

London Borough of Hammersmith & Fulham Pension Fund Annual Report 2013-2014



Contents	Page
Chairman's report	
Introduction	
1. Management and Performance	5
Governance Arrangements	
Governance Compliance Statement	
Scheme Management and Advisers	
Financial summary and performance	
Risk Management	
2. Investment Policy and Performance	10
Investment Benchmark and Objective	
Statement of Investment Principles	
Investment Strategy	
Investment Managers	
Investment Performance	
Responsible Investment	
Custody and Banking	
3. Scheme Administration	15
Service Delivery	
Membership	
Communications Policy Statement	
Sources of information	
Additional Voluntary Contributions	
4. Actuarial Information	19
Summary of last triennial valuation	
Funding Strategy Statement	
5. Pension Fund Accounts	20
Statement of Responsibilities	
Fund Account	
Net Assets Statement	
Notes to the Accounts	
Independent Auditor's report	
6. Contacts & sources of further information	48
7. Glossary	49

Chairman's report

The Audit, Pensions & Standards Committee is responsible for overseeing the management of the London Borough of Hammersmith & Fulham Pension Fund including investment management and pension administration issues. As the current Chairman of this Committee, I am pleased to introduce the Pension Fund's annual report for the year 2013-14.

During the year the value of the Fund rose by £39m following positive absolute investment returns over the year. The Fund's investment return outperformed the target return by a very pleasing 7.6%. The Committee has continued to monitor the Fund closely at every meeting, and challenged the investment advisers as necessary to ensure the Fund's investments are being managed effectively.

The results of the actuarial valuation of the Fund as at 31st March 2013 were discussed with the Fund Actuary during the year and the final report was published in March 2014. The report showed an improvement in the funding level from 74% to 83% since the previous valuation in March 2010. The high investment returns in the period between valuations was a major contributor to this result. As part of the valuation process, the Committee also reviewed the Funding Strategy Statement to ensure this remains relevant going forward.

Following the actuarial valuation result, the Committee is now undertaking a review of the investment strategy to ensure the Fund remains on track to meet the objective of ensuring there are sufficient assets to meet all the liabilities. This will be on-going during 2014-15 with any proposed changes considered in detail and their implementation carefully managed.

In April 2014 the new Local Government Pension Scheme was implemented and the scheme changed from a final salary based scheme to a career average scheme. It is envisaged that the new scheme will be more cost effective and fairer to all 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 Committee during 2013-14, as well officers, advisers and investment managers.



Councillor Iain Cassidy

Chairman of Audit, Pensions & Standards 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 established by the Superannuation Act 1972, which provides for the payment of benefits to employees and former employees of Hammersmith and Fulham Council and the admitted and scheduled bodies in the Fund.

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

The benefits payable from the Fund are set out in the Local Government Pension Scheme regulations. 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.

In summary the benefits payable are:

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

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

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

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

1. Management and Performance

Governance Arrangements

The London Borough of Hammersmith & Fulham Council has delegated decision making powers in respect of pensions matters to the Audit, Pensions and Standards Committee (the Committee). The Committee is made up of nine elected representatives of the Council – five from the administration and four opposition party representatives. Members of the admitted bodies and representatives of the Trade Unions may attend the committee meetings but have no voting rights.

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

- To determine the overall investment strategy and strategic asset allocation of the Pension Fund;
- To appoint the investment manager(s), custodian, actuary and any independent external advisors felt to be necessary for the good stewardship of the Pension Fund;
- To monitor the qualitative performance of the investment managers, custodians, actuary and external advisors to ensure that they remain suitable;
- To review on a regular basis the investment managers' performance against established benchmarks, and satisfy themselves as to the managers' expertise and the quality of their internal systems and controls;
- To prepare, publish and maintain the Statement of Investment Principles, and monitor compliance with the statement and review its contents;
- To prepare, publish and maintain the Funding Strategy Statement, the Governance Compliance Statement, and the Communications Policy and Practice Statement and revise the statements to reflect any material changes in policy;
- To approve the final accounts and balance sheet of the Pension Fund and approve the Annual Report;
- To receive actuarial valuations of the Pension Fund regarding the level of employers' contributions necessary to balance the Pension Fund;
- To oversee and approve any changes to the administrative arrangements and policies and procedures of the Council for the payment of pensions, compensation payments and allowances to beneficiaries;
- To consider any proposed legislative changes in respect of the Compensation and Pension Regulations and to respond appropriately;
- To approve the arrangements for the provision of AVCs for fund members;
- To receive and consider the auditor's report on the governance of the Pension Fund.

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

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

Councillor Iain Cassidy (Chairman)

Councillor Michael Adam (Vice Chairman)

Councillor Nicholas Botterill

Councillor Ben Coleman

Councillor Adam Connell

Councillor Donald Johnson

Councillor Mark Loveday

Councillor PJ Murphy

Councillor Guy Vincent

The membership of the Committee during the 2013/14 year was:

Councillor Michael Adam (Chairman)

Councillor PJ Murphy (Vice Chairman)

Councillor Michael Cartwright

Councillor Charlie Dewhirst

Councillor Robert Iggulden

Councillor Lucy Ivimy

Eugenie White (Co-Opted member)

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

http://www.lbhf.gov.uk/Images/Governance%20Compliance%20Statement%20Feb%2011_tcm21-151895.pdf

Scheme Management and Advisers

The City of Westminster, London Borough of Hammersmith & Fulham and the Royal Borough of Kensington & Chelsea councils have combined certain parts of their operational areas to provide a more efficient service and greater resilience and this includes the Pensions teams.

The combined 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 tri-borough working aims.

Officers

Executive Director of Finance & Corporate Governance (section 151 officer)	Jane West
Tri-Borough Pensions Team	Jonathan Hunt Nikki Parsons Alex Robertson Nicola Webb
Bi-borough Pensions Manager	Maria Bailey

External Advisers

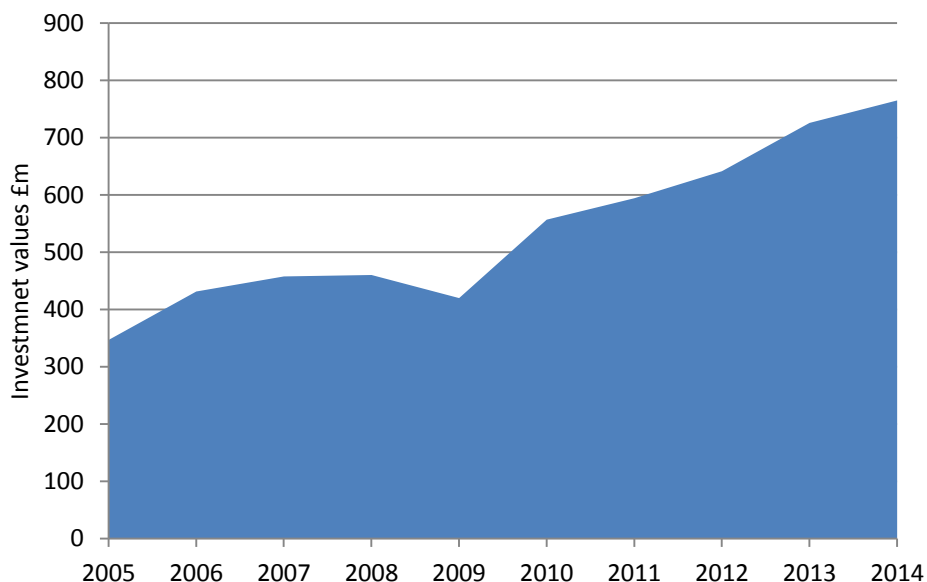
Investment Adviser	Deloitte
<u>Investment Managers</u>	
Active Equity managers	Majedie Asset Management MFS International (UK) Limited
Dynamic Asset Allocation managers	Baring Asset Management Limited Ruffer LLP
Matching Fund managers	Goldman Sachs Asset Management Legal & General Investment Management
Private Equity managers	Invesco Unigestion
Custodian & Bankers	Northern Trust
Actuary	Barnett Waddingham
Auditor	KPMG
Legal Adviser	Eversheds
Scheme Administrators	Capita Employee Benefits
AVC Providers	Zurich Assurance Equitable Life Assurance Society

Financial Summary and performance

The investment return in 2013/14 was positive both in absolute terms and relative to the Fund's target. The return was 6.4%, which was 7.6% above the target set by the Fund, which was actually negative in this period (-1.2%). There were no changes of investment manager during the year. The Investment Policy and Performance report in section 2 provides more detail on the Fund's investments and performance.

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

Value of the Fund over the last ten years



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

Risk Management

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

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

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

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

2. Investment Policy and Performance

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

Investment Benchmark and Objective

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

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

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

Statement of Investment Principles

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

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

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

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

<http://www.lbhf.gov.uk/Images/Statement%20of%20Investment%20Principles%20June%202012%20tcm21-174597.pdf>

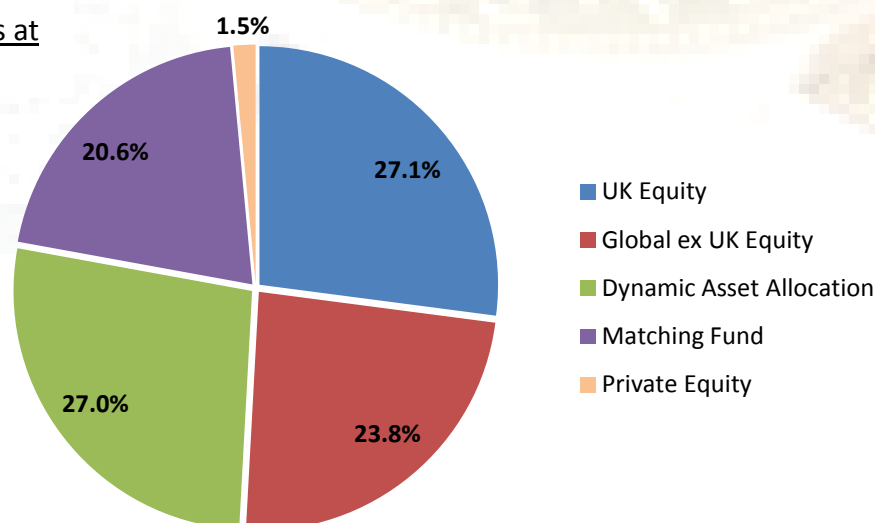
Investment Strategy

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

The table and graph below shows how the Fund was split between the four main portfolios at 31st March 2014. The split at 31st March 2013 is shown in the table for comparison.

Portfolio	Benchmark	Market Value at 31/03/2014 £000s	% of Fund at 31/03/2014	Market Value at 31/03/2013 £000s	% of Fund at 31/03/2013
UK Equity	22.5%	207,054	27.1%	173,322	23.9%
Global ex UK Equity	22.5%	182,013	23.8%	171,675	23.7%
Dynamic Asset Allocation	30.0%	206,552	27.0%	203,026	28.0%
Matching Fund	25.0%	157,833	20.6%	164,316	22.6%
Other	0%	11,442	1.5%	13,336	1.8%
TOTAL	100%	764,894	100.0%	725,675	100.0%

Split of investments at 31st March 2014



The main change to the split of the portfolios in the year 2013/14 was an increase in the proportion in UK Equities, due to the performance of this portfolio. The “Other” category is made up of private equity investments – the Fund committed to making investments of up to £15m in 2004 and 2007. These commitments have largely been paid now and the monies are being distributed back to the Fund.

Investment Managers

The Fund has appointed external investment managers within the four main portfolios. The investment managers have clear benchmarks and targets, which place maximum accountability for performance on the manager. The detail of these is set out in the Statement of Investment Principles. The table below shows how the Fund’s assets were allocated between the investment managers at 31st March 2014, and at 31st March 2013 for comparison.

Investment Manager	Market Value at 31/03/2014	% of Fund at 31/03/2014	Market Value at 31/03/2013	% of Fund at 31/03/2013
UK Equity				
Majedie Asset Management	207,054	27.1%	173,322	23.9%
Global ex UK Equity				
MFS International (UK) Ltd	182,013	23.8%	171,675	23.6%
Dynamic Asset Allocation				
Baring Asset Management Ltd	125,250	16.4%	123,116	17.0%
Ruffer LLP	81,302	10.6%	79,910	11.0%
Matching Fund				
Goldman Sachs Asset Management	65,248	8.5%	62,919	8.7%
Legal and General Investment Management	92,585	12.1%	101,397	14.0%
Private Equity				
Invesco	6,221	0.8%	7,265	1.0%
Unigestion	5,221	0.7%	6,071	0.8%
TOTAL	764,894	100.0%	725,675	100.0%

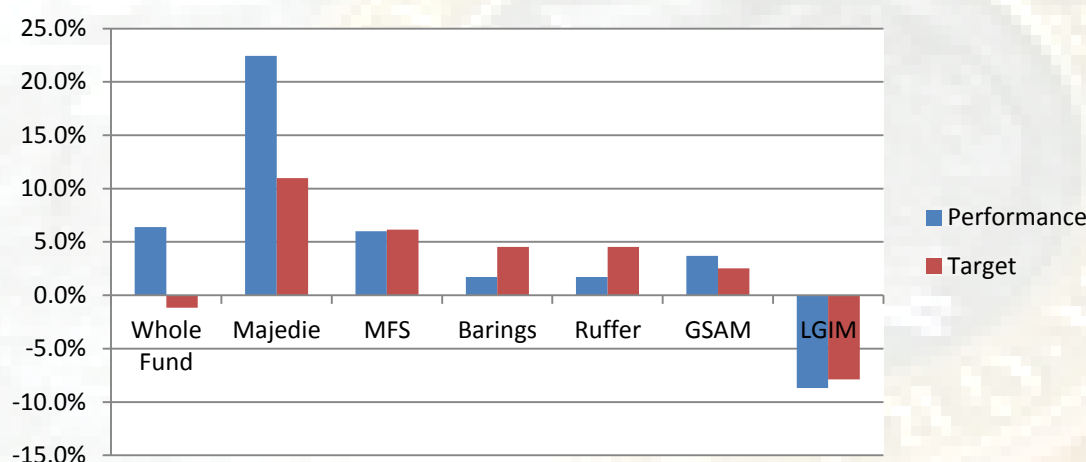
Investment Performance

The table below shows the performance of the Fund against the target in 2013/14, the previous financial year, and the annualised performance over three and five years.

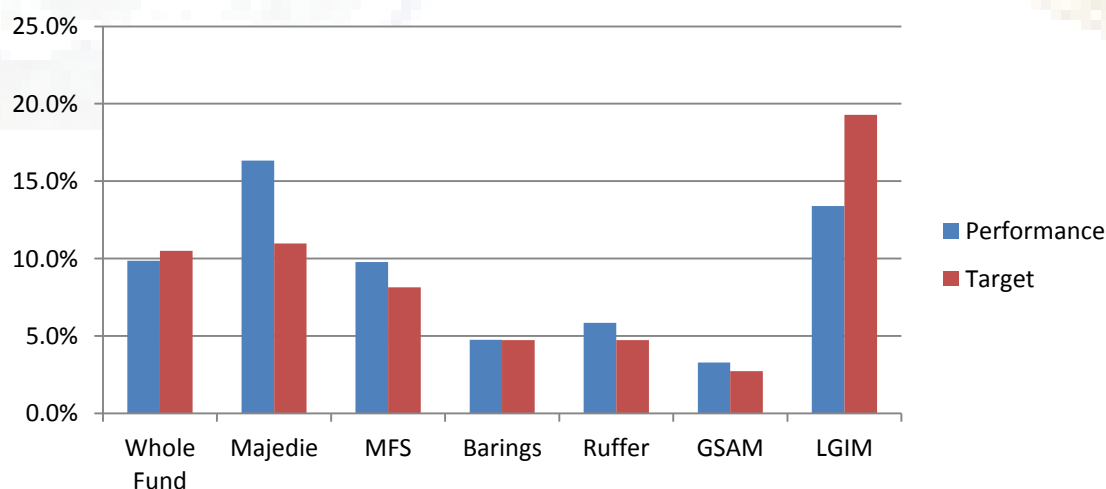
	2013/14	2012/13	3 years	5 years
Performance	6.4%	15.1%	9.9%	13.5%
Target (Liability Benchmark + 2.5%)	(1.2%)	11.9%	10.5%	10.9%
Out / (under) performance against target	7.6%	3.2%	(0.6%)	2.6%

Each of the investment managers has a benchmark and target set within their Investment Management Agreements with the Fund. Performance is measured quarterly and reported to the Committee. The graphs below show the performance of the investment managers against their targets over 2013/14 and annualised over three years.

2013/14 performance against targets



Three Years annualised performance against targets



The graphs show that the Majedie Asset Management outperformance dominated the investment performance in 2013/14. Goldman Sachs was the only other manager to outperform their target over this short period. In the longer term all the investment managers except Legal and General Investment Management outperformed their targets. Due to movement in the index linked gilts which make up the whole fund benchmark and target, the whole Fund underperformed the target by 0.6% over the three year period.

Responsible Investment

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

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

Custody and Banking

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

3. Scheme Administration

The Local Government Pension Scheme ("LGPS") is a statutory pension scheme whose regulations are made by the government in accordance with the Superannuation Act 1972. It is a defined benefit pension scheme and the benefits payable from the Fund are set out in the Local Government Pension Scheme regulations. Prior to 1st April 2014, the LGPS was a final salary scheme which paid pensions on the basis of final salary and length of service. Since 1st April 2014 the scheme has become a Career Average Revalued Earnings (CARE) scheme, so that a scheme member's pension is based on their earnings throughout their career, rather than solely on their final salary.

Service Delivery

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

Membership of the Fund

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

The table below shows that although the number of employers has been growing in recent years, due to an increase in academies and free schools and outsourcing of Council services, there was a reduction in 2013/14. This has been a result of a number of employers exiting the Fund as all active members have left.

	2009/10	2010/11	2011/12	2012/13	2013/14
Employers	25	29	30	35	31

A list of the Fund's employers with active contributing members is set out at the end of this section.

The table below shows the Fund's membership over the last five years. Although there has been a small rise in the number of active members over the last year, in general the active membership has been falling over the last five years and the number of pensioners and deferred members has been rising. This pattern is common across local government pension schemes and demonstrates the maturity of the schemes.

	31st March 2010	31st March 2011	31st March 2012	31st March 2013	31st March 2014
Contributors	4,176	4,064	3,837	3,782	3,963
Deferred	4,900	5,217	5,409	5,546	5,785
Pensioners & Dependents	4,067	4,174	4,265	4,379	4,463
Total Membership	13,143	13,455	13,511	13,707	14,211

Employer List

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

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

Communication policy statement

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

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

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

Sources of information

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

Internal Dispute Resolution Procedure

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

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

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

11 Belgrave Road
London
SW1V 1RB

Additional Voluntary Contributions

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

4. Actuarial Information

Summary of the last triennial valuation

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

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

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

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

Note 18 to the Pension Fund accounts on page 42 provides a statement from the Fund Actuary about changes since the valuation in 2013.

Funding Strategy Statement

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

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

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

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 2014.

The Council's Responsibilities

The Council is required to:

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

Responsibilities of the Executive Director of Finance and Corporate Governance

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

In preparing this Statement of Accounts, the Executive Director of Finance and Corporate Governance has:

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

Certificate of the Executive Director of Finance and Corporate Governance

I certify that the Accounts present a true and fair view of the financial position of the London Borough of Hammersmith and Fulham Pension Fund as at 31 March 2014 and income and expenditure for the year for the financial year 2013/14.

Jane West, Executive Director of Finance and Corporate Governance

Fund Account

	Note	2013/14		2012/13	
		£000	£000	£000	£000
Dealings with members, employers and others directly involved in the scheme					
Contributions					
From Employers	6	22,692		23,136	
From Members	6	6,306	28,998	6,445	29,581
Individual Transfers In from other Pension Funds			3,324		1,575
Other Income			34		36
Benefits					
Pensions	7	(26,887)		(26,525)	
Lump Sum Retirement Benefits	7	(4,882)	(31,769)	(5,353)	(31,878)
Payments to and on account of leavers					
Individual Transfers Out to other Pension Funds			(3,325)		(6,149)
Other Expenditure			-		(20)
Administrative Expenses	8		(643)		(632)
Net Additions (Withdrawals) from dealings with members			(3,381)		(7,487)
Returns on Investments					
Investment Income	9		9,680		9,930
Taxes on Income (Irrecoverable Withholding Tax)			(170)		(131)
Profit and losses on disposal of investments and changes in value of investments					
Realised	12		33,428		12,206
Unrealised	12		4,091		73,595
Investment Management Expenses	10		(4,905)		(2,667)
Net Returns on Investments			42,124		92,933
Net Increase (Decrease) in the net assets available for benefits during the year			38,743		85,446
Opening Net Assets of the Scheme			724,086		638,640
Closing Net Assets of the Scheme			762,829		724,086

Net Asset Statement as at 31st March 2014

	Note	31 March 2014 £000	31 March 2013 £000
Investment Assets			
Index Linked Securities	13	26,286	23,755
Equities	13	320,772	297,086
Pooled Investment Vehicles	13	399,886	387,107
Commodities	13	1,890	3,585
Derivative contracts - forward foreign exchange	13	260	0
Cash Deposits	13	17,027	12,909
Other Investment Balances			
Amounts Outstanding on Sale of Investments	13	542	1,223
Investment Income Due	13	752	760
Investment Liabilities			
Derivative contracts - forward foreign exchange	13	(96)	0
Amounts Outstanding on Purchase of Investments	13	(2,425)	(750)
Net Investment Assets	13	764,894	725,675
Current Assets	20	278	199
Current Liabilities	21	(995)	(1,114)
Cash Balances		(1,348)	(674)
Net assets of the fund available to fund benefits at the period end.		<u>762,829</u>	<u>724,086</u>

The objective of the fund's accounts is to provide information about the financial position of the fund. The accounts summarise the transactions of the fund and show the net assets of the fund at the end of the financial year. The accounts do not take account of liabilities to pay pensions and benefits which fall due after the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 19 of these accounts.

Notes to the Pension Fund Accounts

Note 1: Description of Hammersmith and Fulham Pension Fund

a) General

The Pension Fund is part of the Local Government Pension Scheme and is administered by Hammersmith and Fulham Council. It is a contributory defined benefits scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of Hammersmith and Fulham Council and the admitted and scheduled bodies in the fund. These benefits include retirement pensions and early payment of benefits on medical grounds and payment of death benefits where death occurs either in service or in retirement. The benefits payable in respect of service up to the balance sheet date 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 Superannuation Act 1972 and during 2013/14 was administered in accordance with the following secondary legislation: the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended), the LGPS (Administration) Regulations 2008 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2009 (as amended).

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

The fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and from interest and dividends on the fund's investments.

b) Audit, Pensions & Standards Committee

The Council has delegated the investment arrangements of the scheme to the Audit, Pensions and Standards Committee (the Committee) who decide on the investment policy most suitable to meet the liabilities of the fund and have the ultimate responsibility for the investment policy. The Committee is made up of nine elected representatives of the Council, including four opposition party representatives, each having voting rights. Members of the admitted bodies, representatives of the Trade Unions and one co-opted member may attend the committee meetings but have no voting rights.

The Committee reports to the full Council and has full delegated authority to make investment decisions. The Committee obtains and considers advice from the Executive Director of Finance and Corporate Governance, and as necessary from the fund's appointed actuary, investment managers and advisor.

c) Investment Principles

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require administering authorities to prepare and review from time to time a written statement recording the investment policy of their Pension Fund. The Committee approved a Statement of Investment Principles on 28th June 2012 and this is available on the Council's website at the link below. The Statement shows the Authority's compliance with the Myner's principles of investment management.

http://www.lbhf.gov.uk/Images/Statement%20of%20Investment%20Principles%20June%202012_tcm21-174597.pdf

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

d) Membership

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

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

The following table is a membership summary of the scheme:

	31 March 2014	31 March 2013
Contributing employees	3,963	3,782
Pensioners receiving benefit	4,463	4,379
Deferred Pensioners	5,785	5,546

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

e) Tri Borough Working

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

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

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

Note 2: Basis of preparation of financial statements

The Statement of Accounts summarises the fund's transactions for 2013/14 and its position at year-end as at 31st March 2014. The accounts have been prepared in accordance with IAS 26 and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (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 in accordance with the Code, 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. IAS26 gives administering authorities the option to disclose this information in the Net Asset statement, in the notes to the accounts or by appending an actuarial report, prepared for this purpose. The authority has opted to disclose this information in an accompanying report to the accounts which is discussed in Note 19.

Note 3: Summary of significant accounting policies

Fund Account – revenue recognition

a) Contribution income

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

b) Transfers to and from other schemes

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

c) Investment Income

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

Fund Account – Expense Items

d) Benefits Payable

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

e) Taxation

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

f) Administration expenses

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

g) Investment Management expenses

The Committee has appointed external investment managers to manage the investments of the Fund. These managers are paid a fee based on the market value of the investments they manage and/or a fee based on performance. The cost of obtaining investment advice from the external advisor is included in the investment management expenses.

Net Assets Statement

h) Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. Quoted Securities and Pooled Investment Vehicles have been valued at the bid price and fixed interest securities are recorded at net market value based on their current yields at the

balance sheet date. Quoted securities are valued by Northern Trust, the fund's custodian and Pooled Investment Vehicles at the published bid prices or those quoted by their managers.

The values of the investment in Private Equity fund of funds are based on valuations provided by the general partners to the private equity funds. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

There are no significant restrictions affecting the ability of the scheme to realise its investments at the accounting date or at the value at which they are included in the accounts apart from the investments in private equity which, by their nature, will be realised over a long period of time.

i) Derivatives

The only derivatives held by the Fund are forward foreign exchange contracts. Forward foreign exchange contracts are valued by establishing the gain or loss that would arise on closing out the contract at the accounting date by entering into an equal and opposite contract on that date.

j) 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.

k) Cash and Cash Equivalents

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

l) 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.

m) Actuarial Present Value of Promised Retirement Benefits

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

n) 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 pension 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 the relevant regulations. 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.

o) 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 management and administration of the fund are set out separately.

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.

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 Note 18. The estimates are sensitive to changes in the underlying assumptions underpinning the valuations.

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.

Note 5: Events after the Balance Sheet

The market value of the investments varies over time depending on the performance of the markets, as discussed in Note 17. At 31st July 2014 the value of the investments had risen to £777m.

A further significant event took place at the end of August when the fund manager at the Barings Dynamic Asset Allocation Fund announced his resignation. Following the advice of the Fund's advisers, this holding was sold.

Note 6: Contributions receivable

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

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

	Employers'		Employees'	
	2013/14	2012/13	2013/14	2012/13
	£000	£000	£000	£000
LB Hammersmith and Fulham	18,854	19,923	5,008	5,507
LBHF Councillors	40	38	18	17
Sub-Totals Administering Authority	18,894	19,961	5,026	5,524
Mortlake Crematorium Board	59	53	16	14
London Oratory School	115	105	51	46
Burlington Danes Academy	119	113	55	52
Hammersmith Academy	118	64	32	30
Conway Academy	18	8	4	2
West London Free School	70	33	18	9
Bentworth Academy	39	22	10	6
Lady Margaret Academy	143	65	36	18
Sacred Heart High School	134	101	34	29
Fulham College Academy Trust	347	27	93	8
Bridge Academy	132	0	33	0
Swift Ark Academy	46	0	12	0
Lena Gardens Academy	3	0	1	0
Sub-Totals Scheduled Bodies	1,343	591	395	214

	Employers'		Employees'	
	2013/14	2012/13	2013/14	2012/13
	£000	£000	£000	£000
F M Conway Ltd	49	61	16	21
Urban Partnership Group	38	51	10	14
H&F Community Law Centre	0	6	0	2
Family Mosaic	67	86	22	27
Disabilities Trust	2	4	1	1
Thames Reach	6	6	2	2
Medequip Assistive Technology	7	9	2	2
Eden Food Service	240	256	79	79
Fulham Palace Trust	41	41	12	12
Family Mosaic Supporting People	11	15	5	6
Glencross Cleaning Ltd	3	3	1	1
Inspace Partnerships Ltd	35	59	11	19
H & F Bridge Partnership	297	938	121	134
Kier	81	138	25	43
Kier - Non HR Contract	2	4	1	2
P H Jones Ltd	3	5	1	2
Irish Cultural Centre	(1)	6	0	1
E C Harris LLP	11	7	4	2
Crime Reduction Initiatives	2	5	1	2
Quadron	240	240	68	68
Serco	472	481	205	210
Tendis	7	21	2	6
Turners	53	120	17	43
ETDE Infrastructure	24	22	8	8
3BM	183	0	68	0
Pinnacle Housing Services	80	0	30	0
Pinnacle Estate Services	211	0	72	0
Mitie Property Services Ltd	118	0	44	0
Amey Community Limited	173	0	57	0
Sub-Totals Admitted Bodies	2,455	2,584	885	707
Grand Totals	22,692	23,136	6,306	6,445

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	
	2013/14 £000	2012/13 £000	2013/14 £000	2012/13 £000	2013/14 £000	2012/13 £000
LB Hammersmith and Fulham	(26,100)	(25,809)	(3,984)	(4,753)	(443)	(331)
Councillors	(1)	(1)	0	0	0	(19)
Sub-Totals Administering Authority	(26,101)	(25,810)	(3,984)	(4,753)	(443)	(350)
Mortlake Crematorium Board	(47)	(45)	0	0	0	(17)
London Oratory School	(8)	(2)	(33)	(15)	0	0
Burlington Danes Academy	(28)	(19)	0	0	0	0
Sub-Totals Scheduled Bodies	(83)	(66)	(33)	(15)	0	(17)
H&F Community Law Centre	(44)	(45)	(1)	(33)	0	0
H&F Police Consultative Group	(7)	(7)	0	0	0	0
ROOM the National Council	(5)	(6)	0	0	0	0
Family Mosaic	(128)	(117)	(25)	(5)	0	0
Greenwich Leisure Ltd	(3)	(3)	0	0	0	0
Blythe Neighbourhood Council	(2)	(1)	0	0	0	0
Inspace Partnerships Ltd	(48)	(46)	(47)	0	0	0
Kier	(4)	(1)	(39)	(10)	0	0
Turners	(18)	(14)	(19)	(37)	(8)	0
Urban Partnership Group	(2)	(3)	0	0	0	0
Disabilities Trust	0	(9)	0	(2)	0	0
EC Harris LLP	(12)	(12)	0	0	0	0
Eden Food Service	(19)	(18)	0	(11)	0	(71)
F M Conway Ltd	(21)	(16)	(71)	0	0	0
H & F Bridge Partnership	(273)	(256)	(135)	0	0	0
Quadron	(32)	(31)	0	0	0	0
Serco	(85)	(64)	(66)	(49)	(11)	0
Sub-Totals Admitted Bodies	(703)	(649)	(403)	(147)	(19)	(71)
Grand Totals	(26,887)	(26,525)	(4,420)	(4,915)	(462)	(438)

Note 8: Administrative Expenses

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

	2013/14	2012/13
	£000	£000
Provision of Pension Administration	(315)	(407)
Support Services including IT	(258)	(179)
External audit fees	(21)	(21)
Actuarial fees	(39)	(22)
Other fees	(10)	(3)
	<u>(643)</u>	<u>(632)</u>

Note 9: Investment Income

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

	2013/14	2012/13
	£000	£000
Dividends from Equities	9,393	8,774
Income from Index-Linked Securities	226	232
Interest on Cash Deposits	34	133
Private Equity/Other	27	449
Currency profit/loss	0	342
Total	<u>9,680</u>	<u>9,930</u>

Note 10: Investment Expenses

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

	2013/14	2012/13
	£000	£000
Management fees	(4,698)	(2,518)
Custody and performance monitoring fees	(124)	(110)
Investment consultancy	(58)	(39)
Other	(25)	0
	<u>(4,905)</u>	<u>(2,667)</u>

Of the management fees in 2013/14, a total of £1,550k was in respect of performance fees (£218k in 2012/13).

Note 11: Investment Strategy

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

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

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

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

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

	31 March 2014		31 March 2013	
	Market Value	Total	Market Value	Total
	£000	%	£000	%
Majedie Asset Management	207,054	27.1	173,322	23.9
MFS International (UK) Ltd	182,013	23.8	171,675	23.6
Baring Asset Management Ltd	125,250	16.4	123,116	17.0
Ruffer LLP	81,302	10.6	79,910	11.0
Goldman Sachs Asset Management	65,248	8.5	62,919	8.7
Legal and General Investment Management	92,585	12.1	101,397	14.0
Invesco Private Equity	6,221	0.8	7,265	1.0
Unigestion Private Equity	5,221	0.7	6,071	0.8
	764,894	100.0	725,675	100.0

The Committee has appointed Northern Trust as its global custodian. They are responsible for safe custody and settlement of all investment transactions, collection of income and the administration of corporate actions. The bank account for the Pension Fund is also held with Northern Trust. Northern Trust has an issuer credit rating of AA- with both Fitch and S&P ratings agencies and A1 with Moody's.

Note 12: Reconciliation of movement in investments

The table below shows a reconciliation of the movement in the total investment assets of the fund during 2013/14.

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

The equivalent analysis for 2012/13 is provided below:

Fund Manager	Value at 1 April 2012	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 2013
	£000	£000	£000	£000	£000
Majedie Asset Management	160,140	45,447	(61,369)	24,799	169,017
MFS International (UK) Ltd	165,100	54,424	(70,828)	21,299	169,995
Baring Asset Management	114,060	114	0	8,942	123,116
Ruffer LLP	36,746	60,588	(31,768)	6,839	72,406
Goldman Sachs Asset Management	59,637	0	(2)	3,281	62,916
Legal & General Investment Management	81,804	0	0	19,592	101,396
Invesco Private Equity	7,600	122	(1,853)	845	6,714
Unigestion Private Equity	5,530	570	(343)	216	5,973
Barings English Growth Fund	12	0	0	(12)	0
Sub-total	630,629	161,265	(166,163)	85,801	711,533
Cash Deposits	8,366				12,909
<u>Other Investment Balances</u>					
Investment Income due	1,470				760
Pending trade purchases	(127)				(750)
Pending trade sales	1,042				1,223
TOTAL	641,380			85,801	725,675

Transaction costs are included in the cost of purchases and in sale proceeds. These include costs charged directly to the fund, such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year total £486,770 (£499,743 in 2012/13). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

Note 13: Classification of Financial Instruments

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

	31 March 2014		31 March 2013	
	£000	£000	£000	£000
Designated at fair value through Profit and Loss				
United Kingdom				
Index Linked Securities - Public Sector		13,889		14,398
Equities		97,204		88,668
Pooled Investment Vehicles				
Managed Fund - Majedie UK Equity Funds	95,598		76,981	
Managed Fund - L & G LDI Bespoke Fund	92,584		101,396	
Managed Fund - Goldman Sachs Libor Plus 1 Fund	65,230		62,916	
Managed Fund - Baring Dynamic Asset Allocation Fund	125,250		123,116	
Managed Fund - Ruffer Illiquid Strategies Fund of Funds	3,129		3,487	
Managed Fund - Ruffer Baker Steel Gold Fund	550		1,030	
Managed Fund - Ruffer Mid & Smaller Companies Fund	567		443	
Managed Fund - Ruffer Protection Strategies Intl Fund	757	383,665	463	369,832
Commodities - Gold Bullion Securities 0% Undated Notes		1,890		3,585
Total United Kingdom		496,648		476,483
Overseas				
Index Linked Securities - Public Sector		12,397		9,357
Equities				
North America	119,409		111,824	
Japan	11,672		14,695	
Europe (ex UK)	69,062		57,533	
Pacific Basin	11,258		11,260	
Other	12,167	223,568	13,106	208,418
Pooled Investment Vehicles				
Managed Fund - Dynamic Investment Fund	403		621	
Managed Fund - Ruffer Japanese Fund	3,096		2,672	
Managed Fund - Red Kite Compass Fund	1,058		865	
Managed Fund - Ruffer Global Smaller Companies Fund	480		430	
Managed Fund - Private Equity (Unquoted)				
Invesco - North America	6,024		6,714	
Unigestion - Europe	5,160	16,221	5,973	17,275
Derivative contracts - forward foreign exchange		260		0
Total Overseas		252,446		235,050

	31 March 2014		31 March 2013	
	£000	£000	£000	£000
Other Investment Balances				
Amounts outstanding on Sale of Investments *	542		1,223	
Investment Income Due *	752	1,294	760	1,983
Loans and Receivables				
Cash Deposits	17,027		12,909	
Contributions due from Employers	181		123	
Contributions due from Members	63		43	
Combined Benefits	34	17,305	33	13,108
Financial Liabilities designated as fair value through profit and loss				
Derivative contracts - Forward Foreign Exchange	(96)		0	
Amounts outstanding on Purchase of Investments **	(2,425)	(2,521)	(750)	(750)
Financial Liabilities at Amortised Cost				
Unpaid Benefits	(277)		(256)	
Investment Management Expenses	(710)		(855)	
Administration Expenses	(8)		(3)	
Cash Balances	(1,348)	(2,343)	(674)	(1,788)
Net assets of the scheme available to fund benefits at the period end		762,829		724,086

* The classification of these assets has been corrected from Loans and Receivables at 31st March 2013 to Financial Assets designated through profit and loss.

** The classification of this asset type has been corrected from Financial Liabilities at amortised cost at 31st March 2013 to Financial Liabilities designated through profit and loss.

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%.

	2013/14	2013/14	2012/13	2012/13
	£000	%	£000	%
Baring Dynamic Asset Allocation Fund	125,250	16.4	123,116	17.0
Legal & General LDI Bespoke Fund	92,584	12.1	101,396	14.0
Majedie UK Focus Fund	68,030	8.9	54,616	7.5
Goldman Sachs Libor plus 1 Fund	65,230	8.6	62,916	8.7

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 2014 or 31 March 2013.

Settlement	Currency bought	Local value 000	Currency sold	Local value 000	Asset value £000	Liability value £000
Up to one month	USD	261	EUR	(190)		(1)
Up to one month	EUR	6	GBP	(5)	0	
Up to one month	EUR	6	GBP	(5)	0	
Up to one month	EUR	6	GBP	(5)	0	
Up to one month	EUR	44	GBP	(36)	0	
Up to one month	EUR	28	GBP	(23)	0	
Up to one month	EUR	1	GBP	(1)	0	
Up to one month	EUR	14	GBP	(12)	0	
Up to one month	JPY	34,485	GBP	(203)		(2)
Up to one month	JPY	35,246	GBP	(208)		(2)
Up to one month	GBP	11,781	JPY	(2,002,000)	119	
Up to one month	JPY	186,600	GBP	(1,090)		(3)
Up to one month	JPY	109,800	GBP	(640)		(1)
Up to one month	JPY	543,607	GBP	(3,212)		(46)
Up to one month	GBP	698	JPY	(117,300)	15	
Up to one month	JPY	204,300	GBP	(1,199)		(8)
Up to one month	JPY	315,792	GBP	(1,867)		(28)
One to three months	GBP	5,967	USD	(9,800)	86	
One to three months	EUR	688	GBP	(575)		(5)
One to three months	GBP	4,275	EUR	(5,120)	40	
					<u>260</u>	<u>(96)</u>

Net forward foreign exchange contracts at 31 March 2014

164

Note 14: Fair Value of Financial Instruments and Liabilities

The following table summarises the Book Cost of the financial assets and financial liabilities by class of instrument compared with their Market Values (Fair Value).

	31 March 2014		31 March 2013	
	Market Value	Book Cost	Market Value	Book Cost
	£000	£000	£000	£000
Financial Assets				
Designated at fair value through Profit and Loss				
Investment Assets	749,094	586,185	711,533	552,555
Amounts outstanding on Sale of Investments *	542	544	1,223	1,223
Investment Income Due *	752	752	760	760
Loans and Receivables				
Cash Deposits	17,027	17,027	12,909	12,909
Debtors	278	278	199	199
Financial Liabilities				
Designated at fair value through Profit and Loss				
Investment Liabilities	(96)	(96)	0	0
Amounts outstanding on Purchase of Investments **	(2,425)	(2,432)	(750)	(750)
Financial Liabilities at Amortised Cost				
Creditors	(995)	(995)	(1,114)	(1,114)
Cash Overdrawn	(1,348)	(1,348)	(674)	(674)
Total Value of Investments	762,829	599,915	724,086	565,108

* The classification of these assets has been corrected from Loans and Receivables in 2012/13 to Financial Assets designated through profit and loss.

** The classification of this asset type has been corrected from Financial Liabilities at amortised cost in 2012/13 to Financial Liabilities designated through profit and loss.

Note 15: Contingent Liabilities and Contractual Commitments

As at 31st March 2014, the fund had a commitment to invest a further £1.3million in two of the private equity fund of funds managed by Invesco and Unigestion. It is anticipated that these commitments will be spread over the next two to three years.

Note 16: Stock Lending Agreements

The Fund did not participate in stock lending or underwriting.

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

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

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

a) Market Risk

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

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

Price Risk

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

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

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.

Currency Risk

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

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

In order to mitigate the risk, one of the Fund's investment managers enters into forward foreign exchange contracts (accounted for as derivatives) to hedge the currency risk which arises from undertaking non sterling transactions. This reduces the overall currency risk the Fund is exposed to.

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 council has immediate access to its pension fund cash holdings.

The fund also has access to an overdraft facility with Northern Trust for short-term cash needs. This facility is only used to meet timing differences on pension payments. As at 31 March 2014 the balance on this facility stood at £1.908m. These borrowings are of a limited short term nature.

Note 18: Funding Arrangements

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

The latest full triennial valuation of the London Borough of Hammersmith and Fulham Pension Fund was carried out by Barnett Waddingham, the fund's actuary, as at 31 March 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 28 March 2014 and this is available on the Council's website. This valuation set the employer contribution rates from 1st April 2014. The employer contributions in these financial statements were set at the valuation as at 31st March 2010.

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

Introduction

The last full triennial valuation of the London Borough of Hammersmith and Fulham ("LBHF") Pension Fund was carried 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.

The most recent full actuarial valuation of the Fund was at 31 March 2013 and the results were published in March 2014. This statement gives an update on the funding position as at 31 March 2014 and comments on the main factors that have led to a change since the full valuation.

The estimated funding position in this statement at 31 March 2014 is just based on market movements over the year rather than being a full valuation with updated member data.

2013 Valuation

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

- The Fund as a whole had a funding level of 83% i.e. the assets were 83% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £148m which is lower than the deficit at the previous valuation in 2010.
- To cover the cost of new benefits and to also pay off the deficit over a period of 22 years, a total contribution rate of 21.9% of pensionable salaries would be needed.
- The contribution rate for each employer was set based on the annual cost of new benefits plus any adjustment required to pay for their individual deficit.

Assumptions

The assumptions used at the whole Fund level to value the benefits at 31 March 2013 and used in providing this estimate at 31 March 2014 are summarised overleaf:

Assumption	31 March 2013	31 March 2014
Discount rate	6.0% p.a.	6.1% p.a.
Pension increases	2.7% p.a.	2.8% p.a.
Salary increases	2.7% until 31 March 2015 then 4.5% p.a.	2.8% until 31 March 2015 then 4.6% 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.	
Retirement	Each member retires at a single age, weighted based on when each part of their pension is payable unreduced	
Commutation	Members will convert 50% of the maximum possible amount of pension into cash	

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

Assets

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

At 31 March 2013, the value of the assets used was £716m and this has increased over the year to an estimated £767m.

Updated position

The estimated funding position at 31 March 2014 is a funding level of 86% which is an improvement on the position at 31 March 2013.

The assets have given a return of 6% over the year, which was in line with expected at the 2013 valuation. Payment of deficit contributions during 2013/14 in line with agreed contribution schedules has improved the position. Changes in the assumptions used to value the liabilities between 31 March 2013 and 31 March 2014 have made a marginal improvement to the position.

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

Mark Norquay FFA
Associate, Barnett Waddingham LLP

Note 19: Actuarial Present Value of Promised Benefits

The table below shows the total net liability of the Fund as at 31st March 2014. 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 2014 £000	31st March 2013 £000
Present Value of Promised Retirement Benefits*	1,171,751	1,171,217
Fair Value of Scheme Assets (bid value)	(762,829)	(725,674)
Net Liability	408,922	445,543

*Present Value of Promised Retirement Benefits comprises of £1,124,662,000 (£984,337,000 in 2012/2013) and £47,089,000 (£186,880,000 in 2012/2013) in respect of vested benefits and non-vested benefits respectively as at 31 March 2014.

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

Note 20: Current Assets

	31st March 2014 £000	31st March 2013 £000
Debtors		
Contributions due - employers	181	123
Contributions due - employees	63	43
Sundry debtors	34	33
	278	199

	31st March 2014 £000	31st March 2013 £000
Analysis of debtors		
Local authorities	34	0
Central government bodies	0	0
Other entities and individuals	244	199
	278	199

Note 21: Current Liabilities

	31st March 2014 £000	31st March 2013 £000
Creditors		
Unpaid Benefits	(277)	(256)
Investment Management Expenses	(710)	(855)
Administration Expenses	(8)	(3)
	<u>(995)</u>	<u>(1,114)</u>
	31st March 2014 £000	31st March 2013 £000
Analysis of creditors		
Local authorities	0	0
Central government bodies	0	0
Other entities and individuals	(995)	(1,114)
	<u>(995)</u>	<u>(1,114)</u>

Note 22: Additional Voluntary Contributions

The pension fund's AVC providers are Zurich Assurance and the Equitable Life Assurance Society, although only one employee contributed to the Equitable Life scheme during the year contributing £66.24 for death-in-service benefits.

The total market value of the separately invested AVCs with Equitable Life Assurance at the 5th April 2014 was £223,020. At the year end there were 63 members of the Zurich Assurance AVC scheme. The total value of the contributions paid to Zurich in 2013/2014 was £42,869 and the total market value of the separately invested AVC's with Zurich Assurance at 31 March 2014 was £1,033,490.

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

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

Note 23: Related Parties

The Pension Fund is administered by the London Borough of Hammersmith and Fulham. The Council incurred costs of £506,238 in 2013/14 (£586,213 in 2012/13) in relation to the administration of the Fund and were reimbursed by the Fund for the expenses.

In the year the Council contributed £18,894k in employer contributions to the Fund (2012/13 £19,961k).

During 2013/2014 as a result of the day to day administration of the fund the pension fund borrowed monies from the Council or invested some surplus monies with the Council. The pension fund paid £346 in interest to the Council during 2013/2014 (paid £4,127 in 2012/13). At 31st March 2014 the Council owed the Pension Fund £560,110.

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

We have examined the pension fund financial statements for the year ended 31 March 2014 on pages 21 to 46.

Respective responsibilities of the Executive Director of Finance and Corporate Governance and the auditor

As explained more fully in the Statement of the Executive Director of Finance and Corporate Governance's Responsibilities the Executive Director of Finance and Corporate Governance is responsible for the preparation of the pension fund financial statements in accordance with applicable United Kingdom law.

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 CIPFA/ LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

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.

We conducted our work in accordance with guidance issued by the Audit Commission. 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 2014 and comply with applicable law and the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Andrew Sayers
for and on behalf of KPMG LLP, Appointed Auditor

Chartered Accountants

15 Canada Square

Canary Wharf

London

E14 5GL

19th September 2014

6. Contacts

Tri Borough Pensions Team

c/o Westminster City Council
City Hall
64 Victoria Street
London
SW1E 6QE
Email: pensionfund@lbhf.gov.uk

Bi-borough Pensions Manager

c/o Royal Borough of Kensington and Chelsea
The Town Hall
Hornton Street
London
W8 7NX
Email: pensions@lbhf.gov.uk

Capita Employee Benefits

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

National Local Government Pension Scheme information website

www.lgps.org.uk

The Pensions Advisory Service (TPAS)

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

The Office of the Pensions Ombudsman

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

7. Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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