LONDON BOROUGH OF HAMMERSMITH AND FULHAM PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

MARCH 2015

1. Background

1.1. Legal

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

1.2. 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.

1.3 Pensions Sub-committee

The Council has delegated the investment arrangements of the Fund to the Audit, Pensions and Standards Committee, which has sub-delegated them to the Pensions Sub-committee (the 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.

1.4 Advice

The Sub-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.

1.5. 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.

2. Investment responsibilities

2.1. Pensions Sub-committee

The Pensions Sub-committee's responsibilities are set out in their terms of reference as follows:

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 Adviser.
- 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.

In cases where the Sub Committee decides, it may refer matters to the Audit, Pensions and Standards Committee for decision.

2.2. Pension Fund Officers

The Pension Fund Officers are responsible for advising the 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.

2.3. 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.

2.4. 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.

2.5. 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.

2.6. 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.

3. Pension Fund Liabilities

3.1. 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 return to return the Fund to a 100% funding level.

3.2. 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.

3.3. 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.

3.4. 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.

4. Investment Strategy

4.1. Aims and Purpose of the Fund

The aims of the Fund are to:

- Enable employer contribution rates to be kept as 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 Local Government Pension Scheme Regulations.

4.2. 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.

4.3. 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 2%
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.

4.4. 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.

4.5. 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 sub-committee summarising investment performance and other key issues affecting the investments and the fund managers.

4.6. Review

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

5. Investments

5.1. 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.

5.2. 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.

5.3. Statutory Investment Limits

The regulations set out limits on different types of investment – these are set out in the table overleaf. 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%	-

5.4. 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.

5.5 Rate of return

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

5.6. 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.

5.7. Stock Lending

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

5.8. 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 Sub-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% per annum
Overseas equities	MFS International	Segregated	22.5%	MSCI AC 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%	3 month LIBOR plus 4%
Absolute Return Bonds	Goldman Sachs Asset Management Strategic Absolute Return Fund I	Pooled	10%	3 month LIBOR plus 2%
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%
Current residual investments outside target allocation				
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	-	-

6. SOCIAL, ENVIRONMENTAL AND ETHICAL POLICY

6.1 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. 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.

7. VOTING RIGHTS

7.1 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.

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

8. Compliance with Myners' Principles of Investment Decision Making

8.1. 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.

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

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.

Compliance Requirement	*Compliance*	*Notes*
Principle 4: Performance Assessment		
Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers.	Fully compliant	The Custodian independently measures the performance of the investment managers' portfolios and a summary of investment performance is provided to the sub-committee by the investment adviser quarterly. 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.
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	The Sub-committee does not periodically make a formal assessment of it's own effectiveness as a decision making body. However the performance of the Fund is reported in the Annual Report published on the website.
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.

Compliance Requirement	*Compliance*	*Notes*
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.