

London Borough of Hammersmith & Fulham Pension Fund Annual Report 2014-2015



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Chairman's report

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 2014-15.

The Pensions Sub-committee was established in December 2014 to improve the governance of the Pension Fund and allow councillors more time to consider pension issues more fully than had been the case when pension issues were dealt with at the main Audit, Pensions and Standards Committee. Governance of the Fund is being further enhanced by the establishment of a Pension Board which will provide further oversight of the Fund.

During the year the value of the Fund rose by £106m following a positive absolute investment return of 15.1% over the year. This return was 0.3% ahead of benchmark, which was pleasing in a year of change. The Committee and Sub-committee have continued to monitor the Fund closely at every meeting, and challenged the investment advisers as necessary to ensure the Fund's investments are being managed effectively.

As reported last year, a review of the Fund's investment strategy has been on-going to ensure the Fund remains on track to meet the objective of ensuring there are sufficient assets to meet all the liabilities. The changes we implemented in 2014-15 financial year and in April and May of 2015 have been designed to balance investment risk with achieving reasonable returns.

During the year the Committee and Sub-committee have also been monitoring the funding every quarter. By the end of March 2015, the funding level of the Fund had increased from 83% to 87%. The next full actuarial valuation of the Fund is due to take place as at 31st March 2016.

I would like to thank all those involved in the management of the Pension Fund during the year especially those who served on the Committee during 2014-15, as well officers, advisers and investment managers.



Councillor Iain Cassidy

Chairman of Audit, Pensions & Standards Committee & Pensions Sub-committee

Introduction

The Pension Fund is part of the national Local Government Pension Scheme (LGPS) and is administered locally by Hammersmith and Fulham Council. It is a contributory defined benefit pension scheme governed by the Public Service Pensions Act 2013 and the Local Government Pension Scheme regulations. It provides for the payment of benefits to employees and former employees of Hammersmith and Fulham Council and the admitted and scheduled bodies in the Fund.

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and from the Fund's investments. The 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 Re-valued 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.

In summary the benefits payable are:

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

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

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

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

1. Management and Performance

Governance Arrangements

The London Borough of Hammersmith & Fulham Council has delegated decision making powers in respect of pensions matters to the Audit, Pensions and Standards Committee (the Committee). The Committee is made up of 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.

Pensions Sub-committee

In December 2014 the Committee established a Pensions Sub-committee (the Sub-committee) and delegated responsibility for all pensions matters to it. The Sub-committee is made up of five members of the Audit, Pensions and Standards Committee and is chaired by the Chair of the Committee.

The Sub-committee meets at least four times a year and has the following terms of reference:

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 Pension Fund regarding the level of employers' contributions necessary to balance the Pension 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.

The Sub-committee obtains and considers advice from the Director for Finance and other officers, and as necessary from the Fund's appointed actuary, advisers and investment managers. The Sub-committee members are required to comply with Council policies such as the member code of conduct and conflicts of interest in relation to their membership of the Sub-committee.

The current membership of the Pensions Sub-committee is as follows:

Councillor Iain Cassidy (Chairman)
Councillor Michael Adam (Vice Chairman)
Councillor Nicholas Botterill
Councillor PJ Murphy
Councillor Guy Vincent

Pensions Board

With effect from 1st April 2015, all administering authorities are required by the Public Services Pensions Act 2013 to establish a Pensions 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 Pensions 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 Pensions Sub-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 members representatives from the Council or an admitted or scheduled body.

Knowledge and Skills policy

At their meeting on 24th June 2015 the Sub-committee adopted a Knowledge and Skills policy for the Fund with the aim of ensuring all Pensions Sub-committee members, Board members and officers have the necessary knowledge and skills to run the Pension Fund. Self-assessments of current knowledge and skills are underway to inform a training programme. Records of the knowledge, skills and training undertaken will be maintained and reported on in the 2015/16 annual report.

Governance Compliance Statement

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

The key issues covered by the best practice principles are:

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

The Fund's statement was updated in June 2015 and can be found in the Pension Fund section of the following website:

http://www.lbhf.gov.uk/Directory/Council_and_Democracy/Plans_performance_and_statistics/Statement_of_accounts/68526_Statement_of_accounts.asp#0

Scheme Management and Advisers

The City of Westminster, London Borough of Hammersmith & Fulham and the Royal Borough of Kensington & Chelsea councils have shared services to provide a more efficient service and greater resilience and this includes the Pensions teams.

The shared service team was formed in February 2012 and is responsible for the management of the pension fund investments across the three boroughs. The team is based at Westminster's offices. The Pension Funds continue to be managed separately in accordance with each borough's strategy and so each continues to have sovereignty over decision making. However, officers are continually seeking to improve efficiency and resilience and to minimise the cost of running the Pension Funds, in line with the shared service working aims.

Officers

Director for Finance (section 151 officer)	Hitesh Jolapara
Shared Service Pensions Team	Nikki Parsons Alex Robertson Nicola Webb
Bi-borough Director of HR Bi-borough Pensions Manager	Debbie Morris Maria Bailey

External Advisers

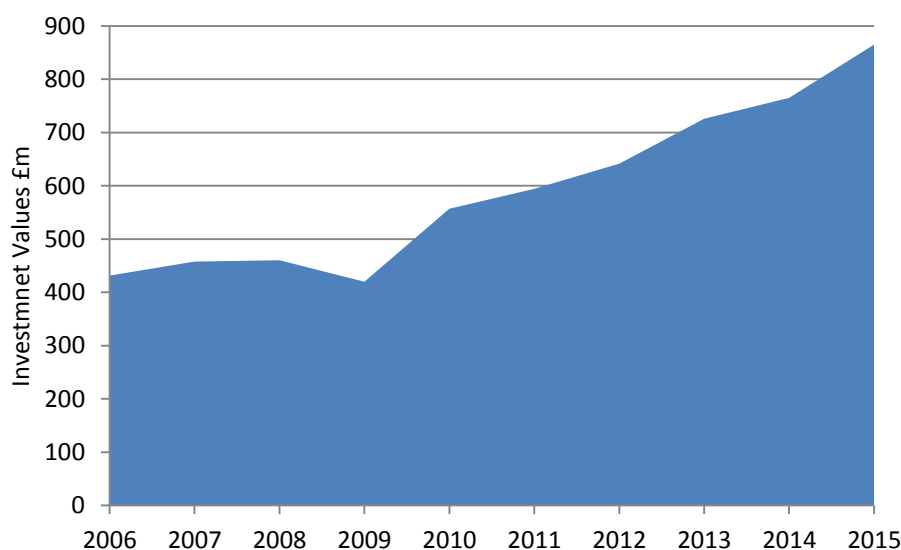
<u>Investment Managers</u>	
Active Equity managers	Majedie Asset Management MFS International (UK) Limited
Dynamic Asset Allocation manager	Ruffer LLP
Matching Fund managers	Goldman Sachs Asset Management Legal & General Investment Management
Multi Asset Credit manager	Partners Group
Private Equity managers	Invesco Unigestion
From April /May 2015: Property manager	Standard Life
Multi Asset Credit managers	Oak Hill Advisers M & G
Investment Adviser	Deloitte
Custodian & Bankers	Northern Trust
Actuary	Barnett Waddingham
Auditor	KPMG
Legal Adviser	Eversheds
Scheme Administrators	Capita Employee Benefits (from 1 st September 2015 - Surrey County Council)
AVC Providers	Zurich Assurance Equitable Life Assurance Society

Financial Summary and performance

The investment return in 2014/15 was positive both in absolute terms and relative to the Fund's target. The return was 15.1%, which was 0.3% above the target set by the Fund. The Investment Policy and Performance report in section 2 provides more detail on the Fund's investments and performance.

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

Value of the Fund over the last ten years



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

Risk Management

The Sub-committee recognises that the Pension Fund is subject to a number of risks. It therefore maintains a Pension Fund risk register and reviews the risk and mitigating actions at each meeting. The register covers both strategic and operational risks and risks in relation to the investment, funding, governance and administration aspects of the Pension Fund.

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

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

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

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

2. Investment Policy and Performance

The Fund's investment policy, objectives and strategy are summarised below and set out in detail in the Statement of Investment Principles, which can be found at the link shown later in this section. During the year there were a number of decisions made about the investment strategy which led to changes to the investment strategy some of which were implemented during 2014/15 and some in early 2015/16.

Investment Benchmark and Objective

During 2014/15 the benchmark used to measure the estimated movement in liabilities, the "Liability Benchmark" was defined using the following range of index linked gilts, designed to closely match the Fund's liabilities.

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

The investment benchmark for the Fund as a whole was the Liability Benchmark plus 2.2% per annum. The investment objective was to achieve the Liability Benchmark plus 2.5% per annum. All the performance figures in this section are compared to this benchmark.

From 1st April 2015 the Sub-committee agreed a change to the benchmark to reflect the portfolios the Fund will be investing in. This is:

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%	

Investment Strategy

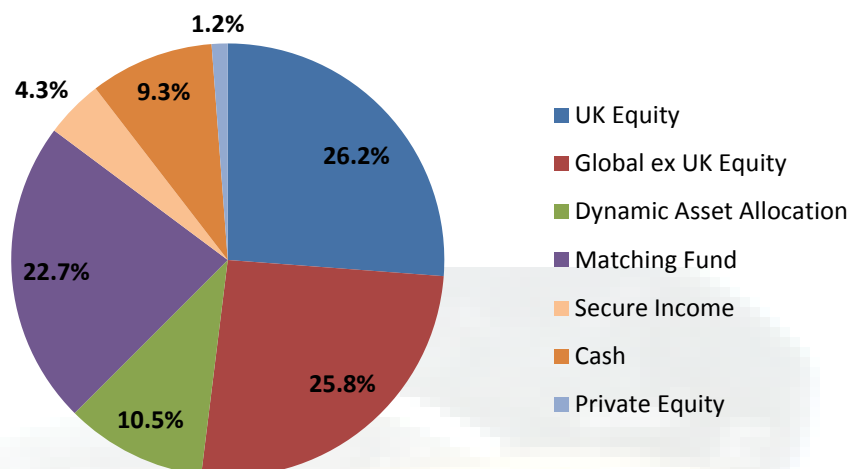
At the beginning of 2014/15 the investment strategy of the Fund was to have four main portfolios - UK Equity, Global (ex UK) Equity, Dynamic Asset Allocation and a Matching Fund (to match some of the Fund's liabilities). The investment strategy was designed to provide diversification and specialisation to reduce exposure to market risk and achieve optimum return against the Liability Benchmark. In addition to the main portfolios, the Fund committed to making investments of up to £15m in private equity in 2004 and 2007. These commitments have largely been paid now and the monies are being distributed back to the Fund.

In August 2014, the Fund disinvested from one of the Dynamic Asset Allocation funds following the departure of the manager of the fund. The proceeds from this were invested in a sterling liquidity fund managed by Legal & General Investment Management pending further decisions about investment strategy. In February 2015 the Fund invested £37.5m of this cash in a Multi Asset Credit fund managed by Partners Group.

The table and graph below shows how the Fund was split between the portfolios at 31st March 2015. The split at 31st March 2014 is shown in the table for comparison.

Portfolio	Benchmark during 2014/15	Market Value at 31/03/2015 £000s	% of Fund at 31/03/2015	Market Value at 31/03/2014 £000s	% of Fund at 31/03/2014
UK Equity	22.5%	226,483	26.2%	207,054	27.1%
Global ex UK Equity	22.5%	222,849	25.8%	182,013	23.8%
Dynamic Asset Allocation	30.0%	91,159	10.5%	206,552	27.0%
Matching Fund	25.0%	196,313	22.7%	157,833	20.6%
Secure Income	0.0%	37,600	4.3%	0	0.0%
Cash	0.0%	80,036	9.3%	0	0.0%
Private Equity	0.0%	10,341	1.2%	11,442	1.5%
TOTAL	100%	864,781	100.0%	764,894	100.0%

Split of investments
at 31st March 2015



The table below shows how the investments were split at 31st March 2015 according to whether they are UK holdings, non-UK or global.

	UK £m	Non-UK £m	Global £m	Total £m
Equities	207.9	276.8	0.5	485.2
Bonds	148.9	15.2	64.1	228.2
Property (direct holdings)	0.0	0.0	0.0	0.0
Alternatives	0.0	9.9	-0.7	9.2
Cash and cash equivalents	0.0	0.0	95.4	95.4
Other	0.0	0.0	46.8	46.8
TOTAL	356.8	301.9	206.1	864.8

The split of gross investment income earned during 2014/15 is shown below also split according to whether it was earned from UK holdings, non-UK or global holdings. The income shown in the table is mainly earned from the segregated portfolios, as the majority of pooled fund income is re-invested in those funds and not paid out to the Pension Fund.

	UK £000s	Non-UK £000s	Global £000s	Total £000s
Equities	7,159	3,842	0	11,001
Bonds	103	145	0	248
Property (direct holdings)	0	0	0	0
Alternatives	0	110	0	110
Cash and cash equivalents	2	0	61	63
Other	0	0	0	0
TOTAL	7,264	4,097	61	11,422

Statement of Investment Principles

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

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

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

The Fund last reviewed the Statement of Investment Principles in March 2015 following the changes agreed to the investment strategy. The Fund’s published statement can be found in the Pension Fund section of the following website:

http://www.lbhf.gov.uk/Images/Statement%20of%20Investment%20Principles%202015_tcm21-174597.pdf

Investment Managers

The Fund has appointed external investment managers to manage the Fund’s assets. The investment managers have clear benchmarks and targets, which place maximum accountability for performance on the manager. The detail of these is set out in the Statement of Investment Principles. The table below shows how the Fund’s assets were allocated between the investment managers at 31st March 2015, and at 31st March 2014 for comparison.

It also shows how the investment of the Fund’s assets at 31st March 2015 compared to the target. As described above, the Fund was in a transition phase during 2014/15 having exited from the Barings investment and not yet completed the new investments. This meant that the portfolio looked quite different to the target at 31st March 2015.

Investment Manager	Market Value	% of Fund	Target	Variance from target	Market Value	% of Fund
	at 31 March 2015				at 31 March 2014	
UK Equity						
Majedie Asset Management	226,483	26.2%	22.5%	+3.7%	207,054	27.1%
Global ex UK Equity						
MFS International (UK) Ltd	222,849	25.8%	22.5%	+3.3%	182,013	23.8%
Dynamic Asset Allocation						
Baring Asset Mngt Ltd	0	0.0%	15.0%	-15.0%	125,250	16.4%
Ruffer LLP	91,159	10.5%	15.0%	-4.5%	81,302	10.6%
Matching Fund						
Goldman Sachs Asset Mngt	64,126	7.4%	12.5%	-5.1%	65,248	8.5%
Legal and General Investment Mngt LDI	132,187	15.3%	12.5%	+4.3%	92,585	12.1%
Secure Income						
Partners Group Multi Asset Credit	37,600	4.3%	0.0%	+4.3%	0	0.0%
Cash						
Legal and General Investment Mngt Sterling Liquidity Fund	80,036	9.3%	0.0%	9.3%	0	0.0%
Private Equity						
Invesco	6,251	0.7%	0.0%	0.7%	6,221	0.8%
Unigestion	4,090	0.5%	0.0%	0.5%	5,221	0.7%
TOTAL	864,781	100.0%	100.0%	0.0%	764,894	100.0%

Since 31st March 2015, a number of new investments have been made. The £80m in the Legal & General Sterling Liquidity Fund was withdrawn, along with £101m of the monies held in the Legal & General LDI Bespoke Fund. £40m was invested in Standard Life's Long Lease Property Fund, a further £12.5m with Partners Group, £50m in Oak Hill Advisers Diversified Credit Strategies Fund, and £78.5m in M&G Inflation Opportunities Fund V. These new investments reflect the new investment benchmark set out on page 11.

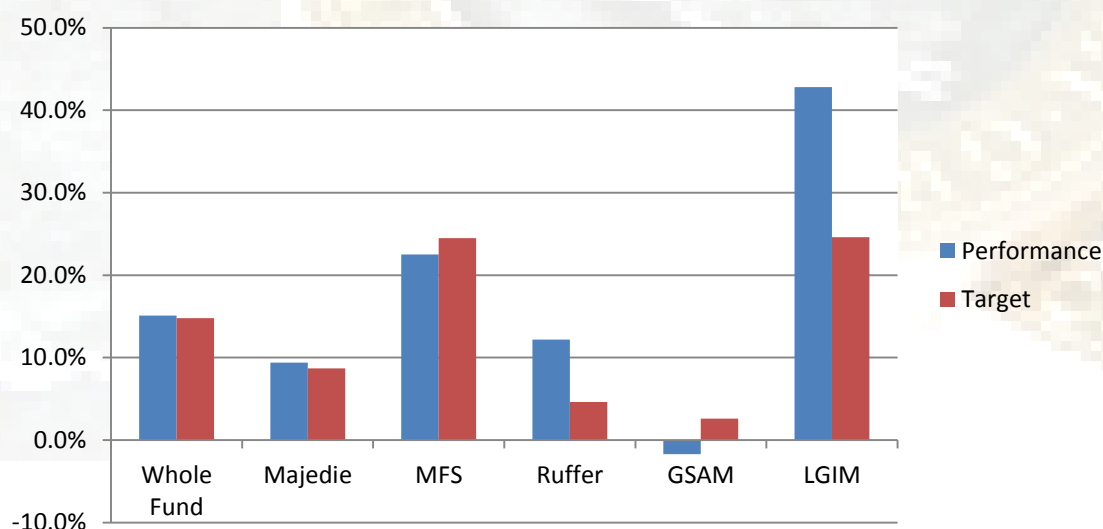
Investment Performance

The table below shows the performance of the Fund against the target in 2014/15, the previous financial year, and the annualised performance over three, five and ten years. The target used to compare performance is that which was in place during 2014/15.

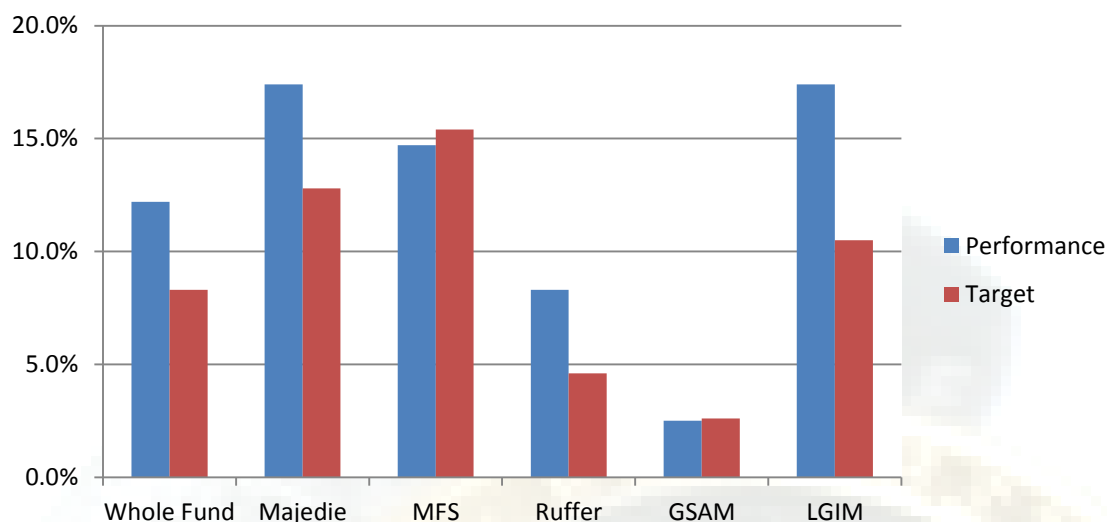
	2014/15	2013/14	3 years	5 years	10 years
Performance	15.1%	6.4%	12.2%	10.2%	9.9%
Target (Liability Benchmark + 2.5%)	14.8%	(1.2%)	8.3%	11.0%	7.8%
Out / (under) performance against target	0.3%	7.6%	3.9%	(0.8%)	2.1%

Each of the investment managers has a benchmark and target set within their Investment Management Agreements with the Fund. Performance is measured quarterly and reported to the Sub-committee. The graphs below show the performance of the investment manager portfolios in place throughout the year against their targets over 2014/15 and annualised over three years.

2014/15 performance against targets



Three Years annualised performance against targets



The graphs show that over both the one year and three year period, all managers except MFS and Goldman Sachs have exceeded their targets. The Sub-committee review performance every quarter and take it into consideration when reviewing investment strategy.

Responsible Investment

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

The investment managers are required to report to the Fund on how they implement their responsible investment policy including voting decisions they take on behalf of the Fund in their quarterly reports. A summary of voting actions is reported to the Sub-committee on a quarterly basis.

Custody and Banking

The Fund has appointed a global custodian, independent to the investment managers, to be responsible for the safekeeping of all of the Fund's investments – this is Northern Trust. They are also responsible for the settlement of all investment transactions and the collection of income. Funds not immediately required to pay benefits are invested in Northern Trust's AAA rated money market fund. Northern Trust itself has an issuer credit rating of AA- with both Fitch and S&P ratings agencies and A1 with Moody's. The bank account for the Pension Fund has been held with Nat West since December 2014, previously it was also with Northern Trust.

3. Scheme Administration

The Local Government Pension Scheme (“LGPS”) is a statutory pension scheme governed by the Public Service Pensions Act 2013. It is a defined benefit pension scheme and 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 become 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.

Service Delivery

Although the LGPS is a national scheme, it is administered locally. The London Borough of Hammersmith and Fulham has a statutory responsibility to administer the pension benefits payable from the Pension Fund on behalf of the participating employers and the past and present members and their dependents. Capita Employee Benefits have been contracted under a framework to perform the pension administration service for the London Borough of Hammersmith and Fulham and the Council monitors their performance via a series of agreed targets.

From 1st September 2015 the council will be entering into a section 101 agreement with Surrey County Council for them to undertake pensions administration on behalf of the council.

Employers in the Fund

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

The table below shows the number of employers with active contributing members in each of the last five years. The number of employers has been changing as the number of academies has increased in recent years. This has been offset by a number of employers exiting the Fund when all active members have left.

	2010/11	2011/12	2012/13	2013/14	2014/15
Active Employers	29	30	35	31	36

The next table shows the split of these employers by type at 31st March 2015 and also shows the number of employers who have ceased active membership of the Fund when either their contract has ended or the last active member has left.

	Active	Ceased	Total
Administering Authority	1	0	1
Scheduled Body	15	0	15
Admitted Body	20	17	37
Total	36	17	53

The following is a list of the employers with current active contributing members.

Administering Authority London Borough of Hammersmith & Fulham	
Scheduled Bodies	Admitted Bodies
Bentworth Academy Bridge Academy Burlington Danes Academy Conway Academy Fulham College Academy Trust Greenside Academy Hammersmith Academy Hurlingham & Chelsea Academy Lady Margaret Academy Lena Gardens Academy London Oratory School Mortlake Crematorium Board Sacred Heart High School Swift Ark Academy West London Free School	3BM Amey Services Limited Carers Network Civica Disabilities Trust Eden Food Services ETDE Infrastructure F M Conway Ltd Family Mosaic Family Mosaic Supporting People Fulham Palace Trust Glencross Cleaning Ltd H & F Bridge Partnership Medequip Assistive Technology Mitie Group plc Pinnacle PSG Limited Quadron Services Serco Thames Reach Urban Partnership Group

Scheme membership

The following table shows the Fund's membership over the last five years. The active membership did fall in 2012/13 and 2013/14 but has stabilised since then. The number of deferred members has increased consistently in every year and the number of pensioners has increased slightly over the five year period. These movements show a maturing of the Fund.

	31 st March 2011	31 st March 2012	31 st March 2013	31 st March 2014	31 st March 2015
Contributors	4,064	3,837	3,782	3,963	4,024
Deferred	5,217	5,409	5,546	5,785	5,957
Pensioners & Dependents	4,174	4,265	4,379	4,269	4,288
Total Membership	13,455	13,511	13,707	14,017	14,269

Communication policy statement

The Local Government Pension Scheme Regulations 2013 require Pension Funds to prepare, publish and maintain a communication policy statement. This statement sets out the methods used by the Fund to communicate with the various stakeholders, including scheme members, employers and their representatives.

The Fund's Communication policy statement can be found at the following link:

http://www.lbhf.gov.uk/Images/Pension%20Fund%20Communication%20Policy%20Statement_tcm21-184905.pdf

Sources of information

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

Internal Dispute Resolution Procedure

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

To facilitate this process, an Internal Disputes Resolution Procedure has been established. If an issue cannot be resolved informally, a stage 1 appeal may be made to Sarah Milson, Head of Pensions at Capita Employee Benefits using the email address: lbhf.pensions@capita.co.uk and thereafter, if necessary a further appeal may be made to Debbie Morris, Bi-borough Director of HR for Hammersmith & Fulham and Kensington and Chelsea.

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

11 Belgrave Road
London
SW1V 1RB

Additional Voluntary Contributions

The Fund's AVC providers are Zurich Assurance and the Equitable Life Assurance Society. The AVC providers secure benefits on a money purchase basis for those members electing to pay AVCs. Members of the AVC schemes each receive an annual statement confirming the amounts held in their account and the movements in the year. In accordance with Regulation 4(2) (b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009 the contributions paid and the assets of these investments are not included in the Pension Fund Accounts, but are recorded in a disclosure note.

4. Actuarial Information

Summary of the last triennial valuation

The Fund is required to arrange for an actuary to conduct an actuarial valuation of the Fund's assets and liabilities once every three years. This enables the employer contribution rates to be set for the coming three years. The last triennial valuation of the Fund was undertaken as at 31st March 2013.

The results of the valuation in 2013 are shown in the table below:

Value of Assets	£716m
Liabilities	(£863m)
Deficit	(£147m)
Funding Level	83%
Future Service Contribution Rate	13.6%
Past Service Recovery Contribution Rate	8.3%
Total Employer Contribution Rate	21.9%

These results show that the Fund had assets sufficient to meet 83% of the liabilities at the time of the last valuation. The actuary set an employer contribution rate of 13.6% of payroll to meet the cost of service built up in the Fund in future. An additional contribution of 8.3% of payroll was set to recover the deficit over a 22 year period. Individual employers pay adjusted rates to reflect the circumstances of their own membership.

Funding Strategy Statement

The Local Government Pension Scheme Regulations 2013 require Pension Funds to prepare a funding strategy statement which sets out how the Fund will manage its liabilities and return to full funding. The strategy is considered by the Fund Actuary when undertaking the triennial valuation and setting the employer contribution rates. The statement is reviewed every three years in conjunction with the actuarial valuation.

The Fund's published statement can be found by following this link:

http://www.lbhf.gov.uk/Images/Funding%20Strategy%20Statement%202014_tcm21-187570.pdf

On the following page is a statement from the Fund Actuary about changes since the valuation in 2013.

Fund Actuary's Statement

Introduction

The last full triennial valuation of the London Borough of Hammersmith and Fulham Pension Fund ("the Fund") was carried out as at 31 March 2013 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated March 2014. This statement gives an update on the funding position as at 31 March 2015 and comments on the main factors that have led to a change since the full valuation.

The estimated funding position in this statement at 31 March 2015 is based on market movements since the previous valuation rather than being a full valuation with updated member data.

2013 Valuation

The results for the Fund at 31 March 2013 were as follows:

- The Fund as a whole had a funding level of 83% i.e. the assets were 83% 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 £148m which is lower than the deficit at the previous valuation in 2010.
- To cover the cost of new benefits and to also pay off the deficit over a period of 22 years, a total contribution rate of 21.9% 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.

Assumptions

The assumptions used at the whole Fund level to value the benefits at 31 March 2013 and used in providing this estimate at 31 March 2015 are summarised below:

Assumption	31 March 2013	31 March 2015
Discount rate	6.0% p.a.	5.4% p.a.
Pension increases	2.7% p.a.	2.5% p.a.
Salary increases	2.7% until 31 March 2015 then 4.5% p.a.	4.3% p.a.
Mortality	S1PA* tables with future improvements in line with the CMI 2012 Model with a long term rate of improvement of 1.5% per annum.	

*S1PA is the name of the mortality tables published by the actuarial profession

Retirement	Each member retires at a single age, weighted based on when each part of their pension is payable on an unreduced basis
Commutation	Members will convert 50% of the maximum possible amount of pension into cash

The effect of the change in the assumptions over the year is discussed in the final section.

Assets

The assumptions used to value the liabilities are smoothed based on market conditions around the valuation date so the asset values are also measured in a consistent manner although the difference between the smoothed and market values at either date is not expected to be significant.

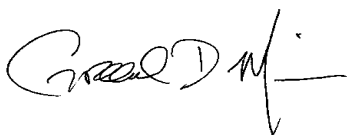
At 31 March 2013, the value of the assets used was £716m and this has increased over the period to an estimated £869m.

Updated position

The estimated funding position at 31 March 2015 is a funding level of 87% which is an improvement on the position at 31 March 2013.

The assets have achieved a return of 21% over the period, which is higher than expected at the 2013 valuation. Payment of deficit contributions during the period in line with agreed contribution schedules has improved the position. Changes in the assumptions and further accrual of benefits have however increased the value of the liabilities.

The next formal valuation will be carried out as at 31 March 2016 with new contribution rates set from 1 April 2017.



Graeme D Muir FFA
Partner, Barnett Waddingham LLP

5. Pension Fund Accounts

This section sets out the full audited financial statements of the London Borough of Hammersmith and Fulham Pension Fund for the year ended 31st March 2015.

The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Director for Finance.
- Manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets, and
- Approve the Statement of Accounts.

Responsibilities of the Director for Finance

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

In preparing this Statement of Accounts, the Director for Finance has:

- Selected suitable accounting policies and applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code;
- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certificate of the Director for Finance

I certify that the Accounts present a true and fair view of the financial position of the London Borough of Hammersmith and Fulham Pension Fund as at 31 March 2015 and income and expenditure for the year for the financial year 2014/15.

Hitesh Jolapara, Director for Finance

Fund Account

	Note	2014/15		2013/14	
		£000	£000	£000	£000
Dealings with members, employers and others directly involved in the scheme					
Contributions					
From Employers	6	21,944		22,692	
From Members	6	6,658	28,602	6,306	28,998
Individual Transfers In from other Pension Funds			1,445		3,324
Other Income			35		34
Benefits					
Pensions	7	(28,155)		(26,887)	
Commutation and Lump Sum Retirement Benefits	7	(4,955)	(33,110)	(4,882)	(31,769)
Payments to and on account of leavers					
Individual Transfers Out to other Pension Funds			(856)		(3,325)
Refunds to members leaving service			(16)		0
Net Additions (Withdrawals) from dealings with members			(3,900)		(2,738)
Management expenses	8		(7,216)		(5,548)
Returns on Investments					
Investment Income	9		11,422		9,680
Taxes on Income (Irrecoverable Withholding Tax)			(255)		(170)
Profit and losses on disposal of investments and changes in value of investments					
Realised	11		65,392		33,428
Unrealised	11		40,203		4,091
Net Returns on Investments			116,762		47,029
Net Increase (Decrease) in the net assets available for benefits during the year			105,646		38,743
Opening Net Assets of the Scheme			762,829		724,086
Closing Net Assets of the Scheme			868,475		762,829

Net Asset Statement as at 31st March 2015

	Note	31 March 2015 £000	31 March 2014 £000
Investment Assets			
Index Linked Securities	14	31,923	26,286
Equities	14	371,885	320,772
Pooled Investment Vehicles	14	443,015	399,886
Commodities	14	2,540	1,890
Derivative contracts - forward foreign exchange	14	16	260
Cash Deposits	14	15,410	17,027
Other Investment Balances			
Amounts Outstanding on Sale of Investments	14	585	542
Investment Income Due	14	1,018	752
Investment Liabilities			
Derivative contracts - forward foreign exchange	14	(725)	(96)
Amounts Outstanding on Purchase of Investments	14	(886)	(2,425)
Net Investment Assets	14	864,781	764,894
Current Assets	20	354	278
Current Liabilities	21	(1,146)	(995)
Cash Balances		4,486	(1,348)
Net assets of the Fund available to fund benefits at the period end.		868,475	762,829

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.

Notes to the Pension Fund Accounts

Note 1: Description of Hammersmith and Fulham Pension Fund

a) General

The Pension Fund (the "Fund") is part of the Local Government Pension Scheme and is administered by Hammersmith and Fulham Council. It is a contributory defined benefit 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 re-valued 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 of 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, the Local Government Pension Scheme Regulations 2013 (as amended) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

From 1st April 2014, the Local Government Pension Scheme Regulations 2013 were effective, changing the scheme from a final salary scheme to a career average re-valued earnings based scheme. All benefits payable on service from 1st April 2014 onwards are based on the average of each year of salary re-valued in line with the Consumer Price Index.

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and from interest and dividends on the Fund's investments. 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. Employer contributions are set based on triennial actuarial funding valuation, as detailed in Note 18.

b) Pensions Sub-committee

The Council has delegated the investment arrangements of the scheme 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 the 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 meetings 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 Director of Finance, and as necessary from the Fund's appointed actuary, investment managers and advisor.

c) Investment Principles

The Local Government Pension Scheme (Management and Investment of Funds) 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.

http://www.lbhf.gov.uk/Images/Statement%20of%20Investment%20Principles%202015_tcm21-174597.pdf

The Sub-committee has delegated the management of the Fund's investments to professional 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.

d) Membership

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

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

The following table is a membership summary of the scheme:

	31 March 2015	31 March 2014
Contributing employees	4,024	3,963
Pensioners receiving benefit	4,288	4,269
Deferred Pensioners	5,957	5,785

Details of the scheduled and admitted bodies are on pages 18-19.

e) Shared Service Working

The City of Westminster, London Borough of Hammersmith & Fulham and the Royal Borough of Kensington & Chelsea councils have shared services to provide a more efficient service and greater resilience. This includes the treasury and pension teams of the three boroughs.

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

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

Note 2: Basis of preparation of financial statements

The Statement of Accounts summarises the Fund's transactions for 2014/15 and its position at year-end as at 31st March 2015. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (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 an accompanying report to the accounts which is discussed in 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 employers, are accounted for on an accruals basis.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme regulations. Individual transfers in/out are

accounted for when received/paid, which is normally when the member liability is accepted or discharged. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment Income

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

Fund Account – Expense Items

d) Benefits Payable

Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Lump sums are accounted for in the period in which the member becomes a pensioner. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

e) Taxation

The Fund is an exempt approved fund under 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.

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 and the investment in the Partners Multi Asset Credit 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.

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 CIPFA Code of Practice on Local Authority Accounting sets out that the actuarial present value of promised retirement benefits should be disclosed and based on the requirements of

IAS19 Post-Employment Benefits and relevant actuarial standards. As permitted under the Code, the financial statements include a report from the Actuary by way of disclosing the actuarial present value of retirement benefits. This report is published with these accounts and summarised in 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 within the accounts in accordance with Regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. 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 Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 permit the Council to charge administration costs to the Fund. A proportion of the relevant Council costs has been charged to the Fund on the basis of actual time spent on Pension Fund business. Costs incurred in the 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 £121.7m. A 0.2% increase in

the pay inflation assumption would increase the value of liabilities by £6.3m, and a one-year increase in assumed life expectancy would increase liabilities by £49.5m.

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 £9.87m.

The fair value of the Partners multi credit asset 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 £37.5m - the value of the commitment made in February 2015.

Note 5: Events after the Balance Sheet

During April and May 2015 the Fund implemented a number of changes to the investment strategy. The £80m in the Legal & General Sterling Liquidity Fund was withdrawn, along with £101m of the monies held in the Legal & General LDI Bespoke Fund. £40m was invested in Standard Life's Long Lease Property Fund, a further £12.5m with Partners Group, £50m in Oak Hill Advisers Diversified Credit Strategies Fund, and £78.5m in M&G Inflation Opportunities Fund V.

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.

	Employers' Contributions				Employees' Contributions	
	Normal		Deficit Recovery		2014/15	2013/14
	2014/15	2013/14	2014/15	2013/14		
	£000	£000	£000	£000	£000	£000
Administering Authority	9,525	9,814	8,101	9,080	5,120	5,026
Scheduled Bodies	1,114	782	590	561	539	395
Admitted Bodies	2,561	2,127	53	328	999	885
Grand Totals	13,200	12,723	8,744	9,969	6,658	6,306

Note 7: Benefits Payable

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

	Pensions		Lump Sum Retirement Benefits		Lump Sum Death Benefits	
	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14
	£000	£000	£000	£000	£000	£000
Administering Authority	(27,344)	(26,101)	(3,885)	(3,984)	(295)	(443)
Scheduled Bodies	(81)	(83)	(100)	(33)	0	0
Admitted Bodies	(730)	(703)	(480)	(403)	(195)	(19)
Grand Totals	(28,155)	(26,887)	(4,465)	(4,420)	(490)	(462)

Note 8: Management Expenses

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

	2014/15	2013/14
	£000	£000
Administrative costs	(471)	(496)
Investment management expenses	(6,434)	(4,822)
Oversight and governance costs	(311)	(230)
	<u>(7,216)</u>	<u>(5,548)</u>

Investment management expenses are higher in 2014/15 due to full implementation of accounting for fees initially charged through pooled funds and transaction costs as investment management expenses. The 2014/15 investment management expense figure includes performance fees of £1,687k (£1,550k in 2013/14) and transaction costs of £432k (no costs accounted for in 2013/14).

Management expenses on a like for like basis in 2013/14 would have been £7,139k.

Note 9: Investment Income

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

	2014/15	2013/14
	£000	£000
Equity dividends	11,001	9,393
Income from Index-Linked Securities	248	226
Interest on Cash Deposits	63	34
Private Equity/Other	110	27
Total	<u>11,422</u>	<u>9,680</u>

Note 10: Investment Strategy

During the majority of 2014/15, the investment strategy of the Fund consisted of having four main portfolios, UK Equity, Global (ex UK) Equity, Dynamic Asset Allocation and a Matching Fund (to match some of the Fund's liabilities). The investment strategy was designed to give asset diversification and specialisation to reduce exposure to market risk and achieve optimum return.

Within the four portfolios, external investment managers have been appointed with clear strategic benchmarks which place maximum accountability for performance against that benchmark on the investment manager. The UK Equity portfolio was managed by Majedie Asset Management, the Global (ex UK) portfolio by MFS International (UK) Ltd, the Dynamic

Asset Allocation portfolio was split between Baring Asset Management Ltd and Ruffer LLP and the Matching Fund was split between Goldman Sachs Asset Management and Legal and General Investment Management. In August 2014 the Fund exited from the Barings investment and the proceeds were transferred to a liquidity fund with Legal and General Investment Management pending further decisions.

In February 2015 an investment was made in Partners Group Multi Asset Credit Fund utilising some of the cash proceeds. Further changes to the investment strategy were agreed by the Sub-committee and set out in the revised Statement of Investment Principles agreed in March 2015. These changes were implemented in April and May 2015, as described in Note 5 Events after the Balance Sheet.

Additionally, the Sub-committee agreed some time ago to invest in four private equity fund of funds. Two are managed by Invesco, which has approximately 75% invested in the United States and 25% in Europe, and the other two are managed by Unigestion which are invested almost entirely in Europe. All these funds are now in the distributing phase.

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

	31 March 2015		31 March 2014	
	Market Value	Total	Market Value	Total
	£000	%	£000	%
Majedie Asset Management	226,483	26.2	207,054	27.1
MFS International (UK) Ltd	222,849	25.8	182,013	23.8
Baring Asset Management Ltd	0	0.0	125,250	16.4
Ruffer LLP	91,159	10.5	81,302	10.6
Goldman Sachs Asset Management	64,126	7.4	65,248	8.5
Legal and General Investment Mngt LDI	132,187	15.3	92,585	12.1
Legal and General Investment Mngt Liquidity	80,036	9.3	0	0.0
Partners Group	37,600	4.3	0	0.0
Invesco Private Equity	6,251	0.7	6,221	0.8
Unigestion Private Equity	4,090	0.5	5,221	0.7
	864,781	100.0	764,894	100.0

The Sub-committee has appointed Northern Trust as global custodian for the Fund. They are responsible for safe custody and settlement of all investment transactions, collection of income and the administration of corporate actions. Northern Trust has an issuer credit rating of AA- with both Fitch and S&P ratings agencies and A1 with Moody's. The bank account for the Pension Fund has been held with Nat West since December 2014, previously it was also with Northern Trust.

Note 11: Reconciliation of movement in investments

The table below shows a reconciliation of the movement in the total investment assets of the Fund by fund manager during 2014/15.

Fund Manager	Value at 1 April 2014	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Value at 31 March 2015
	£000	£000	£000	£000	£000
Majedie Asset Management	207,701	61,217	(53,425)	13,356	223,849
MFS International (UK) Ltd	180,084	68,197	(65,378)	37,836	220,739
Baring Asset Management	125,250	62	(129,091)	3,779	0
Ruffer LLP	71,965	234,850	(235,285)	8,815	80,345
Goldman Sachs Asset Management	65,230	0	(16)	(1,088)	64,126
Legal & General Inv Mngt LDI	92,584	0	0	39,601	132,185
Legal & General Inv Mngt Liquidity Fund	0	120,675	(40,940)	301	80,036
Partners Group	0	37,500	(379)	379	37,500
Invesco Private Equity	6,024	0	(2,496)	2,270	5,798
Unigestion Private Equity	5,160	240	(1,672)	348	4,076
Sub-total	748,998	522,741	(528,682)	105,597	848,654
Cash Deposits	17,027			5	15,410
<u>Other Investment Balances</u>					
Investment Income due	752			0	1,018
Pending trade purchases	(2,425)			(8)	(886)
Pending trade sales	542			1	585
Totals	764,894	522,741	(528,682)	105,595	864,781

Transaction costs for 2014/15 have been accounted for as investment management expenses (disclosed in Note 8) for the first time.

The equivalent analysis for 2013/14 is provided below:

	Value at 1 April 2013	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Value at 31 March 2014
Fund Manager	£000	£000	£000	£000	£000
Majedie Asset Management	169,017	55,759	(55,301)	33,226	202,701
MFS International (UK) Ltd	169,995	55,855	(53,374)	7,608	180,084
Baring Asset Management	123,116	123	(560)	2,571	125,250
Ruffer LLP	72,406	29,464	(29,932)	27	71,965
Goldman Sachs Asset Management	62,916	0	(15)	2,329	65,230
Legal & General Investment Management	101,396	0	0	(8,812)	92,584
Invesco Private Equity	6,714	43	(1,084)	351	6,024
Unigestion Private Equity	5,973	325	(1,232)	94	5,160
Sub-total	711,533	141,569	(141,498)	37,394	748,998
Cash Deposits	12,909			(35)	17,027
<u>Other Investment Balances</u>					
Investment Income due	760			155	752
Pending trade purchases	(750)			7	(2,425)
Pending trade sales	1,223			(2)	542
TOTAL	725,675	141,569	(141,498)	37,519	764,894

Transaction costs are included in the cost of purchases and in sale proceeds. These include costs charged directly to the Fund, such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year total £486,770. In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

Note 12: Investments exceeding 5% of net assets

The table below shows the Fund 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%.

	2014/15 £000	2014/15 %	2013/14 £000	2013/14 %
Legal & General LDI Bespoke Fund	132,185	15.2	92,584	12.1
Legal & General Sterling Liquidity Fund	80,036	9.2	0	0.0
Majedie UK Focus Fund	78,309	9.0	68,030	8.9
Goldman Sachs Libor plus 1 Fund	64,126	7.4	65,230	8.6
Baring Dynamic Asset Allocation Fund	0	0.0	125,250	16.4

Note 13: Analysis of 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 2015 or 31 March 2014.

Settlement	Currency bought	Local value 000	Currency sold	Local value 000	Asset value £000	Liability value £000
Up to one month	HKD	6,636	USD	(856)	1	(1)
Up to one month	GBP	470	USD	(700)		(1)
Up to one month	GBP	74	USD	(110)		0
Up to one month	HKD	864	GBP	(75)		0
Up to one month	HKD	2,347	USD	(303)	1	(1)
Up to one month	HKD	173	GBP	(15)		0
Up to one month	JPY	365,700	GBP	(2,055)		0
Up to one month	JPY	834,700	GBP	(4,712)		(22)
Up to one month	JPY	634,930	GBP	(3,603)		(36)
Up to one month	GBP	1,063	JPY	(192,240)		(17)
Up to one month	GBP	536	JPY	(98,740)		(19)
Up to one month	GBP	431	JPY	(78,770)		(12)
Up to one month	GBP	10,724	JPY	(1,916,500)		(45)
One to three months	GBP	22,567	USD	(34,280)		(532)
One to three months	USD	1,300	GBP	(862)	14	
One to three months	USD	3,020	GBP	(2,043)		(8)
One to three months	GBP	4,389	EUR	(6,100)		(31)
Net forward foreign exchange contracts at 31 March 2015					16	(725)
Open forward foreign exchange contracts at 31 March 2014					260	(96)
Net forward foreign exchange contracts at 31 March 2014						164

Note 14a: Classification of Financial Instruments

The following table analyses the carrying amounts of financial assets and liabilities split by UK and Overseas, by category and net assets statement heading as at the balance sheet date. All investments are quoted unless stated.

	31st March 2015			31st March 2014		
	Designated at fair value through Profit and Loss	Loans and Receivables	Financial Liabilities at Amortised Cost	Designated at fair value through Profit and Loss	Loans and Receivables	Financial Liabilities at Amortised Cost
	£000	£000	£000	£000	£000	£000
FINANCIAL ASSETS						
Index Linked Securities						
UK Public Sector	16,685			13,889		
Overseas Public Sector	15,238			12,397		
Equities						
UK	101,250			97,204		
North America	150,909			119,409		
Japan	14,856			11,672		
Europe (ex UK)	77,004			69,062		
Pacific Basin	6,472			11,258		
Other	21,394			12,167		
Pooled Investment Vehicles						
UK Equity Funds	105,563			95,598		
LDI Bespoke Funds	132,185			92,584		
Absolute Return Bond Funds	64,126			65,230		
Absolute Return Funds	0			125,250		
Multi Asset Credit Fund (unquoted)	37,500			0		
Sterling Liquidity Funds	80,036			0		
Private Equity (unquoted)	9,874			11,184		
Other Managed Funds	13,731			10,040		

	31st March 2015			31st March 2014		
	Designated at fair value through Profit and Loss	Loans and Receivables	Financial Liabilities at Amortised Cost	Designated at fair value through Profit and Loss	Loans and Receivables	Financial Liabilities at Amortised Cost
	£000	£000	£000	£000	£000	£000
FINANCIAL ASSETS cont'd						
Commodities	2,540			1,890		
Derivative contracts – forward foreign exchange	16			260		
Other Investment Balances	1,603			1,294		
Cash deposits with managers		15,410			17,027	
Debtors		354			278	
Cash Balances		4,486				
	850,982	20,250	0	750,388	17,305	0
FINANCIAL LIABILITIES						
Derivative contracts – forward foreign exchange	(725)			(96)		
Other Investment Balances	(886)			(2,425)		
Creditors			(1,146)			(995)
Cash Balances						(1,348)
	(1,611)	0	(1,146)	(2,521)		(2,343)
Grand Totals	849,371	20,250	(1,146)	747,867	17,305	(2,343)
			868,475			762,829

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

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.

	2014/15 £000	2013/14 £000
Financial Assets		
Designated at fair value through Profit and Loss	107,050	38,792
Loans and Receivables	5	(35)
Financial Liabilities		
Designated at fair value through Profit and Loss	(1,460)	(1,238)
Financial Liabilities at Amortised Cost	0	0
Total	105,595	37,519

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 and the table showing the analysis is overleaf.

Level 1 – Quoted market price

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 – Using observable inputs

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 – With significant unobservable inputs

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 multi credit asset fund is closed ended and therefore not tradeable. The valuation is based on market prices where available for some underlying assets and on estimates of prices in secondary markets for others.

Note 14c: Valuation of Financial Instruments carried at fair value (cont'd)

	31st March 2015			31st March 2014		
	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						
Financial assets at fair value through profit and loss	667,694	132,202	51,085	516,922	218,095	15,371
Loans and Receivables	20,251	0	0	17,305	0	0
Total Financial Assets	687,945	132,202	51,085	534,227	218,095	15,371
FINANCIAL LIABILITIES						
Financial liabilities at fair value through profit and loss	(886)	(725)	0	(2,425)	(96)	0
Financial liabilities at amortised cost	(1,146)	0	0	(2,343)	0	0
Total Financial Liabilities	(2,032)	(725)	0	(4,768)	(96)	0
NET FINANCIAL ASSETS	685,913	131,477	51,085	529,459	217,999	15,371
			868,475			762,829

Note 15: Nature and extent of risks arising from financial instruments

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

For this reason, the benchmark used during 2014/15 measured the estimated movement in liabilities. The "Liability Benchmark" is calculated based on the movement of a selection of index-linked gilts, which most closely match the Fund's liabilities as measured at the actuarial valuation, in the following proportions: 45% Index-Linked Treasury Gilt 1 1/4% 2017, 20% Index-Linked Treasury Gilt 1 1/4% 2027, 10% Index-Linked Treasury Gilt 1 1/8% 2037, 5% Index-Linked Treasury Gilt 0 3/4% 2047 and 20% Index-Linked Treasury Gilt 1 1/4% 2055.

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

a) Market Risk

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

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

Price Risk

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

The Fund is exposed to price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities represent a risk of loss of capital. The maximum risk resulting from financial instruments (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.

<u>Assets exposed to price risk</u>	Value	+ 10%	-10%
	£000	£000	£000
At 31 st March 2015	849,361	934,298	764,425
At 31 st March 2014	748,833	823,716	673,950

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.

<u>Assets exposed to interest rate risk</u>	Value	+ 1%	-1%
	£000	£000	£000
At 31 st March 2015	365,666	369,323	362,010
At 31 st March 2014	246,910	249,379	244,441

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. This reduces 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 below 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 £000	+ 10% £000	-10% £000
At 31 st March 2015	353,251	388,577	317,926
At 31 st March 2014	379,706	417,677	341,736

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 the private equity assets which amounted to £9.87m at 31st March 2015 (£11.18m at 31st March 2014) and the Multi Credit Asset investment of £37.5m with Partners Group. The majority of the remaining investments can be liquidated within a matter of days.

Note 16: Contingent Liabilities and Contractual Commitments

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

	31st March 2015 £000	31st March 2014 £000
Invesco Partnership Fund V L.P.	1,173	1,045
Unicapital Investments V	42	255
Partners Group Multi Asset Credit Fund 2014	12,500	0
Standard Life Long Lease Property Fund	40,000	0
	53,715	1,300

The commitments to Partners Group and Standard Life are due to be paid in April and May 2015 respectively. The outstanding commitments for Invesco and Unicapital are expected to be paid over the next two years.

Note 17: Stock Lending Agreements

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.

http://www.lbhf.gov.uk/Directory/Council_and_Democracy/Plans_performance_and_statistics/Statement_of_accounts/68526_Statement_of_accounts.asp#0

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 2013 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 Benefits

The table below shows the total net liability of the Fund as at 31st March 2015. 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 pensions legislation.

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

	31st March 2015 £000	31st March 2014 £000
Present Value of Promised Retirement Benefits*	1,409,558	1,171,751
Fair Value of Scheme Assets (bid value)	(868,475)	(762,829)
Net Liability	541,083	408,922

*Present Value of Promised Retirement Benefits comprises of £1,271,900,000 (£1,124,662,000 in 2013/2014) and £137,658,000 (£47,089,000 in 2013/2014) in respect of vested benefits and non-vested benefits respectively as at 31 March 2015.

As permitted under IAS26 Accounting and Reporting by Retirement Benefit Plans, the above table is a summary of the actuary's report and the full report is published alongside the financial statements.

Note 20: Current Assets

	31st March 2015 £000	31st March 2014 £000
Debtors		
Contributions due - employers	195	181
Contributions due - employees	71	63
London Borough of Hammersmith and Fulham	88	0
Sundry debtors	0	34
	<u>354</u>	<u>278</u>

	31st March 2015 £000	31st March 2014 £000
Analysis of debtors		
Local authorities	88	34
Central government bodies	0	0
Other entities and individuals	266	244
	<u>354</u>	<u>278</u>

Note 21: Current Liabilities

	31st March 2015 £000	31st March 2014 £000
Creditors		
Unpaid Benefits	(8)	(277)
Investment Management Expenses	(796)	(718)
HM Revenue and Customs	(342)	0
	<u>(1,146)</u>	<u>(995)</u>

	31st March 2015 £000	31st March 2014 £000
Analysis of creditors		
Local authorities	0	0
Central government bodies	(342)	0
Other entities and individuals	(804)	(995)
	<u>(1,146)</u>	<u>(995)</u>

Note 22: Additional Voluntary Contributions

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

	2014/15	2013/14
Zurich Assurance		
Market Value at 31 st March	£1,117,844	£1,033,490
Contributions during the year	£36,590	£42,869
Number of members at 31 st March	50	63
Equitable Life Assurance		
Market Value at 31 st March	£187,842	£223,020
Contributions during the year	£66	£66
Number of members at 31 st March	32	34

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

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

Note 23: Related Parties

London Borough of Hammersmith and Fulham

The Pension Fund is administered by the London Borough of Hammersmith and Fulham. The Council incurred costs of £428,198 in 2014/15 (£506,238 in 2013/14) in relation to the administration of the Fund and were reimbursed by the Fund for the expenses.

In the year the Council contributed £17,626k in employer contributions to the Fund (2013/14 £18,894k).

During 2014/2015 as a result of the day to day administration of the Fund the Pension Fund borrowed monies from the Council or invested some surplus monies with the Council. The Pension Fund paid £764 in interest to the Council during 2014/2015 (paid £346 in 2013/14). At 31st March 2015 the Council owed the Pension Fund £88,399 (£560,110 at 31st March 2014).

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 Regulation 7 (2) – (4) of The Accounts and Audit (England) Regulations 2011) 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 Regulation 7 (2) – (4) of The Accounts and Audit (England) Regulations can be found in the main accounts of the London Borough of Hammersmith and Fulham.

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

We have examined the pension fund financial statements for the year ended 31 March 2015 on pages 26 to 53.

Respective responsibilities of the Section 151 Officer and the auditor

As explained more fully in the Statement of the Section 151 Officer's Responsibilities the Section 151 Officer is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the Pension Fund Annual Report with the pension fund financial statements included in the annual published statement of accounts of the London Borough of Hammersmith and Fulham, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

In addition, we read the information given in the Pension Fund Annual Report to identify material inconsistencies with the pension fund financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Our report on the administering authority's annual published statement of accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included in the annual published statement of accounts of the London Borough of Hammersmith and Fulham for the year ended 31 March 2015 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

We have not considered the effects of any events between the date we signed our report on the full annual published statement of accounts *date TBC* and the date of this report.

Matters on which we are required to report by exception

The Code of Audit Practice for Local Government Bodies 2010 requires us to report to you if:

- the information given in the Pension Fund Annual Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters relating to the pension fund have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit.

We have nothing to report in respect of these matters

Andrew Sayers

for and on behalf of KPMG LLP, Appointed Auditor

Chartered Accountants

15 Canada Square

Canary Wharf

London

E14 5GL

18 September 2015



6. Contacts

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Bi-borough Pensions Manager

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The Town Hall
Hornton Street
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W8 7NX
Email: pensions@lbhf.gov.uk

Capita Employee Benefits

London Borough of Hammersmith and Fulham Team
PO Box 195
Mowden Hall
Darlington
DH1 9FS
Telephone: 020 8339 7051
Email: lbhf.pensions@capita.co.uk

National Local Government Pension Scheme information website

www.lgps.org.uk

The Pensions Advisory Service (TPAS)

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

The Office of the Pensions Ombudsman

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

7. Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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