables adopted are the S1PA tables. The base tables are projected using the CMI 2012 Model, allowing for a long term rate of improvement of 1.5% p.a. The assumed life expectancies from age 65 are:

Life expectancy from age 65 years		31 March 2016	31 March 2017
Retiring today	Males	22.9	24.4
	Females	25.3	26.0
Retiring in 20 years	Males	25.2	26.6
	Females	27.7	28.3

OTHER ASSUMPTIONS

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

Note 20 Current Assets

31 March 2016		31 March 2017
£'000		£'000
Debtors:		
337	Contributions due - employers	334
105	Contributions due - employees	113
174	London Borough of Hammersmith and Fulham	1,085
61	Sundry debtors	7
677	Total	1,539

ANALYSIS OF DEBTORS

31 March 2016		31 March 2017
£'000		£'000
211	Local authorities	1,117
466	Other entities and individuals	422
677	Total	1,539

Note 21 Current Liabilities

31 March 2016		31 March 2017
£'000		£'000
Creditors		
(80)	Unpaid benefits	(2,439)
(598)	Investment management expenses	(1,062)
(476)	HM Revenues and Customs	(655)
(33)	Sundry creditors	(67)
(1,187)	Total	(4,223)

ANALYSIS OF CREDITORS

31 March 2016		31 March 2017
£'000		£'000
(162)	Local authorities	(67)
(476)	Central government bodies	(655)
(549)	Other Entities and individuals	(3,501)
(1,187)	Total	(4,223)

Note 22 Additional Voluntary Contributions

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

31 March 2016		31 March 2017	
Market Value		Market Value	
£'000		£'000	
Zurich Assurance			
1,134	Market Value at 31 st March	1,172	
33	Contributions during the year	21	
48	Number of members at 31 st March	41	
Equitable Life Assurance			
192	Market Value at 31 st March	193	
0	Contributions during the year	0	
32	Number of members at 31 st March	30	

In accordance with Regulation 4(1)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2016, the contributions paid and the assets of these investments are not included in the Pension Fund Accounts.

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

Note 23 Related Party Transactions

The Pension Fund is administered by the London Borough of Hammersmith and Fulham. The Council incurred costs of £240,246 in 2016/17 (£412,812 in 2015/16) in relation to the administration of the Fund and were reimbursed by the Fund for the expenses.

In the year the Council contributed £17,910k in employer contributions to the Fund (2015/16 £17,777k).

As a result of the day to day administration, at 31st March 2017 the Council owed the Pension Fund a net amount of £1,085,666 (£174,042 at 31st March 2016).

Governance Arrangements

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

Key management personnel

The Code exempts local authorities from the key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Schedule 1 of The Accounts and Audit Regulations 2015) satisfy the key management personnel disclosure requirements of IAS24. This applies in equal measure to the accounts of the Hammersmith and Fulham Pension Fund.

The disclosures required by the legislation can be found in the main accounts of the London Borough of Hammersmith and Fulham.

Note 24 Agency Transactions

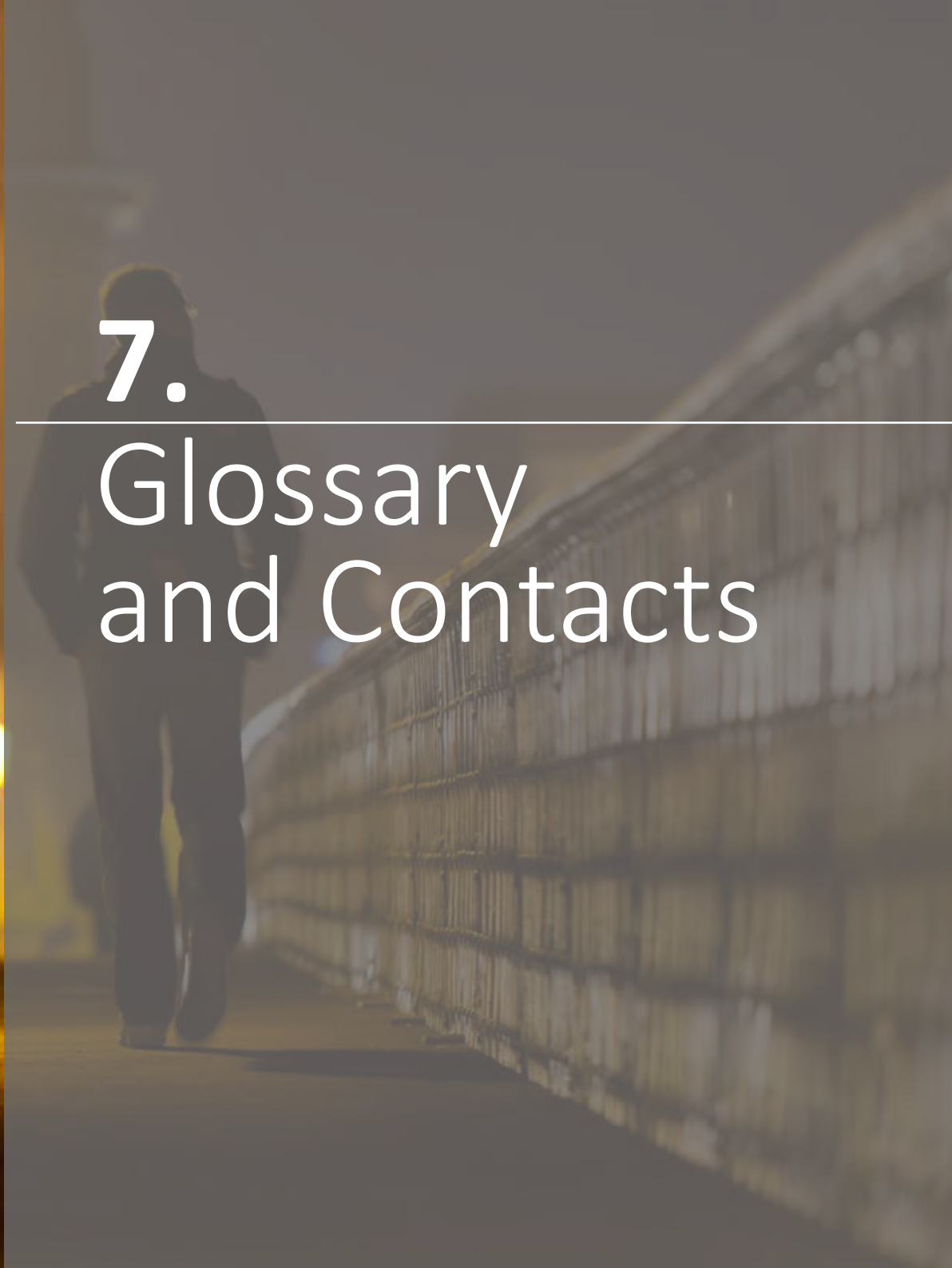
The Hammersmith and Fulham Pension Fund pays discretionary awards to the former employees of London Borough of Hammersmith and Fulham council. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the council. The gross sum paid out is disclosed below. At the balance sheet date, the March 2017 reimbursement was outstanding. This amounted to £196k and is included in Note 23 Related Parties.

2015/16		2016/17
£'000		£'000
2,433	Payments on behalf of London Borough of Hammersmith and Fulham	2,588
2,433		2,588



7.

Glossary and Contacts



Glossary of Terms

ACCOUNTING POLICIES

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

ACCRUALS

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

ACTIVE MANAGEMENT

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

ACTIVE MEMBER

Current employee who is contributing to a pension scheme.

ACTUARIAL GAINS AND LOSSES

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

ACTUARY

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

ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)

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

ADMITTED BODY

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

ASSET ALLOCATION

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

BENCHMARK

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

BONDS

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

CIPFA (CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTING)

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

CREDITORS

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

DEBTORS

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

DEFERRED MEMBERS

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

DEFINED BENEFIT SCHEME

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

Glossary of Terms (continued)

DERIVATIVE

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

EMPLOYER CONTRIBUTION RATES

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

EQUITIES

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

EXCHANGE TRADED

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

FINANCIAL ASSETS

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

FINANCIAL INSTRUMENT

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

FINANCIAL LIABILITIES

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

FORWARD FOREIGN EXCHANGE DERIVATIVE

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

INDEX

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

OVER THE COUNTER

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

PASSIVE MANAGEMENT

Passive management is where the investments mirror a market index.

POOLED INVESTMENT VEHICLES

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

PROJECTED UNIT METHOD – PENSION FUND VALUATION

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

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

Glossary of Terms (continued)

RELATED PARTIES

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

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

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

RELATED PARTY TRANSACTION

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

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

RETURN

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

SCHEDULED BODY

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

THE CODE

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

UNREALISED GAINS/LOSSES

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

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

Contact Information

www.lbhfpensionfund.org

Shared Service Pensions Finance Team

City Hall
5 The Strand
London
WC2N 5HR

Telephone: 020 7641 6925

Email: pensionfund@lbhf.gov.uk

Bi-borough Pensions Manager

c/o Royal Borough of Kensington and Chelsea
The Town Hall
Hornton Street
London
W8 7NX

Email: pensions@rbkc.gov.uk

Surrey County Council

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

Email: myhelpdeskpensions@surreycc.gov.uk

Telephone: 020 8213 2802

National Local Government Pension Scheme information website

www.lgps.org.uk

The Pensions Advisory Service (TPAS)


11 Belgrave Road
London SW1V 1RB
Telephone: 0845 601 2923

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



8.

Appendices

Governance Compliance Statement

BACKGROUND

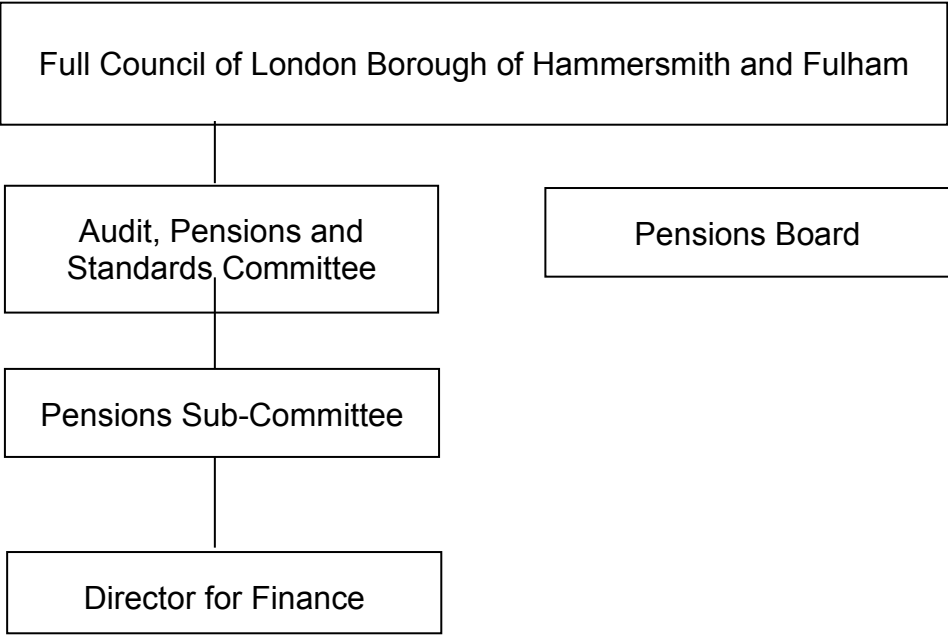
The London Borough of Hammersmith and Fulham is the administering authority for the London Borough of Hammersmith and Fulham (“the Fund”) and it administers the Local Government Pension Scheme on behalf of the participating employers.

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

GOVERNANCE STRUCTURE

The diagram below shows the governance structure in place for the Fund.

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



Governance Compliance Statement (continued)

AUDIT, PENSIONS AND STANDARDS COMMITTEE

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

PENSIONS SUB-COMMITTEE

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

The sub-committee is made up of five elected members of the Audit, Pensions and Standards Committee – three administration councillors and two opposition councillors. The sub-committee is chaired by the Chair of the Audit, Pensions and Standards Committee. The Sub Committee may co-opt non-voting independent members, including Trade Unions and representatives from the admitted and scheduled bodies in the Pension Fund.

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

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

The terms of reference for the sub-committee are:

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

Governance Compliance Statement (continued)

PENSION BOARD

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

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

The membership of the Board is as follows:

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

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

COMPLIANCE WITH STATUTORY GUIDANCE

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

REVIEW OF STATEMENT

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

Governance Compliance Statement (continued)

Compliance Requirement	Compliance	Notes
Structure		
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Compliant	As set out in terms of reference of the Pensions Sub-Committee.
That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Not fully compliant	Representatives of the employers and scheme members are Pension Board members, rather than members of the Pensions Sub-Committee.
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels	Not applicable	All Pension Fund matters are considered by the Pensions Sub-Committee
That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel	Not applicable	All Pension Fund matters are considered by the Pensions Sub-Committee
Committee membership and representation		
That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: - <ul style="list-style-type: none"> 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 <i>ad hoc</i> basis). 	Not fully compliant	Representatives of the employers and scheme members are Pension Board members, rather than members of the Pensions Sub-Committee. Expert advisers attend the Sub-Committee as required
That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights	Not applicable	All Pension Fund matters are considered by the Pensions Sub-Committee
Selection and role		
That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee	Compliant	As set out in terms of reference of the Pensions Sub-Committee
That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda	Compliant	This is a standing item on the Pensions Sub-Committee agendas
Voting		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Compliant	As set out in terms of reference of the Pensions Sub-Committee

Governance Compliance Statement (continued)

Compliance Requirement	Compliance	Notes
Training, facility time and expenses		
That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process	Compliant	As set out in the Council's allowances policy and the Pension Fund Knowledge and Skills policy
That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum	Compliant	As set out in the Council's constitution
Meetings		
That an administering authority's main committee or committees meet at least quarterly.	Compliant	As set out in terms of reference of the Pensions Sub-Committee
That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits	Not applicable	All Pension Fund matters are considered by the Pensions Sub-Committee.
That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented	Compliant	Represented on the Pensions Board
Access		
That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee	Compliant	As set out in the Council's constitution
Scope		
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Compliant	as set out in terms of reference of the Pensions Sub-Committee
Publicity		
That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements	Compliant	All meeting minutes, reports and Pension Fund policies are published on the Council's website

Statement of Investment Principles

BACKGROUND

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 Pension Fund money.

The Scheme

The Local Government Pension Scheme ("the Scheme") was established in accordance with statute to provide 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.

Pensions Sub-Committee

The Council has delegated the investment arrangements of the Fund to the Pensions Sub-Committee. The Sub-Committee meets at least 4 times a year. Further information on the Sub-Committee can be found in the Fund's Governance Compliance Statement and the responsibilities are set out in 2.1 below.

Advice

The Committee obtains and considers advice from the Director of Finance and Pension Fund Officers. In addition, the Fund retains the services of an external investment adviser who attends all the Sub-Committee's meetings. The Sub-Committee also considers advice from the Fund Actuary and investment managers as necessary.

Investment Managers

All investment management of the Fund's assets is undertaken externally. Some elements are managed on a segregated basis in accordance with investment management agreements. The remainder is invested in pooled fund products managed by external investment managers according to the terms of the funds.

INVESTMENT RESPONSIBILITIES

Pensions Sub-Committee

The Pensions Sub-Committee's responsibilities are set out in their terms of reference and are to have responsibility for all aspects of the investment and other management activity of the Council's Pension Fund, including, but not limited to, the following matters:

- To agree the investment strategy and strategic asset allocation having regard to the advice of the fund managers and the Investment Consultant.
- To monitor performance of the Pension Fund, individual fund managers, custodians, actuary and other external advisors to ensure that they remain suitable.
- To determine the Fund management arrangements, including the appointment and termination of the appointment of the Fund Managers, Actuary, Custodians and Fund Advisers.
- To agree the Statement of Investment Principles, the Funding Strategy Statement, the Business Plan for the Fund, the Governance Policy Statement, the Communications Policy Statement and the Governance Compliance Statement and to ensure compliance with these.

Statement of Investment Principles (continued)

- To approve the final statement of accounts of the Pension Fund and to approve the Annual Report.
- To receive actuarial valuations of the Pension Fund regarding the level of employers' contributions necessary to balance the Pension Fund.
- To oversee and approve any changes to the administration arrangements, material contracts and policies and procedures of the Council for the payment of pensions, compensation payments and allowances to beneficiaries.
- To make and review an admission policy relating to admission agreements generally with any admission body.
- To ensure compliance with all relevant statutes, regulations and best practice with both the public and private sectors.
- To review the arrangements and managers for the provision of Additional Voluntary Contributions for fund members.
- To receive and consider the Auditor's report on the governance of the Pension Fund.
- To determine any other investment or pension policies that may be required from time to time so as to comply with Government regulations and to make any decisions in accordance with those policies other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).

Pension Fund Officers

The Pension Fund Officers are responsible for advising the Pensions Sub-Committee and for the following:

- Monitoring compliance with statutory requirements and the investment principles set out in the document and reporting any breaches to the Sub-Committee.
- Ensuring this document is regularly reviewed and updated in accordance with the LGPS Regulations.
- Investment accounting, preparing the annual accounts and report of the Fund and all day to day administration.
- Ensuring proper resources are available to meet the Council's responsibilities.

Statement of Investment Principles (continued)

Investment Managers

The investment managers are responsible for:

- The investment of the Fund's assets in compliance with prevailing legislation and the investment management agreements or terms of the pooled fund as appropriate.
- Tactical asset allocation and security selection within the parameters of the mandate set by the Fund or the terms of the pooled fund.
- Preparation of quarterly reports including a review of performance and attendance at sub-committee meetings as requested.
- Voting shares in accordance with the agreed policy.
- Reporting any breaches of their guidelines and changes in key investment personnel.

Custodian

The custodian is responsible for:

- Safe custody and settlement of all investment transactions, collection of income and administration of corporate actions for all segregated assets, independently from the investment managers.
- Providing a performance measurement service of all the Fund's investments including those in pooled funds, against agreed benchmarks and targets.
- Providing valuations and accounting data summarising details of all investment transactions with the Fund.

Investment Adviser

The investment adviser is responsible for:

- Advising the Sub-Committee on the investment strategy of the Fund and the implementation of it.
- Advising the Sub-Committee on the appointment and termination of appointment of the investment managers and custodian.

- Assisting the Sub-Committee and Pension Fund officers in the on-going review of the investment managers and the suitability of the investment products used.
- Providing advice, education and training on all investment related matters as required.

Fund Actuary

The Fund Actuary is responsible for:

- Undertaking triennial valuations of the Fund's assets and liabilities to measure funding level and set employer contribution rates.
- Providing regular updates between triennial valuations on the funding level of the Fund.
- Providing advice on the admission and withdrawal of employers to the scheme, including external employers following externalisation of services.

Statement of Investment Principles (continued)

PENSION FUND LIABILITIES

Overview

The Hammersmith and Fulham Pension Fund is broadly similar to other funds of comparable size in terms of its maturity. The Fund Actuary determined that the funding level was 83% at the 31st March 2013 valuation. It has agreed that the Council should make additional employer contributions over a period of 22 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.

The investment strategy set for the Fund, as detailed later in this document, recognises the need to mitigate the risks set out above, but also balances this with the need to generate additional returns to return the Fund to a 100% funding level.

Scheme Benefits

The LGPS is a defined benefit scheme, which provides benefits related to final salary for its members to 31 March 2014 and on a career average basis thereafter. Each member's pension is specified according to a formula based on salary and service and is unaffected by the investment return achieved by the fund. Full details of the benefits are set out in the LGPS regulations.

Funding the Benefits

Active members are required to make pension contributions where the rate will, depend on the level of their salaries. The Council and other employers participating in the Fund are responsible for meeting the remainder of the costs necessary to finance the benefits payable from the Fund by applying employer contribution rates, determined following the actuarial review and consultation with the Fund Actuary. The employers therefore have a direct financial interest in the investment return achieved on the Fund's assets to the extent that any funding shortfall is met from employers' contributions. The approach to funding is set out in the Funding Strategy Statement.

Actuarial Valuation

The Fund is valued every three years in accordance with the LGPS Regulations and monitored each year by the officers and the Actuary. The last valuation was as at 31 March 2013.

INVESTMENT STRATEGY

Aims and Purpose of the Fund

The aims of the Fund are to:

- Enable employer contribution rates to be kept as stable as possible and at reasonable cost to taxpayers, scheduled 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 LGPS Regulations.

Statement of Investment Principles (continued)

Investment Strategy

An investment strategy has been agreed having taken advice from the Fund's investment adviser. The strategy aims to balance the need to generate sufficient return to reach a fully funded position with the need to mitigate against the risks of inflation and interest rates. The strategy is also designed to achieve diversification across different asset classes. It has been decided that all investments will be managed by external fund managers.

Strategic Benchmark

The strategic benchmark of the Fund reflects the high level asset allocation and is shown in the table below:

Asset Class	Target Allocation	Benchmark
UK equities	22.5%	FTSE All Share
Overseas equities	22.5%	MSCI AC World ex UK Growth
Secure Income	20%	3 month LIBOR plus 4%
Dynamic Asset Allocation	10%	3 month LIBOR plus 4%
Absolute Return Bonds	10%	3 month LIBOR plus 4%
Inflation Opportunities	10%	UK RPI plus 2.5%
Long Lease Property	5%	FT All Gilt index plus 2%
Total	100%	

Note: The Sub-committee is also considering an opportunistic element in the asset allocation. Once a decision is made about this, the Statement of Investment Principles will be reviewed and updated as required

Performance targets

Each of the fund managers and the investment products the Fund invests in has a set benchmark and target to achieve set out in the mandate. The detail of each of these is set out in Section 5.

Reporting

Quarterly reports on the Fund's investments, including activity and performance are provided by the investment managers to officers and the investment adviser. The Fund's investment performance is measured independently by the Fund's custodian. The investment adviser provides a quarterly report to the Committee summarising investment performance and other key issues affecting the investments and the fund managers.

Review

The investment strategy is reviewed periodically; at least every three years following the actuarial valuation of the Fund.

INVESTMENTS

The powers and duties of the Council to invest Fund monies are set out in the LGPS (Management and Investment of Funds) Regulations 2009. For all investments, the Administering Authority is required to take account of the need for diversification, and of advice from persons properly qualified by their ability and practical experience of financial matters to provide that advice.

The Regulations state that the Council, as Administering Authority must not invest any monies not immediately required for the payment of benefits and pensions with its own cash balances. The cash the Fund retains for the payment of benefits is therefore held in a separate bank account, in accordance with the Regulations.

Statement of Investment Principles (continued)

Statutory Investment Limits

The Regulations set out limits on different types of investment – these are set out in the table below. The percentages in the second column are the maximum limits which apply to all Funds. The Regulations include a provision for Funds to be able to elect to increase certain limits within parameters set out in a schedule to the Regulations. The Sub-Committee has elected to apply certain of these increased limits from 1st April 2015 and plans to review this election by 31st March 2018, as part of the next investment strategy review. These are shown in the final column of the table.

Investment Type	Regulatory limits	Election for increased limits
Any single sub-underwriting contract	1%	-
All contributions to any single partnership	2%	5%
All contributions to partnerships	5%	30%
All loans and any deposits with local authorities or their preceptors	10%	-
All investments in unlisted securities of companies	10%	15%
Any single holding unless guaranteed by Her Majesty's Government	10%	-
All deposits with any single bank, institution or person, (other than the National Savings Bank)	10%	-
All sub-underwriting contracts	15%	-
All investments in units or other shares of the investments subject to the trusts of unit trust schemes managed by any one body	25%	35%
All investments in open ended investment companies where the collective investment schemes constituted by the companies are managed by any one body	25%	35%
All investments in units or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body	25%	35%
Any single insurance contract	25%	35%
All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements	25%	-

Statement of Investment Principles (continued)

Risks

The Fund recognises there are a number of risks involved in the investment of the assets of the Fund, including:

- The risk of failing to meet the objectives – the Sub-Committee regularly takes advice and monitors the investments and funding level to mitigate this risk.
- Funding and Asset/Liability mismatch risk – this is addressed through the regular actuarial and investment reviews. The majority of the Fund's liabilities are linked to inflation.
- Underperformance risk – this is addressed through monitoring closely the performance of the investment managers and taking necessary action when this is not satisfactory.
- Country risk – the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries.
- Currency risk – the risk of a loss in the value of the Fund's assets through holding assets in a currency other than sterling. Where feasible and practical, the Sub-Committee will look to manage the overall currency exposure of the underlying assets.
- Risk of inadequate diversification or inappropriate investment – this is addressed by investing in a diversified portfolio of assets thereby avoiding concentration of assets in one particular stock, sector or geographical area. The investment management agreements and pooled fund terms where appropriate, contain restrictions to limit the risks from each individual investment and prevent unsuitable investment activity.
- Organisational risk – this is addressed through regular monitoring of the investment managers, investment adviser and custodian.
- Liquidity risk – the risk that the Fund is unable to meet cashflows out of the Fund as and when required. To manage this risk, the majority of the Fund's investments are invested in funds or assets which in a normal market environment are realisable at short notice.

The Sub-Committee maintain and regularly review a risk register including the above investment risks.

Rate of return

The investment strategy set by the Fund is expected to generate an annual investment return of 6%.

Realisation of investments

The majority of the Fund's investments are readily marketable and may be easily realised if required. Some of the Fund's investments, such as private equity and limited liability partnerships are less liquid, but they make up a relatively small proportion of the total Fund.

The Sub-Committee monitors cashflow at its quarterly meetings to ensure there is sufficient cash to meet the Fund's obligations as they fall due.

Stock Lending

The Fund does not engage directly in the lending of stocks or other securities.

Statement of Investment Principles (continued)

Investment Managers

The investment of the Fund's investments is undertaken externally. Some elements are managed on a segregated basis by investment managers appointed by the Committee. The remainder is invested in pooled fund products managed by external investment managers according to the terms of the selected funds. The current investment management arrangements for the Fund are:

Asset Class	Investment Manager/ investment product	Segregated / Pooled	Target Allocation	Benchmark and target
UK equities	Majedie Asset Management	Segregated	22.5%	FTSE All Share plus 2% p.a.
Overseas equities	MFS International	Segregated	22.5%	MSCI All World ex UK Growth plus 2% per annum.
Secure income)	Partners Group Multi Asset Credit Fund 2014	Pooled	20%	3 month LIBOR plus 4%
	Oak Hill Advisers Diversified Credit Strategy	Pooled		3 month LIBOR plus 4%
	To be determined			
Dynamic Asset Allocation	Ruffer LLP	Segregated	10%	3month LIBOR plus 4%
Absolute Return Bonds	Goldman Sachs Asset Management Strategic Absolute Return Fund I	Pooled	10%	3month LIBOR plus 4%
Inflation Opportunities	M & G Inflation Opportunities Fund V	Pooled	10%	UK RPI plus 2.5%
Long Lease Property	Standard Life Long Lease Property Fund	Pooled	5%	FT All Gilt index plus 2%
Matching Fund	Legal & General Investment Management LDI Bespoke Fund	Pooled	-	2 x Bespoke liability benchmark minus 3 month LIBOR
Private equity	Invesco Fund IV & Invesco Fund V	Pooled	-	-
	Unicapital Fund IV & Unicapital Fund V	Pooled	-	-

Statement of Investment Principles (continued)

SOCIAL, ENVIRONMENTAL AND ETHICAL POLICY

The Fund recognises that the neglect of corporate governance and corporate social responsibility may lead to poor or reduced shareholder returns. The Sub-Committee has considered how the Fund may best implement a corporate social responsibility policy, given the current resources available to the Fund.

Accordingly, the Sub-Committee has delegated social, environmental and ethical policy to the investment managers, but also approved a Governance Strategy. The Sub-Committee believes this is the most efficient approach whilst ensuring the implementation of policy by each manager is consistent with current best practice and there is appropriate disclosure and reporting of actions taken. To that extent, the Sub-Committee maintains a policy of non-interference with the day-to-day decision making of the investment managers.

VOTING RIGHTS

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

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

COMPLIANCE WITH MYNERS' PRINCIPLES OF INVESTMENT DECISION MAKING

The LGPS (Management and Investment of Funds) Regulations 2009 require Funds to state the extent to which they comply with the six principles of investment practice set out in the CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme – A Guide to the Application of the Myners' Principles" and give reasons for not complying where they do not do so.

The principles and the Hammersmith and Fulham Fund's position on compliance are set out in the table below:

Statement of Investment Principles (continued)

Compliance Requirement	Compliance	Notes
Principle 1: Effective Decision Making		
Administering 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.	Fully compliant	Decisions are made by the Pensions Sub-Committee, with advice from the Fund's investment adviser, Fund Actuary and officers. The Sub-Committee members receive quarterly reports on investment performance from the Investment Adviser.
The persons and organisations involved responsible for decisions should have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.	Fully compliant	The Pensions Sub-Committee members collectively have the necessary experience and ability to challenge the advice they receive. The declaration of conflicts of interest is the first item on the agenda at each Pensions Sub-Committee meeting.
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 advisers and investment managers.	Fully compliant	The objectives are set out clearly and take into account the requirement to maintain an employer contribution rate as constant as possible over the long term. These are communicated to advisers and investment managers.
Principle 3: Risk and Liabilities		
In setting and reviewing their investment strategy, administering 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 structure of the liabilities has been considered in setting an investment strategy which recognises the need to mitigate against the risk of inflation and interest rates, which drive the liabilities, as well generate sufficient investment return to assist in achieving full funding.
Principle 4: Performance Assessment		
Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers.	Fully compliant	<p>The Custodian independently measures the performance of the investment managers' portfolios and a summary of investment performance is provided to the Committee by the investment adviser quarterly.</p> <p>The investment adviser and Fund Actuary are appointed on fixed term contracts following tender processes and the quality of service is assessed through contract monitoring.</p> <p>The Sub-Committee does not periodically make a formal assessment of its own effectiveness as a decision-making body. However the performance of the Fund is reported in the Annual Report published on the website.</p>
Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to the scheme members.	Partially compliant	

Statement of Investment Principles (continued)

Principle 5: Responsible Ownership		
Administering authorities should: recognise and ensure their partners in the investment chain adopt, the FRC's UK Stewardship Code	Fully compliant	The Fund's investment managers have adopted the FRC's UK Stewardship Code.
Include a statement of their policy on responsible ownership in their statement of investment principles	Fully compliant	See section 6 of this document
Report periodically to scheme members on the discharge of these responsibilities	Fully compliant	As this Statement of Investment Principles forms part of the Annual Report and Accounts, the statements above comply with this requirement.
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.	Fully compliant	The information is provided in the Pension Fund Annual Report and Accounts which is available through the website.
Provide regular communication to scheme members in the form they consider most appropriate.	Fully compliant	The published annual report and accounts are considered sufficient, since the benefits of the scheme are defined and guaranteed by statute.

Communication Policy

1. BACKGROUND

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

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

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

LBHF in its capacity as the Administering Authority engages with other employers (under their status as Admitted and Scheduled Bodies) and has 4071 active members 5915 deferred members and 4518 pensioners as at 31st March 2016

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

2. ROLES AND RESPONSIBILITIES

Retained team within HR

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

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

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

Surrey County Council

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

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

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

British Telecom

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

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

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

3. HOW INFORMATION IS COMMUNICATED

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

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

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

Communication Policy (continued)

4. DETAILS OF WHAT IS COMMUNICATED

Joiner information with Scheme details

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

Newsletters

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

Fund Report and Accounts

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

Annual Benefit Statements

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

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

Factsheets

Information that provides a summary in relation to specific topics, such as topping up pension rights, transfer values in and out of the scheme, death benefits and, for pensioners, annual pensions increases.

Roadshows

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

Face to face/personal discussions.

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

Posters

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

Employers' Guide

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

Employers meeting

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

Briefing papers

Formal briefings that highlight key issues or developments relating to the LGPS and the Fund, these are used by senior managers when attending committee meetings.

Committee papers

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

Training and Development.

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

Press releases

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

Other employers joining the fund

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

Pension disputes IDRP

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

Statutory returns and questionnaires

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

Communication Policy (continued)

FURTHER INFORMATION

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

SURREY COUNTY COUNCIL

Pension Services (LBHF Team)
Surrey County Council
Room G59, County Hall
Penrhyn Road
Kingston upon Thames
Surrey KT1 2DN
Email: myhelpdeskpensions@surreycc.gov.uk

General enquiries and complaints:

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

RETAINED HR TEAM

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

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

Funding Strategy Statement

1. PURPOSE OF THE FUNDING

STRATEGY STATEMENT

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

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

2. AIMS AND PURPOSE OF THE FUND

2.1 The aims of the Fund are to:

- Manage employers’ liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- Enable primary contribution rates to be kept as nearly constant as possible; and

- Seek returns on investment within reasonable risk parameters.

2.2 The purpose of the Fund is to:

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

3. RESPONSIBILITIES OF KEY PARTIES

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

The Administering Authority

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

- Operate a pension fund
- Collect employee and employer contributions investment income and other amounts due to the Fund, as stipulated in the LGPS Regulations;

- Invest the Fund’s assets in accordance with the LGPS regulations;
- Pay the benefits due to Scheme members; as stipulated by the LGPS regulations;
- Ensure that cash is available to meet liabilities as and when they fall due;
- Take measures as set out in the regulations to safeguard the Fund against the consequences of employer default;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain this FSS, the SIP and ISS after consultation with other interested parties; and
- Monitor all aspects of the Fund’s performance and funding, amending the FSS and ISS accordingly;
- Manage any potential conflicts of interest arising from the Borough’s dual role as scheme employer and fund administrator
- Enable the pension board to review the valuation process as set out in their terms of reference.

Funding Strategy Statement (continued)

Individual Employers

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

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

- Deduct contributions from employees' salaries correctly and pay these, together with their own employer contributions as certified by the Fund Actuary, to the administering authority within the statutory timescales;
- Notify the administering authority of all changes in Scheme membership and any other membership changes promptly;
- Exercise any discretions permitted under the Regulations; and
- Meet the costs of any augmentations or other additional costs, such as early retirement strain, in accordance with agreed policies and procedures.

The Fund Actuary

4.4 The Pension Fund's Actuary is Barnett Waddingham LLP. Their main responsibilities of the Fund Actuary are to:

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

4. SOLVENCY ISSUES AND TARGET FUNDING LEVELS

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

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

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

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

Funding Strategy Statement (continued)

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

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

6. PRIMARY RATE OF THE EMPLOYERS' CONTRIBUTION

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

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

6.3 The secondary rate of the employer's contribution is an adjustment to the primary rate to arrive at the rate each employer is required to pay. It may be expressed either as a percentage adjustment to

the primary rate and/or as a cash adjustment for each of the three years of the inter-valuation period. This will be set out in the rates and adjustments certificate. For any employer, the rate they are actually required to pay is the sum of the primary and secondary rates.

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

7 SOLVENCY ISSUES AND NON LOCAL AUTHORITY EMPLOYERS

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

- The need to set appropriate employer contribution levels and deficit recovery periods for these employers which do not have tax-raising powers and therefore have weaker covenants than local authorities;

- The underlying investment strategy of the assets backing the liabilities of these employers;
- The financial standing of those employers (or their parent companies or guarantors) and their ability to meet the cost of current membership, fund any deficit and ability to ensure against default;
- The long and short term effects of high contribution rates on non-local authority employers in terms of their financial viability.

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

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

8. VALUATION ASSUMPTIONS AND FUNDING MODEL

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

Funding Strategy Statement (continued)

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

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

Future Price Inflation

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

Future Pay Inflation

8.4 As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay inflation. Historically, there has been a close link between price and pay inflation with pay increases exceeding price inflation in the longer term. However, in recent years, this model has broken down due to pay freezes in the public sector and continuing restraint to restrict salary growth across many sectors.

Future Pension Increases

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

Future Investment Returns/Discount Rate

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

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

8.8 For open employers, the discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the “on-going” discount rate.

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

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

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

Asset Valuation

8.12 For the purposes of the valuation, the asset value used is the market value of the accumulated Fund at the valuation date adjusted to reflect average market conditions during the six months straddling the valuation date.

Statistical Assumptions

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

Funding Strategy Statement (continued)

9. DEFICIT RECOVERY/SURPLUS AMORTISATION PERIODS

9.1 Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. Accordingly, the Fund will normally either be in surplus or in deficit.

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

9.3 The period that is adopted for any particular employer will depend on:

- The significance of the surplus or deficit relative to that employer's liabilities;
- The covenant of the individual employer and any limited period of participation in the Fund; and
- The implications in terms of stability of future levels of employers' contribution.

10. POOLING OF INDIVIDUAL EMPLOYERS

10.1 The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution

rates are set for individual employers to reflect their own particular circumstances.

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

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

11. CESSATION VALUATIONS

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

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

12. Links with the Investment Strategy Statement (ISS)

12.1 The main link between the Funding Strategy Statement (FSS) and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return which is expected to be achieved by the underlying investment strategy as set out in the ISS.

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

13. RISKS AND COUNTERMEASURES

13.1 Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

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

Funding Strategy Statement (continued)

14. FINANCIAL RISKS

- 14.1 The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.
- 14.2 The valuation results are most sensitive to the real discount rate. Broadly speaking an increase/decrease of 0.5% per annum in the real discount rate will decrease/increase the liabilities by 10%, and decrease/increase the required employer contribution by around 2.5% of payroll.
- 14.3 However, the Pensions Sub-committee regularly monitors the investment returns achieved by the fund managers and receives advice from the independent advisers and officers on investment strategy.
- 14.4 The Pensions Sub-committee may also seek advice from the Fund Actuary on valuation related matters.
- 14.5 In addition, the Fund Actuary provides funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

15. DEMOGRAPHIC RISKS

- 15.1 Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the

main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase of one year to life expectancy of all members in the Fund will reduce the funding level by between 0.5 to 1%.

- 15.2 The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review.
- 15.3 The liabilities of the Fund can also increase by more than has been planned as a result of early retirements.
- 15.4 However, the Administering Authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

16. REGULATORY RISKS

- 16.1 The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by central government.
- 16.2 The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

- 16.3 However, the Administering Authority participates in any consultation process of any

proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

17. GOVERNANCE

- 17.1 Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:
- Structural changes in an individual employer's membership;
 - An individual employer deciding to close the Scheme to new employees; and
 - An employer ceasing to exist without having fully funded their pension liabilities.
- 17.2 However, the Administering Authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required.
- 17.3 In addition, the Administering Authority keeps in close touch with all individual employers participating in the Fund to ensure that, as Administering Authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

Funding Strategy Statement (continued)

18. MONITORING AND REVIEW

- 18.1 This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.
- 18.2 The Administering Authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.



London Borough of Hammersmith & Fulham Pension Fund
Tri-Borough Treasury & Pensions
5th Floor
5 The Strand
London
WC2N 5HR

