

London Borough of Hammersmith & Fulham Pension Fund Annual Report 2015-2016



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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 2015-16.

The introduction of the Pensions Sub-committee in December 2014 has improved the governance of the Pension Fund during 2015-16 giving sub-committee members more time to consider pension issues in detail. The addition of a Pensions Board in July 2015 to perform an oversight and scrutiny role further adds to the governance improvements.

A number of changes were made to the Pension Fund's investment strategy during 2015-16 with a view to enhancing the return made on investments within an acceptable level of risk. We believe the strategy now in place will deliver a reasonable return in the long term whilst ensuring the level of risk is appropriate. During the year the return on investments was 0.04% mainly as a result of a difficult year for equity markets which saw negative performance following six years of strong recovery in values. The longer term performance of the Fund remains positive with an average return of 7.6% per annum over the last ten years.

In addition to monitoring performance at a local level, the Fund has been engaging with the London CIV, which is the organisation set up to run pooled LGPS investments in London. It is anticipated that some of the Fund's investments will transfer to the London CIV during 2016-17 resulting in savings in investment management fees. This pooling will continue over the coming years to improve the efficiency of the Fund.

The administration of the Pension Fund membership and benefits transferred to Surrey County Council in September 2015 and whilst there have been a few transitional issues to deal with, we are confident this move will result in a better service for scheme members in the long term.

I would like to thank all those involved in the management of the Pension Fund during the year especially those who served on the Sub-committee during 2015-16.



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 pension 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

The Committee have 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 Strategic Finance Director, the Director of Treasury and Pensions 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 (Chair)

Councillor Michael Adam (Vice Chair)

Councillor Nicholas Botterill

Councillor PJ Murphy

Councillor Guy Vincent

Pensions Board

The Council has also established a Pensions Board to assist the Pensions Sub-committee as required by the Public Services Pensions Act 2013. The role of the Pensions Board is set out in their terms of reference:

The role of the local Pension Board is defined by section 5 of the Public Service Pensions Act 2013 and regulation 106 of the Local Government Pension Scheme (LGPS) Governance Regulations 2013. It is to assist the administering authority (the Council) with:

- Securing compliance with the LGPS Governance regulations and any other legislation relating to the governance and administration of the LGPS;
- Securing compliance with any requirements imposed by the Pensions Regulator in relation to the scheme and
- Ensuring effective and efficient governance and administration of the scheme-recommendations to the Pensions Sub-Committee.

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

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.

The current membership of the Pensions Board is as follows:

Employer representative – Council	Cllr Ali Hashem (Chair)
Employer representative – Council	Cllr Rory Vaughan
Employer representative – Admitted/Scheduled Bodies	Richard Gregg
Scheme member representative	Orin Miller (Vice Chair)
Scheme member representative	Eric Kersey
Scheme member representative	Neil Newton

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. The Pensions Board adopted the policy at their first meeting on 30th July 2015.

During 2015-16 the following formal training sessions were arranged and attended by Sub-committee members, Board members and officers:

- Pension Fund Overview and Governance
- Actuarial Valuations

This was in addition to knowledge gained from various meetings with investment managers and individual attendance at conferences and seminars. Further training is being planned for 2016-17 based on self-assessments completed by Sub-committee and board members in accordance with the policy.

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 at the link below:

https://www.lbhf.gov.uk/sites/default/files/section_attachments/governance_compliance_statement_2015.pdf

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.

The officers responsible for running the Pension Fund and the external advisers who are contracted to assist are shown in the tables overleaf.

Officers

Strategic Finance Director (section 151 officer) Director of Treasury and Pensions	Hitesh Jolapara George Bruce
Shared Service Pensions Team	Nikki Parsons Alex Robertson Nicola Webb
Director of HR Pensions Manager	Debbie Morris Maria Bailey

External Advisers

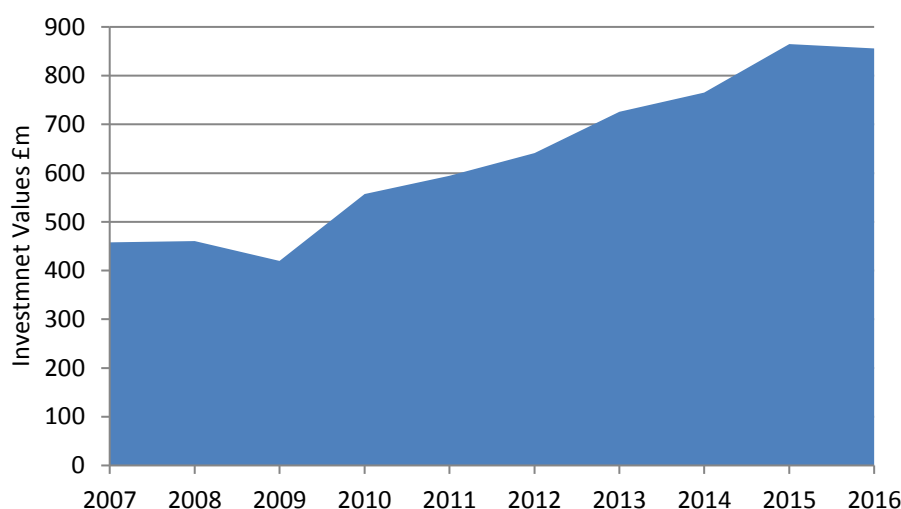
<u>Investment Managers</u>	
Active Equity manager	Majedie Asset Management
Passive Equity manager	Legal & General Investment Management
Dynamic Asset Allocation manager	Ruffer LLP
Multi Asset Credit managers	Oak Hill Advisers Partners Group
Absolute Return Bonds manager	Insight Investment Management
Inflation Opportunities manager	M & G Investments
Long Lease Property manager	Standard Life
Infrastructure manager	Partners Group
Private Equity managers	Invesco Unigestion
Investment Adviser	Deloitte
Custodian	Northern Trust
Actuary	Barnett Waddingham
Auditor	KPMG
Banker	Nat West
Legal Adviser	Eversheds
Scheme Administrators	Surrey County Council
AVC Providers	Zurich Assurance Equitable Life Assurance Society

Financial Summary and performance

The investment return in 2015-16 was 0.04% following a difficult year for the equity markets, which delivered negative absolute returns. 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 total value of the Fund has changed over time by showing the total value at 31st March every year for the last ten years:

Total 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 risks 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 light of this, the Fund has set a benchmark for the investments designed to out-perform the investment return assumed by the Fund Actuary in the actuarial valuation. In addition the Sub-committee monitor the value of liabilities and progress of the funding level on a quarterly basis.

In order to achieve a level of investment performance in excess of the Fund Actuary's assumption, 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 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 annually 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 segregated assets are held for safekeeping by the Fund's custodian, who is independent of all the investment managers. The custodian is also required to provide an audited internal controls report to the Fund on a regular basis. The pooled assets held by the Fund are also held by custodians independent of the investment managers responsible for investment decisions.

The Funding Strategy Statement sets out the key risks, including demographic, regulatory and 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.

Investment Benchmark

The benchmark the Fund is measured against is set out below. This has been in place since 1st April 2015.

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

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

The liability matching portfolio previously held with Legal & General Investment Management (LGIM) was replaced by two multi asset credit portfolios with Partners Group and Oak Hill, an inflation opportunities investment with M&G and a long lease property fund with Standard Life in the early part of the financial year. The aim of this change was to replace a relatively expensive arrangement with a set of investments which would target a higher rate of return whilst maintaining some protection against interest rate and inflation movements.

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

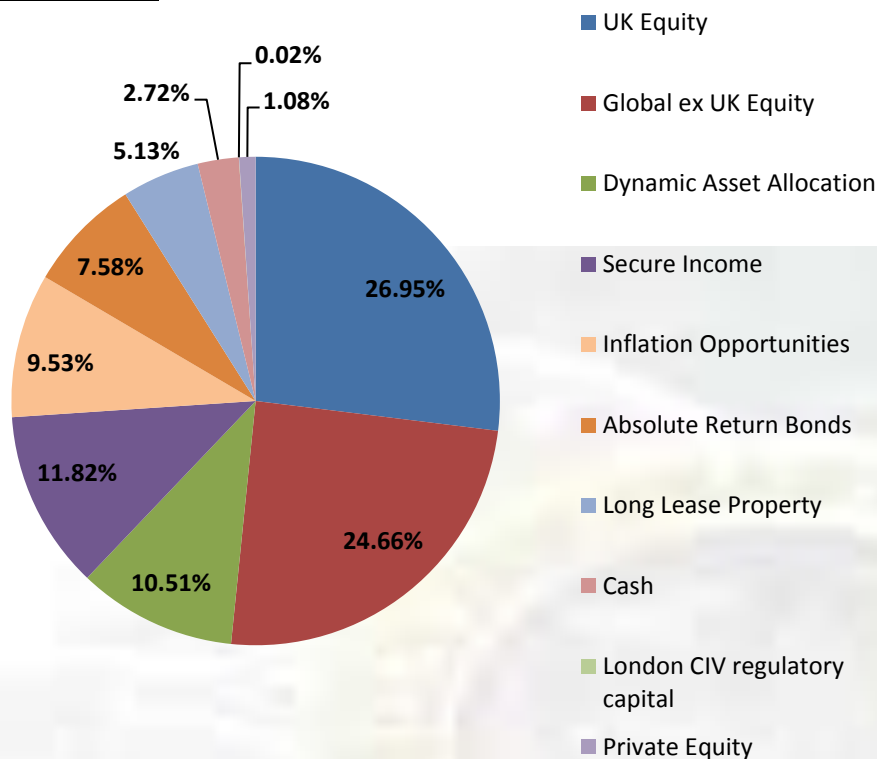
In August 2015 a commitment was made to the Partners Group Direct Infrastructure fund and this is being funded over time from the cash held in the Legal and General sterling liquidity fund. The private equity commitments were made some years ago and the funds are now in the distributing phase.

As shareholders of London LGPS CIV Ltd. (the organisation set up to run pooled LGPS investments in London), the Fund has purchased £150,000 of regulatory capital. This is in the form of unlisted UK equity shares. See the later section for more detail on the London CIV.

The table and graph below and overleaf show how the Fund was split between the portfolios at 31st March 2016. The split at 31st March 2015 is shown in the table for comparison.

Portfolio	Benchmark 2015/16	Market Value at 31/03/2016 £000s	% of Fund at 31/03/2016	Market Value at 31/03/2015 £000s	% of Fund at 31/03/2015
UK Equity	22.5%	230,601	26.95%	226,483	26.2%
Global ex UK Equity	22.5%	211,001	24.66%	222,849	25.8%
Dynamic Asset Allocation	10.0%	89,898	10.51%	91,159	10.5%
Secure Income	20.0%	101,172	11.82%	37,600	4.3%
Inflation Opportunities	10.0%	81,552	9.53%	0	0.0%
Absolute Return bonds	10.0%	64,848	7.58%	64,126	0.0%
Long Lease Property	5.0%	43,925	5.13%	0	0.0%
Cash	0.0%	23,248	2.72%	80,036	9.3%
Private Equity	0.0%	9,269	1.08%	10,341	1.2%
Matching Fund	0.0%	0	0.00%	132,187	22.7%
London CIV regulatory capital	0.0%	150	0.02%	0	0.0%
TOTAL	100%	855,664	100.00%	864,781	100.0%

Split of investments at 31st March 2016



The table below shows how the investments were split at 31st March 2016 according to whether they are UK holdings, non-UK or global.

	UK £m	Non-UK £m	Global £m	Total £m
Equities	199.8	46.6	209.6	456.0
Bonds	17.1	19.7	64.8	101.6
Alternatives	43.9	8.9	182.7	235.5
Cash and cash equivalents	0	0	49.0	49.0
Other	0	0	13.6	13.6
TOTAL	260.8	75.2	519.7	855.7

The gross investment income earned during 2015/16 is shown overleaf 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	7,290	2,789	0	10,079
Bonds	1,101	226	0	1,327
Alternatives	0	1,310	0	1,310
Cash and cash equivalents	14	0	41	55
TOTAL	8,405	4,325	41	12,771

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. The Fund’s published statement can be found at the following link:

https://www.lbhf.gov.uk/sites/default/files/section_attachments/statement_of_investment_principles_2015_0.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 overleaf shows how the Fund’s assets were allocated between the investment managers at 31st March 2016, and at 31st March 2015 for comparison. It also shows how the investment of the Fund’s assets at 31st March 2016 compared to the target.

Investment Manager	Market Value	% of Fund	Target	Variance from target	Market Value	% of Fund
	at 31 March 2016				at 31 March 2015	
UK Equity						
Majedie Asset Management	215,374	26.95%	22.5%	4.45%	226,483	26.2%
Legal & General	15,227				0	0.0%
Global ex UK Equity						
MFS International (UK) Ltd	0	24.66%	22.5%	2.16%	222,849	25.8%
Legal & General	211,001				0	0.0%
Dynamic Asset Allocation						
Ruffer LLP	89,898	10.51%	10.0%	0.51%	91,159	10.5%
Secure Income						
Partners Multi Asset Credit	52,178	6.10%	7.5%	(1.40%)	37,600	4.3%
Oak Hill Advisers	47,555	5.55%	7.5%	(1.95%)	0	0.0%
Partners Infrastructure	1,439	0.17%	5.0%	(4.83%)	0	0.0%
Inflation Opportunities						
M & G Investments	81,552	9.53%	10.0%	(0.47%)	0	0.0%
Absolute Return Bonds						
Insight Investments	64,848	7.58%	10.0%	(2.42%)	0	0.0%
Goldman Sachs Asset Mngt	0	0.0%			64,126	7.4%
Long Lease Property						
Standard Life	43,925	5.13%	5.0%	0.13%	0	0.0%
Matching Fund						
Legal and General LDI	0	0.0%	0.0%	0.0%	132,187	15.3%
Cash						
Legal and General Sterling Liquidity Fund	23,248	2.72%	0.0%	2.72%	80,036	9.3%
Private Equity						
Invesco	5,728	1.08%	0.0%	1.08%	6,251	0.7%
Unigestion	3,541				4,090	0.5%
London CIV						
Regulatory Capital	150	0.02%	0.0%	0.02%	0	0.0%
TOTAL	855,664	100.0%	100.0%	0.0%	864,781	100.0%

London CIV

Hammersmith and Fulham are shareholders of London LGPS CIV Ltd. (the organisation set up to run pooled LGPS investments in London), having supported to the establishment of the organisation since the beginning. The London LGPS CIV Limited has now been established as an Authorised Contractual Scheme (ACS) with approval from the Financial Conduct Authority. As shareholders, the Fund has purchased £150,000 of regulatory capital in the form of unlisted UK equity shares to enable the ACS to operate. It is anticipated that some of the Fund's existing investment portfolios will be transferred into the London Collective Investment Vehicle during 2016-17 resulting in savings in investment management expenses. Over the coming years it is expected that the majority of the Fund's assets will transfer to meet the Government's requirement for Pension Fund assets to be pooled.

Investment Performance

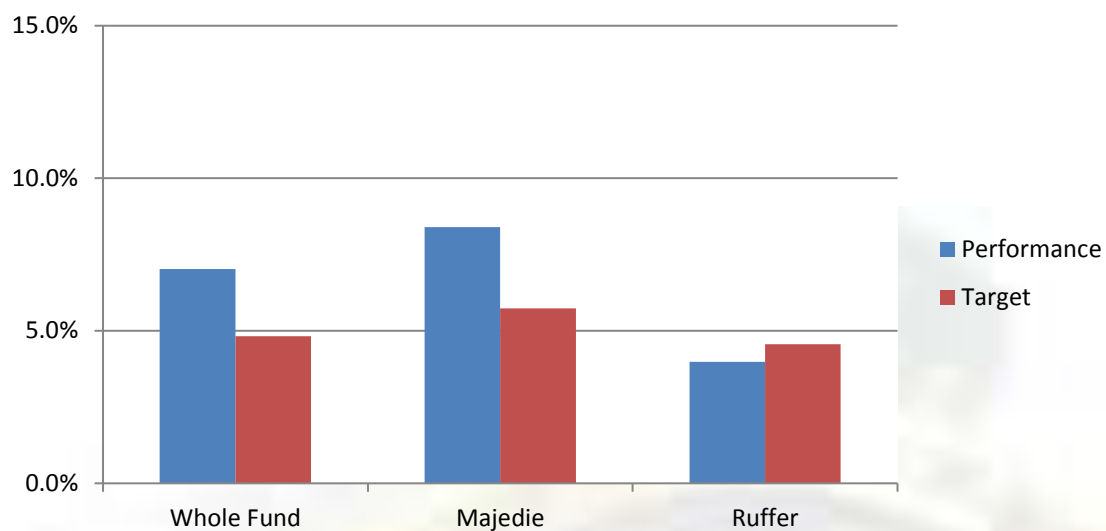
The table below shows the performance of the Fund against the target in 2015-16 and the annualised performance over three, five and ten years.

	2015/16	3 years	5 years	10 years
Performance	0.04%	7.02%	8.83%	7.57%
Target	2.09%	4.82%	9.36%	5.49%
Out / (under) performance against target	(2.05%)	2.20%	(0.53%)	2.08%

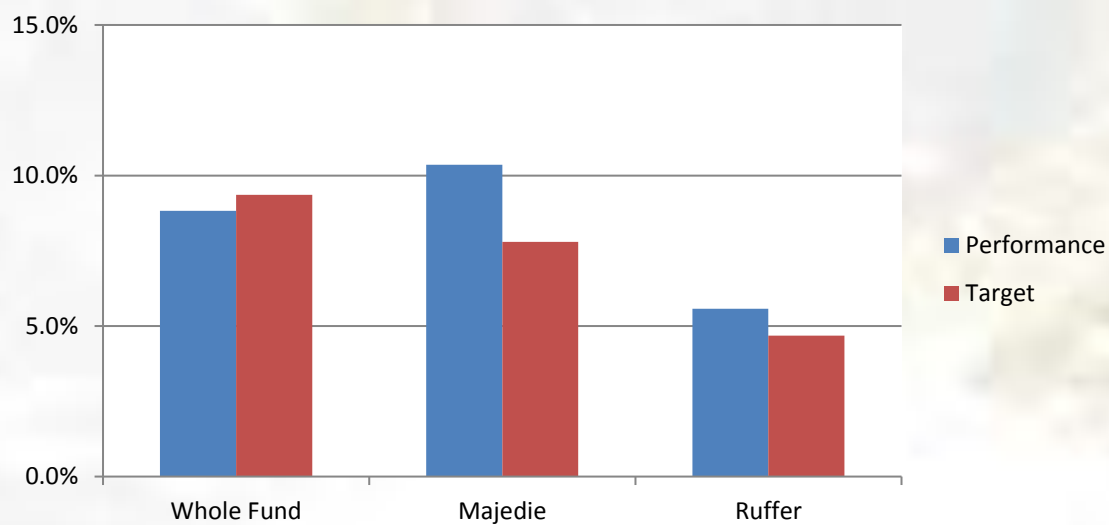
Each of the investment managers has a benchmark and target set within their Investment Management Agreements with the Fund. Performance is measured quarterly and reported to the Sub-committee. The graphs overleaf show the performance of the whole fund, Majedie and Ruffer (the investment manager portfolios in place throughout the year) against their targets annualised over three and five years.

The performance over the last twelve months was below target following underperformance from a number of investment managers during a volatile year in the markets. As described on pages 12-13 a number of changes have been made to the Fund's investment portfolios to address the underperformance issues the sub-committee consider to be unlikely to be reversed.

Three Years annualised performance against targets



Five Years annualised performance against targets



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 Sub-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 segregated 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 a credit rating of AA- with both Fitch and S&P ratings agencies and A1 with Moody's. The pooled assets held by the Fund are also held by custodians independent of the investment managers' responsible for investment decisions. The bank account for the Pension Fund is held with Nat West.

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. From 1st September 2015 the council entered into a not for profit section 101 agreement with Surrey County Council for them to undertake pensions administration on behalf of the council.

To facilitate the move of administration responsibilities to Surrey County Council from Capita in 2015/16 pension member’s electronic data needed to be mapped across, cleansed and migrated. During the latter part of the year a strategy of targeted data improvements was agreed with Surrey County Council along with the creation and testing of electronic payroll interface data files from BT (the payroll provider for Hammersmith and Fulham Council) synchronising with the pensions data base.

It is anticipated that longer term these actions will drive consistency of data and other efficiencies within the pensions service. This strategy will also support the aim of implementing a pension member self-serve facility.

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 overleaf 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 service.

	2011/12	2012/13	2013/14	2014/15	2015/16
Active Employers	30	35	31	36	39

The next table shows the split of these employers by type at 31st March 2016 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 service.

	Active	Ceased	Total
Administering Authority	1	0	1
Scheduled Body	18	0	18
Admitted Body	20	19	39
Total	39	19	58

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	3BM
Bridge Academy	Amey Services Limited
Burlington Danes Academy	Carers Network
Conway Academy	Civica
Fulham Boys Free School	Disabilities Trust
Fulham College Academy Trust	Eden Food Services
Greenside Academy	ETDE Infrastructure
Hammersmith Academy	F M Conway Ltd
Hurlingham & Chelsea Academy	Family Mosaic
Lady Margaret Academy	Fulham Palace Trust
Langford Academy	Glencross Cleaning Ltd
Lena Gardens Academy	HATS
London Oratory School	H & F Bridge Partnership
Mortlake Crematorium Board	Hestia
Sacred Heart High School	Medequip Assistive Technology
Swift Ark Academy	Mitie Group plc
Thomas's Academy	Pinnacle PSG Limited
West London Free School	Quadron Services
	Serco
	Urban Partnership Group

Scheme membership

The following table shows the Fund's membership over the last five years. The percentage of members in each category has remained fairly static over this time period with active contributing members continuing to make up 27% of the total membership.

	31 st March 2012	31 st March 2013	31 st March 2014	31 st March 2015	31 st March 2016
Contributors	3,837	3,782	3,963	4,024	4,092
Deferred	5,409	5,546	5,785	5,957	6,504
Pensioners & Dependents	4,265	4,379	4,269	4,288	4,628
Total Membership	13,511	13,707	14,017	14,269	15,224

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:

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

A revised version of this policy is currently out for consultation.

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 Fund's website: www.lbhfpensionfund.org

Internal Dispute Resolution Procedure

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

To facilitate this process, an Internal Disputes Resolution Procedure has been established. If an issue cannot be resolved informally, a stage 1 appeal may be made to Maria Bailey, Bi-borough Pensions Manager via email to pensions@rbkc.gov.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:

https://www.lbhf.gov.uk/sites/default/files/section_attachments/funding_strategy_statement_2014_0.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 2016 and comments on the main factors that have led to a change since the full valuation.

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 are summarised below:

Assumption	31 March 2013
Discount rate	6.0% p.a.
Pension increases	2.7% p.a.
Salary increases	2.7% until 31 March 2015 then 4.5% 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

Assets

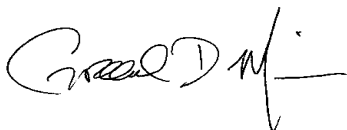
The assumptions used to value the liabilities are smoothed based on market conditions around the valuation date so the asset values are also measured in a consistent manner although the difference between the smoothed and market values is not expected to be significant.

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

Using assumptions consistent with those adopted at the 2013 valuation, we estimate that the funding position at 31 March 2016 is similar to the position as at 31 March 2013.

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 2016.

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 Strategic Director of 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 Strategic Director of Finance

The Strategic Director of 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 Strategic Director of 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 Strategic Director of 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 2016 and income and expenditure for the year for the financial year 2015/16.

Hitesh Jolapara, Strategic Director of Finance

Fund Account

	Note	2015/16		2014/15	
		£000	£000	£000	£000
Dealings with members, employers and others directly involved in the scheme					
Contributions					
From Employers	6	22,412		21,944	
From Members	6	6,795	29,207	6,658	28,602
Individual Transfers In from other Pension Funds			1,375		1,445
Other Income			35		35
Benefits					
Pensions	7	(29,076)		(28,155)	
Commutation and Lump Sum Retirement Benefits	7	(5,536)	(34,612)	(4,955)	(33,110)
Payments to and on account of leavers					
Individual Transfers Out to other Pension Funds			(3,230)		(856)
Refunds to members leaving service			(16)		(16)
Net Additions (Withdrawals) from dealings with members			(7,241)		(3,900)
Management expenses		8	(7,762)		(7,216)
Returns on Investments					
Investment Income	9		12,771		11,422
Taxes on Income (Irrecoverable Withholding Tax)			(140)		(255)
Profit and losses on disposal of investments and changes in value of investments					
Realised	11		129,570		65,392
Unrealised	11		(139,354)		40,203
Net Returns on Investments			2,847		116,762
Net Increase (Decrease) in the net assets available for benefits during the year			(12,156)		105,646
Opening Net Assets of the Scheme			868,475		762,829
Closing Net Assets of the Scheme			856,319		868,475

Net Asset Statement as at 31st March 2016

	Note	31 March 2016 £000	31 March 2015 £000
Investment Assets			
Index Linked Securities	14	36,771	31,923
Equities	14	136,937	371,885
Pooled Investment Vehicles	14	671,300	443,015
Commodities	14	1,976	2,540
Derivative contracts - forward foreign exchange	14	104	16
Cash Deposits	14	7,544	15,410
Other Investment Balances			
Amounts Outstanding on Sale of Investments	14	278	585
Investment Income Due	14	1,242	1,018
Investment Liabilities			
Derivative contracts - forward foreign exchange	14	(472)	(725)
Amounts Outstanding on Purchase of Investments	14	(16)	(886)
Net Investment Assets	14	855,664	864,781
Current Assets	20	677	354
Current Liabilities	21	(1,187)	(1,146)
Cash Balances		1,165	4,486
Net assets of the Fund available to fund benefits at the period end.		856,319	868,475

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).

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and from returns on the Fund's investments. Contributions from employees are made in accordance with the Local Government Pension Scheme Regulations 2013 and range from 5.5% to 12.5% of pensionable pay. Employer contributions are set based on the 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 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 Strategic Finance Director, and as necessary from the Fund's appointed actuary, investment managers and adviser.

c) Pension Board

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

d) Investment Principles

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

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

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

e) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal 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. This category is mainly made up of academies.
- 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 2016	31 March 2015
Contributing employees	4,092	4,024
Pensioners receiving benefit	4,628	4,288
Deferred Pensioners	6,504	5,957

Details of the scheduled and admitted bodies are on pages 20-21.

Note 2: Basis of preparation of financial statements

The Statement of Accounts summarises the Fund's transactions for 2015/16 and its position at year-end as at 31st March 2016. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code) issued by the Chartered Institute of Public Finance and Accountancy ("CIPFA") which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The accounts have been prepared on an accruals basis, apart from transfer values which have been accounted for on a cash basis.

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

Note 3: Summary of significant accounting policies

Fund Account – revenue recognition

a) Contribution income

All contributions, both from the members and from the 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, the investments in the Partners Multi Asset Credit fund and the Partners Infrastructure fund which, by their nature, will be realised over a long period of time.

h) Derivatives

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

i) Foreign Currency Transactions

Where appropriate, market values, cash deposits and purchases and sales outstanding listed in overseas currencies are converted into sterling at the rates of exchange ruling at the reporting date.

j) Cash and Cash Equivalents

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

k) Financial Liabilities

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

l) Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is assessed by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 19).

m) Additional Voluntary Contributions

Members of the Fund may choose to make additional voluntary contributions (AVCs) into a separate scheme run by Zurich Assurance in order to obtain additional pensions benefits. The company is responsible for providing the investors with an annual statement showing their holding and movements in the year. AVCs are not included 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 £116.7m. A 0.2% increase in the pay inflation assumption would increase the value of liabilities by £5.4m, and a one-year increase in assumed life expectancy would increase liabilities by £41.0m.

b) Unquoted private equity investments

The fair value of private equity investments is unavoidably subjective. The valuations are based on forward-looking estimates and judgements involving many factors. Unquoted private equity assets are valued by the investment managers in accordance with industry standards. The value of private equity investments at the balance sheet date was £8.83m.

The fair value of the Partners multi credit asset fund and the Partners infrastructure fund is also to some extent subjective. A number of the underlying assets are traded in private markets only and therefore judgements need to be made about value, using factors such as the enterprise value and net debt. The value in the net assets statement is £53.6m.

Note 5: Events after the Balance Sheet

The result of the referendum on EU membership held on 23rd June 2016 was in favour of the UK to leave the EU. The long term financial impacts of “Brexit” cannot, as yet, be easily ascertained, however given that this condition did not exist at the balance sheet date, any such impacts insofar as they could be ascertained, constitute a non-adjusting event. In the shorter term, at 31st July 2016, the market value of the investments of the Fund had increased to approximately £917.3 million due to the rise in global stock markets since the date of the balance sheet.

Note 6: Contributions receivable

Employees' contributions are calculated on a sliding scale based on a percentage of their gross pay. The Council, scheduled and admitted bodies are required to make 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			
	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15
	£000	£000	£000	£000	£000	£000
Administering Authority	9,676	9,525	8,101	8,101	5,249	5,120
Scheduled Bodies	1,310	1,114	742	590	643	539
Admitted Bodies*	2,478	2,561	105	53	903	999
Grand Totals	13,464	13,200	8,948	8,744	6,795	6,658

*Deficit recovery contributions include augmentation contributions of £51k.

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	
	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15
	£000	£000	£000	£000	£000	£000
Administering Authority	(27,850)	(27,344)	(4,565)	(3,885)	(641)	(295)
Scheduled Bodies	(142)	(81)	(14)	(100)	0	0
Admitted Bodies	(1,084)	(730)	(124)	(480)	(192)	(195)
Grand Totals	(29,076)	(28,155)	(4,703)	(4,465)	(833)	(490)

Note 8: Management Expenses

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

	2015/16	2014/15
	£000	£000
Administrative costs	(606)	(471)
Investment management expenses	(6,888)	(6,434)
Oversight and governance costs	(268)	(311)
	<u>(7,762)</u>	<u>(7,216)</u>

The table below provides a breakdown of the Investment Management Expenses.

	2015/16	2014/15
	£000	£000
Management fees	(4,774)	(4,216)
Performance fees	(1,646)	(1,687)
Transaction costs*	(395)	(432)
Custody fees	(73)	(99)
	<u>(6,888)</u>	<u>(6,434)</u>

*Transaction costs incurred on segregated assets only.

Note 9: Investment Income

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

	2015/16	2014/15
	£000	£000
Equity dividends	10,079	11,001
Income from Index-Linked Securities	1,327	248
Interest on Cash Deposits	55	63
Private Equity/Other	1,310	110
Total	<u>12,771</u>	<u>11,422</u>

Note 10: Investment Strategy

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

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

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

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

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

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

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

	31 March 2016		31 March 2015	
	Market Value	Total	Market Value	Total
	£000	%	£000	%
Majedie Asset Management	215,374	25.17	226,483	26.2
MFS International (UK) Ltd	319	0.04	222,849	25.8
LGIM Passive equities	207,706	24.27	0	0.0
Ruffer LLP	89,898	10.51	91,159	10.5
Goldman Sachs Asset Management	0	0.00	64,126	7.4
Insight Investments	64,848	7.58	0	0.0
LGIM LDI bespoke	0	0.00	132,187	15.3
LGIM Liquidity fund	41,451	4.84	80,036	9.3
Partners Group MAC fund	52,178	6.10	37,600	4.3
Partners Group Infrastructure fund	1,439	0.17	0	0.0
Oak Hill Advisers	47,555	5.56	0	0.0
M & G	81,552	9.53	0	0.0
Standard Life	43,925	5.13	0	0.0
Invesco Private Equity	5,728	0.67	6,251	0.7
Unigestion Private Equity	3,541	0.41	4,090	0.5
London LGPS CIV Ltd	150	0.02	0	0.0
	855,664	100.0	864,781	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 a long term credit rating of AA with the Fitch ratings agency, AA- with S&P and Aa2 with Moody's. The bank account for the Pension Fund is held with Nat West.

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 2015/16.

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

The equivalent analysis for 2014/15 is provided below:

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

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%.

	2015/16 £000	2015/16 %	2014/15 £000	2014/15 %
Legal & General World ex UK Developed Equity Index Fund	192,377	22.5	-	-
M & G Inflation Opportunities Fund V	81,552	9.5	-	-
Majedie UK Focus Fund	75,196	8.8	78,309	9.0
Insight Investment Bonds Plus Fund	64,848	7.6	-	-
Partners Group Multi Asset Credit 2014 Fund	52,071	6.1	-	-
Oak Hill Advisers Diversified Credit Strategies Fund	47,555	5.6	-	-
Standard Life Long Lease Property Fund	43,925	5.1	-	-
Legal & General Sterling Liquidity Fund	41,451	4.8	80,036	9.2
Goldman Sachs Libor plus 1 Fund	-	-	64,126	7.4
Legal & General LDI Bespoke Fund	-	-	132,185	15.2

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 2016 or 31 March 2015.

Open forward foreign exchange contracts at 31 March 2016

Settlement	Currency bought	Local value 000	Currency sold	Local value 000	Asset value £000	Liability value £000
Up to one month	GBP	7,532	JPY	(1,292,600)		(472)
One to three months	GBP	24,878	USD	(35,611)	104	
					104	(472)
Net forward foreign exchange contracts at 31 March 2016						(368)

Open forward foreign exchange contracts at 31 March 2015

16 (725)

Net forward foreign exchange contracts at 31 March 2015

(709)

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.

	31 st March 2016			31 st March 2015		
	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	17,115			16,685		
Overseas Public Sector	19,656			15,238		
Equities						
UK	95,736			101,250		
UK unquoted	150			-		
Overseas	41,051			270,635		
Pooled Investment Vehicles						
Global Passive Funds	207,604			-		
UK Equity Funds	102,685			105,563		
LDI Bespoke Funds	-			132,185		
Absolute Return Bond Funds	64,848			64,126		
Multi Asset Credit Funds	47,555			0		
Multi Asset Credit Fund (unquoted)	52,170			37,500		
Sterling Liquidity Funds	41,451			80,036		
Inflation Opportunity Funds	81,552			-		
Property Funds	43,925			-		
Private Equity (unquoted)	8,826			9,874		
Infrastructure Funds (unquoted)	1,439			-		

	31 st March 2016			31 st March 2015		
	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						
Other Managed Funds	19,245			13,731		
Commodities	1,976			2,540		
Derivative contracts – forward foreign exchange	104			16		
Investment Income due	1,242			1,603		
Pending Trade Sales	278			-		
Cash deposits with managers		7,544			15,410	
Debtors		677			354	
Cash Balances		1,165			4,486	
	848,608	9,386		850,982	20,250	0
FINANCIAL LIABILITIES						
Derivative contracts – forward foreign exchange	(472)			(725)		
Pending Trade Purchases	(16)			(886)		
Creditors			(1,187)			(1,146)
	(488)		(1,187)	(1,611)	0	(1,146)
Grand Totals	848,120	9,386	(1,187)	849,371	20,250	(1,146)
			856,319			868,475

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.

	2015/16 £000	2014/15 £000
Financial Assets		
Designated at fair value through Profit and Loss	(6,146)	107,050
Loans and Receivables	(108)	5
Financial Liabilities		
Designated at fair value through Profit and Loss	(3,530)	(1,460)
Financial Liabilities at Amortised Cost	0	0
Total	9,784	105,595

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 Partners Group multi credit asset and the infrastructure funds are 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 2016			31st March 2015		
	Quoted Market Price	Using observable inputs	With significant unobservable inputs	Quoted Market Price	Using observable inputs	With significant unobservable inputs
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	£000	£000	£000	£000	£000	£000
FINANCIAL ASSETS						
Financial assets at fair value through profit and loss	603,084	174,823	70,701	667,694	132,202	51,085
Loans and Receivables	9,386	-	-	20,251	-	-
Total Financial Assets	612,470	174,823	70,701	687,945	132,202	51,085
FINANCIAL LIABILITIES						
Financial liabilities at fair value through profit and loss	(16)	(472)	-	(886)	(725)	-
Financial liabilities at amortised cost	(1,187)	-	-	(1,146)	-	-
Total Financial Liabilities	(1,203)	(472)	-	(2,032)	(725)	-
NET FINANCIAL ASSETS	611,267	174,351	70,701	685,913	131,477	51,085
			856,319			868,475

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.

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

a) Market Risk

In order to meet the Fund's objective of being fully funded within 22 years of the 2013 actuarial valuation, the fund managers have been set differing targets appropriate to the types of assets they manage. The Fund's assets are invested in a broad range of asset classes in terms of geographical and industry sectors and individual securities which are expected to produce returns above their benchmarks over the long term, albeit with greater volatility. This diversification reduces exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level.

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

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 £000	+ 10% £000	-10% £000
At 31 st March 2016	846,835	931,518	762,151
At 31 st March 2015	849,361	934,298	764,425

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 £000	+ 1% £000	-1% £000
At 31 st March 2016	300,436	303,440	297,432
At 31 st March 2015	365,666	369,323	362,010

Currency Risk

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

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

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

Overseas equities, overseas index linked securities, cash in foreign currencies, the value of the forward foreign exchange contracts and some elements of the pooled investment vehicles are exposed to currency risk. The table 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 2016	252,627	277,890	227,365
At 31 st March 2015	353,251	388,577	317,926

b) Credit Risk

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

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

c) Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that there are adequate cash resources to meet its commitments. This will particularly be the case for cash to meet the pensioner payroll costs; and also cash to meet investment commitments. The Fund has immediate access to its cash holdings.

The only assets in the Fund which cannot be liquidated within a month are detailed in the table below. These amounted to 12.4% of the Fund's Net Assets at 31st March 2016 (5.5% at 31st March 2015). The remaining investments can liquidated within a matter of days.

Manager	Portfolio	Value at 31 March 2016 £000	Value at 31 March 2015 £000
Partners Group	Multi Asset Credit	52,171	37,500
Partners Group	Infrastructure	1,439	-
Standard Life	Property	43,925	-
Invesco	Private Equity	5,302	5,798
Unigestion	Private Equity	3,525	4,076
		<u>106,362</u>	<u>47,374</u>

Note 16: Contingent Liabilities and Contractual Commitments

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

	31st March 2016 £000	31st March 2015 £000
Invesco Partnership Fund V L.P.	1,212	1,173
Unicapital Investments V	46	42
Partners Group Multi Asset Credit Fund 2014	-	12,500
Partners Group Direct Infrastructure Fund 2015	41,844	-
Standard Life Long Lease Property Fund	-	40,000
	43,102	53,715

The outstanding commitments for Invesco and Unicapital are expected to be paid over the next two years. The Partners infrastructure commitment is expected to be paid by December 2020.

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.

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

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

The actuary's smoothed market value of the scheme's assets at 31 March 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 Retirement Benefits

The table below shows the total net liability of the Fund as at 31st March 2016. 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 2016 £000	31st March 2015 £000
Present Value of Promised Retirement Benefits*	1,357,358	1,409,558
Fair Value of Scheme Assets (bid value)	(856,319)	(868,475)
Net Liability	501,039	541,083

*Present Value of Promised Retirement Benefits comprises of £1,311,744k (£1,271,900k at 31 March 2015) and £45,614k (£137,658k at 31 March 2015) in respect of vested benefits and non-vested benefits respectively as at 31 March 2016.

The assumptions applied by the actuary are set out below:

Financial Assumptions	31st March 2016	31st March 2015
RPI Increases	3.3%	3.2%
CPI Increases	2.4%	2.4%
Salary Increases	4.2%	4.2%
Pension Increases	2.4%	2.4%
Discount Rate	3.7%	3.3%

Demographic Assumptions

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

Life Expectancy from age 65		31st March 2016	31st March 2015
Retiring today	Males	22.9	22.8
	Females	25.3	25.2
Retiring today	Males	25.2	25.1
	Females	27.7	27.6

Other Assumptions:

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

Note 20: Current Assets

	31st March 2016 £000	31st March 2015 £000
Debtors		
Contributions due - employers	337	195
Contributions due - employees	105	71
London Borough of Hammersmith and Fulham	174	88
Sundry debtors	61	-
	<u>677</u>	<u>354</u>

	31st March 2016 £000	31st March 2015 £000
Analysis of debtors		
Local authorities	211	88
Other entities and individuals	466	266
	<u>677</u>	<u>354</u>

Note 21: Current Liabilities

	31st March 2016 £000	31st March 2015 £000
Creditors		
Unpaid Benefits	(80)	(8)
Investment Management Expenses	(598)	(796)
HM Revenue and Customs	(476)	(342)
Sundry Creditors	(33)	-
	<u>(1,187)</u>	<u>(1,146)</u>

	31st March 2016 £000	31st March 2015 £000
Analysis of creditors		
Local authorities	(162)	-
Central government bodies	(476)	(342)
Other entities and individuals	(549)	(804)
	<u>(1,187)</u>	<u>(1,146)</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.

	2015/16	2014/15
Zurich Assurance		
Market Value at 31 st March	£1,134,250	£1,117,844
Contributions during the year	£33,101	£36,590
Number of members at 31 st March	48	50
Equitable Life Assurance		
Market Value at 31 st March	£192,259	£187,842
Contributions during the year	£0	£66
Number of members at 31 st March	32	32

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 £412,812 in 2015/16 (£428,198 in 2014/15) in relation to the administration of the Fund and were reimbursed by the Fund for the expenses.

In the year the Council contributed £17,777k in employer contributions to the Fund (2014/15 £17,626k).

As a result of the day to day administration, at 31st March 2016 the Council owed the Pension Fund a net amount of £174,042 (£88,399 at 31st March 2015). In addition £36,669 was owed by a Council maintained school in respect of March 2016 contributions.

Governance Arrangements

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

Key management personnel

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

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

Note 24: Agency Services

The Hammersmith and Fulham Pension Fund pays discretionary awards to the former employees of London Borough of Hammersmith and Fulham council. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the council. The gross sum paid out is disclosed below. At the balance sheet date the March 2016 reimbursement was outstanding. This amounted to £200k and is included in Note 23 Related Parties.

	2015/16 £000	2014/15 £000
Payments on behalf of London Borough of Hammersmith and Fulham	2,433	-
	<u>2,433</u>	<u>-</u>

Independent auditor's report to the members of the London Borough of Hammersmith and Fulham 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 2016 on pages 28 to 56.

Respective responsibilities of the Strategic Finance Director and the auditor

As explained more fully in the Statement of the Strategic Finance Director's Responsibilities, the Strategic Finance Director 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 2015/16.

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 2015/16.

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 2016 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Matters on which we are required to report by exception

The Code of Audit Practice 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 24 of the Local Audit and Accountability Act 2014 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, Statutory Auditor

Chartered Accountants

15 Canada Square,

London, E14 5GL

30 September 2016

6. Contacts

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Email: pensions@rbkc.gov.uk

Surrey County Council

Pension Services
Surrey County Council
Room 243 County Hall
Penrhyn Road
Kingston upon Thames
Surrey, KT1 2DN
Email: myhelpdeskpensions@surreycc.gov.uk
Telephone: 020 8213 2802

National Local Government Pension Scheme information website

www.lgps.org.uk

The Pensions Advisory Service (TPAS)

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

The Office of the Pensions Ombudsman

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

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.