



Annual Report

Hammersmith & Fulham Pension Fund • **2019/20**





Contents

1. PREFACE

Report from Chair of the Pensions Sub-Committee

Page 005

Introduction

Page 006

2. MANAGEMENT AND FINANCIAL PERFORMANCE

Governance Arrangements

Page 009

Scheme Management and Advisors

Page 011

Risk Management

Page 012

Financial Performance

Page 016

Administration Management Performance

Page 020

3. INVESTMENT POLICY AND PERFORMANCE

Investment Policy

Page 028

Asset Allocation

Page 029

Investment Performance

Page 031

Corporate Governance

Page 033

4. SCHEME ADMINISTRATION

Service Delivery

Page 036

Internal Dispute Resolution Procedure

Page 036

5. ACTUARIAL INFORMATION

Report by Actuary

Page 038

6. PENSION FUND ACCOUNTS

Statement of Responsibilities

Page 040

Independent Auditors Report

Page 041

Pension Fund Accounts and Explanatory Notes

Page 043

7. GLOSSARY AND CONTACTS

Glossary of Terms

Page 079

Contact for Further Information

Page 082

8. APPENDICES

Governance Compliance Statement

Page 084

Communication Policy

Page 089

Funding Strategy Statement

Page 094

Investment Strategy Statement

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1.

Preface

Report from Chair of the Pensions Sub-Committee

WELCOME TO THE ANNUAL REPORT OF HAMMERMSITH AND FULHAM PENSION FUND

The Pensions Sub-Committee is responsible for overseeing the management of the London Borough of Hammersmith and 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 2019-20.

As the Covid-19 pandemic arrived in early in 2020 and across the world people have been suffering, our thoughts are with those affected. The Pension Fund has experienced a 1.8% fall in investment value over the financial year due to the global sell off in riskier assets during March, although the Fund's diversifying assets have helped to protect value compared to many other equity heavy Pension Funds. The Sub-Committee continues to monitor the Fund closely at each quarterly committee meeting and challenges the investment advisors as necessary to ensure the Fund's investments are being managed effectively.

The Fund had completed actuarial valuation as at 31 March 2019, with the funding level improving significantly from 88% in 2016, to 97%. This is primarily a result of strong investment returns over the period.

The Pension Fund remains conscious of its role in ensuring good environmental, social and governance behaviours from the companies in which it invests. The Fund made a £55m commitment to the Aberdeen Standard Multi Asset Credit Fund, which is expected to allow the Fund to further access renewable energy investments as the portfolio is constructed. The Fund also transferred an additional £122m to the MSCI Low Carbon Fund from the UK equity portfolio.

The headline numbers show that the MSCI World Low Carbon Target Index contains, in absolute terms, 43 million tonnes of CO₂ (equivalent) less than the MSCI World Index at 28 million compared with 71 million. This combined with the investment in the Aviva Renewable Infrastructure Fund (£28m) shows the Fund is taking an active approach to being a responsible investor. By investing in the Aviva infrastructure Fund, this is the equivalent of keeping 44,400 cars off the road every year.

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 2019/20.



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

Introduction

The London Borough of Hammersmith and Fulham Pension Fund (the 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 in accordance with statute, which provides for the payment of benefits to employees and former employees of the 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. Teachers are excluded from this scheme as they are administered under the Teachers' Pension Scheme.

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies, and from investment returns on the Fund's investment assets. Contributions rates for employees set in accordance with the Local Government Pension Scheme Regulations 2013. Employer contributions are set based on the triennial actuarial funding valuation. The latest valuation for the fund was carried out as at 31 March 2019, and the new contributions came into effect from 1 April 2020.

The benefits payable from the Fund in respect of service from 1 April 2014 are set out in the Local Government Pension Scheme Regulations 2013, as amended, and in summary consist of:

- Career average revalued earnings (CARE), revalued in line with the Consumer Prices Index.
- Pensionable pay to include non-contractual overtime and additional hours.
- Flexibility for member to pay 50% contributions for 50% of the pension benefit
- Normal pension age to equal the individual member's State Pension Age.
- Option to trade £1 of pension for a £12 tax-free lump sum at retirement.
- Death in service lump sum of three times pensionable pay and survivor benefits
- Early payment of pensions in the event of ill health.

The benefits payable in respect of service prior to 1 April 2014 are based on an employee's final salary and the number of years eligible service. Benefits accrued in the Scheme before 1st April 2014 are protected up to that dated based on the scheme member's final year's pay.

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

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

The content and format of this annual report is prescribed by the LGPS Regulations 2013.

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

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

Introduction (continued)

THIS ANNUAL REPORT COMPRISES THE FOLLOWING SECTIONS:

- **Management and Financial Performance** which explains the governance and management arrangements for the Fund, as well as summarising the financial position and the approach to risk management.
- **Investment Policy and Performance** which details the Fund's investment strategy, arrangements and performance.
- **Scheme Administration** which sets out how the Scheme's benefits and membership are administered.
- **Actuarial Information** which includes the funding position of the Fund with a statement from the Fund's actuary.
- **The Fund's Annual Accounts** for the year ended 31 March 2020.
- **List of contacts** and a glossary of some of the more technical terms
- **Appendices** setting out the various regulatory policy statements of the Fund:
 - Governance Compliance Statement
 - Statement of Investment Principles
 - Communication Policy
 - Funding Strategy Statement

Further information about the Local Government Pension Scheme can be found at:
www.lbhfpensionfund.org



2.

Management and Financial Information

Governance Arrangements

PENSION FUND COMMITTEE

The London Borough of Hammersmith & Fulham Council has delegated responsibility for pension matters to the Audit, Pensions and Standards Committee.

The Committee is comprised of six elected representatives of the council – four from the administration and two opposition party representatives. Members of the admitted bodies and representatives of the Trade Unions may attend the committee meetings but have no voting rights. In order to manage the workload of the committee, it has delegated decisions in relation to all pension matters to the Pensions Sub-Committee.

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

Terms of reference for the Sub-Committee are:

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

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

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

The current membership of the Pensions Sub-Committee is set out below. All elected members served for the full year in 2019/20.

Councillor	Committee Attendance 2019/20
Iain Cassidy (Chair)	5/5
Matt Thorley (Vice Chair)	5/5
Rebecca Harvey	3/5
PJ Murphy	5/5

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

LOCAL PENSION BOARD

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

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

Terms of reference for the Local Pension Board are:

- To secure compliance with the LGPS Governance regulations and any other legislation relating to the governance and administration of the Fund.
- To secure compliance with any requirements imposed by the Pensions Regulator in relation to the Scheme
- To ensure effective and efficient governance and administration of the Scheme

The membership of the Board is as follows:

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

The current membership of the Pensions Board is set out below.

Board Member	Employer/Employee	Attendance 2019/20
Cllr Rory Vaughn (Chair)	Employer	2/2
Cllr Bora Kwon	Employer	2/2
Eric Kersey	Employee	1/1
Orin Miller	Employee	1/1
Neil Newton	Employee	0/2

MEMBER AND OFFICER TRAINING

The LGPS Governance regulations and other related legislation requires Local Pension Board members to have knowledge and understanding of relevant pension laws, and to have a working knowledge

During 2019/20 knowledge was gained at various meetings with investment managers in addition to individual attendance at conferences and seminars.

Further relevant training is planned for 2020/21 based on self-assessments completed by Sub-Committee and board members in accordance with the policy.

CONFLICTS OF INTEREST

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

The Code includes general provisions on ethics and standards of behaviour which require elected members to treat others with respect and not to bully, intimidate or do anything to compromise the

impartiality of those who work for or on behalf of the Council.

The Code also contains rules about "disclosable pecuniary interests" and sets out the action an elected member must take when they have such an interest in Council business, for instance withdrawing from the room or chamber when the matter is discussed and decided in committee, unless dispensation has been obtained from the Council's Monitoring Officer.

GOVERNANCE COMPLIANCE STATEMENT

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

The key issues covered by the best practice principles are:

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

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

Scheme Management and Advisors

EXTERNAL PARTIES

Investment Advisor	Deloitte	
Investment Managers	Global Equities (Passive)	UK Equities (Active)
	Legal & General Investment Management	London LGPS CIV - Majedie Asset Management
	Private Multi-Asset Credit	Absolute Return
	Partners Group	London LGPS CIV – Ruffer
	Infrastructure	Fixed Income
	Aviva Investors	Oakhill Advisors
Partners Group	Long Lease Property	
Private Equity	Aberdeen Standard	
Invesco	Inflation Linkage	
Unigestion	M&G Investments	
Custodian	Northern Trust	
Banker	NatWest Bank	
Actuary	Barnett Waddingham	
Auditor	Grant Thornton LLP	
Legal adviser	Eversheds Sutherland	
Scheme Administrators	Surrey County Council	
AVC Providers	Zurich Assurance	Equitable Life Assurance Society

OFFICERS

Strategic Director of Finance and Governance (S151 Officer)	Hitesh Jolapara until May 2020	
	Emily Hill since May 2020	
Tri-Borough Pensions Team	Phil Triggs	Julia Stevens from January 2020
	Matt Hopson	Billie Emery
	Mat Dawson	Alastair Paton
	Tim Mpofo	Ruby Vuong from September 2019
Pensions Manager	Maria Bailey	

Contact details are provided in Section 7 of this report

Risk Management

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

The responsibility for the Fund’s risk management strategy rests with the Pensions Sub-Committee. In order to manage the risks two Pension Fund Risk Registers are maintained, one focusing on investment risks and the other focusing on administration risk. These documents are reviewed quarterly. For the key risks which have been identified, appropriate planned actions have been introduced to minimise their impact. The risk registers are managed by the Tri-Borough Director of Pensions and Treasury and risks have been assigned to the appropriate “risk owners”.

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

Objective Area at Risk	Risk	Risk Rating	Responsible Officer	Mitigating Actions
Investment	The global outbreak of COVID-19 poses economic uncertainty across the global investment markets. Valuations of illiquid assets such as property and infrastructure are increasingly difficult to determine.	High	Tri-Borough Director of Pensions and Treasury	The Fund’s officers will continue to monitor the impact lockdown measures have on the fund’s underlying investments and the wider economic environment The Fund will continue to review its asset allocation and make any changes when necessary
Administration	Changing the fund’s pensions administration provider at the same time as bringing back the retained pensions team in house poses signification operational risk to the fund	High	Strategic Director of Finance and Governance	A task force of key stakeholders has been assembled. Officers to feed into the internal processes necessary for the setup of an effective retained pensions team
Investment	Significant volatility and negative sentiment in global investment markets cause by global political uncertainty	High	Tri-Borough Director of Pensions and Treasury	The Fund’s officers are in regular dialogue with investment managers with regards to their management of political risk. The Fund holds a well-diversified portfolio and the investment strategy is reviewed regularly.
Administration	Administrators do not have sufficient staff or skills to manage the service leading to poor performance and		Strategic Director of Finance and Governance	The Fund’s officers continue to monitor the staffing changes, contract and KPIs of third-party provider.

Objective Area at Risk	Risk	Risk Rating	Responsible Officer	Mitigating Actions
	complaints.			

Risk Management (continued)

Risks arising from financial instruments are outlined in the notes to the Pension Fund Accounts (Note 16).

The Funding Strategy Statement (Appendix 3) 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 as and when required.

Objective Area at Risk	Risk	Risk Rating	Responsible Officer	Mitigating Actions
Funding	There is insufficient cash available to the Fund to meet pension payments due to reduced income generated from underlying investments, leading to investment assets being sold at sub-optimal prices to meet pension obligations.	Medium	Strategic Director of Finance and Governance	The Fund's officers maintain a regularly monitored cashflow forecast. The Fund's cash position is reported to sub-committee quarterly. The Fund continually reviews the income it receives from underlying investments
Governance	The asset pool disbands or the partnership fails to produce proposals/solutions deemed sufficiently ambitious.	Medium	Tri-Borough Director of Pensions and Treasury	The Fund's officers are in frequently engage with the pool and partner funds Ongoing fund and pool proposals are monitored regularly
Funding	Scheme members live longer than expected leading to higher than expected liabilities.	Medium	Tri-Borough Director of Pensions and Treasury	The scheme's pension liabilities are reviewed on a quarterly basis and revalued every three years.
Investment	Global investment markets fail to perform in line with expectations leading to deterioration in funding levels and increased contribution requirements from employers.	Medium	Tri-Borough Director of Pensions and Treasury	The Fund's investments are continually monitored by officers. Each quarter, the Fund reviews its investment strategy to ensure optimal risk asset allocation.

Risk Management (continued)

THIRD PARTY RISKS

The Council has outsourced the following functions of the Fund:

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

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

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

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

The results of these reviews are summarised below and cover 99.5% of investment holdings at 31 March 2020.

Fund Manager	Type of Assurance	Control Framework	Compliance with Controls	Reporting Accountant
Aberdeen Standard	ISAE 3402	Reasonable assurance	Reasonable assurance	KPMG LLP
Aviva Investors	ISAE 3402	Reasonable assurance	Reasonable assurance	PWC LLP
Invesco	ISAE 3402	Reasonable assurance	Reasonable assurance	PWC LLP
Legal & General	ISAE 3402	Reasonable assurance	Reasonable assurance	KPMG LLP
M&G Investments	SOC10	Reasonable assurance	Reasonable assurance	Ernst Young LLP
Oak Hill Advisors	SOC10	Reasonable assurance	Reasonable assurance	RSM US LLP
Partners Group	ISAE 3402	Reasonable assurance	Reasonable assurance	PWC LLP
Ruffer LLP	ISAE 3402	Reasonable assurance	Reasonable assurance	Ernst Young LLP
Unigestion	ISAE 3402	Reasonable assurance	Reasonable assurance	KPMG LLP
Custodian				
Northern Trust	SOC10	Reasonable assurance	Reasonable assurance	KPMG LLP

Financial Performance

The Fund asset value decreased by £39m during 2019/20, to £1,013m as at 31 March 2020, due to the uncertainty in the global economic outlook as a result of the COVID-19 disease.

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

The latest triennial revaluation took place in 2019 and set employer contribution rates from 2020/21 onwards.

ANALYTICAL REVIEW – FUND ACCOUNT

	2015/16	2016/17	2017/18	2018/19	2019/20
Fund account	£'000	£'000	£'000	£'000	£'000
Dealings with members					
Contributions	(30,617)	(32,274)	(33,454)	(36,386)	(37,869)
Pensions	37,858	40,770	42,827	48,846	52,660
Net (additions)/withdrawals from dealings with members	7,241	8,496	9,373	12,460	14,791
Management expenses	7,762	6,530	4,503	6,199	5,866
Investment Income	(12,631)	(12,799)	(10,283)	(11,967)	(14,642)
Change in market value	9,784	(148,740)	(10,384)	(49,142)	33,043
Net (increase)/decrease in the Fund	12,156	(146,513)	(6,791)	(42,450)	39,058

Over the five-year period, pensions paid have exceeded contributions received by £52m in total. This reflects the maturity of the Fund membership in that there are fewer contributors than beneficiaries.

The Fund's market decreased by £39m in 2019/20, mainly due to the uncertainty in the financial markets due to the global response to the COVID-19 pandemic.

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

Financial Performance (continued)

ANALYTICAL REVIEW – NET ASSET STATEMENT

	2015/16	2016/17	2017/18	2018/19	2019/20
Net Asset Statement	£'000	£'000	£'000	£'000	£'000
Bonds	36,771	-	-	-	-
Equities	136,937	112,475	150	150	150
Pooled investment vehicles	671,300	834,828	998,141	1,034,851	949,921
Commodities	1,976	-	-	-	-
Derivatives	(368)	-	-	-	-
Cash deposits	7,544	7,856	6,168	12,843	59,524
Other	1,504	486	35	34	26
Total Investment Assets	855,664	1,002,682	1,004,494	1,047,878	1,009,621
Current assets	1,842	4,373	6,420	5,396	5,572
Current Liabilities	(1,187)	(4,223)	(1,291)	(1,201)	(1,178)
Net (increase)/decrease in the Fund	856,319	1,002,832	1,009,623	1,052,073	1,014,015

The points to note are:

- 95% of pooled investment vehicles comprise equity shareholdings both domestic and overseas, while the remaining 5% is in property pooled funds. (95% and 5% respectively in 2018/19).
- The overall value of pooled investment vehicles decreased by £85m (8%) during the year.

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

Financial Performance (continued)

ANALYSIS OF DEALINGS WITH SCHEME MEMBERS

	2015/16	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000	£'000
Contributions receivable					
- Members	(6,795)	(6,937)	(6,781)	(7,157)	(7,408)
- Employers	(22,412)	(22,494)	(24,268)	(25,074)	(26,135)
- Transfers in	(1,375)	(2,090)	(3,012)	(2,934)	(4,326)
- Other	(35)	(753)	607	(1,221)	-
Total Income	(30,617)	(32,274)	(33,454)	(36,386)	(37,869)

	2015/16	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000	£'000
Benefits Payable					
- Pensions	29,076	30,002	31,465	32,912	34,916
- Lump sum retirements and death benefits	5,536	5,685	7,256	8,167	9,400
- Transfers out	3,230	5,046	4,086	7,726	7,225
- Refunds	16	37	20	41	119
Total Expenditure	37,858	40,770	42,827	48,846	51,660
Net Dealings with Members	7,241	8,496	9,373	12,460	13,791

The key variances were due to the following:

- Lump sums rose due to more members retiring than in previous years.
- Transfers in were higher, reflecting more new starters joining the scheme and choosing to transfer in benefits on commencement of employment, than last year.

Financial Performance (continued)

ANALYSIS OF OPERATIONAL EXPENSES

The costs of running the pension fund are shown below.

	2015/16	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000	£'000
Administration					
Employees	77	138	235	214	223
Supplies and services	527	381	165	132	151
Other Costs	2	1	3	2	3
Total Administration Costs	606	520	403	348	377
Governance and Oversight					
Employees	74	103	341	337	446
Investment advisory services	100	66	65	93	68
Governance and compliance	54	43	0	56	134
External audit	21	24	21	16	25
Actuarial fees	19	31	25	50	79
Total Governance and Oversight Costs	268	267	452	552	752
Investment Management					
Management fees	4,774	4,310	3,223	4,763	4,250
Performance fees	1,646	997	343	244	36
Transaction costs	73	382	44	185	421
Custodian fees	395	54	38	107	28
Total Investment Management Fees	6,888	5,743	3,648	5,299	4,735
Total Operational Expenses	7,762	6,530	4,503	6,199	5,864

In 2020, the Fund carried out extensive work related to the triennial valuation. This was a key cost driver for the increase in governance and oversight employee costs for the pension funds. Costs increased by 32% from 2018/19.

The Fund's investment management expenses fell by 10.6% during the year. The main driver of this reduction in cost was a result of transferring all equities from active to passive.

The Fund's performance fees decreased by 85% due to underperformance from the fund's diversified credit manager, as well as the change noted previously.

Administration Management Performance

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

PERFORMANCE INDICATORS

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

Performance Indicators	Target	2016/17 Performance	2017/18 Performance	2018/19 Performance	2019/20 Performance
Letter detailing transfer out quote	20 days	59%	34%	82%	89%
Process refund and issue payment voucher	10 days	92%	98%	92%	93%
Letter notifying estimate of retirement benefit	10 days	82%	100%	87%	93%
Letter notifying actual retirement benefit	7 days	87%	100%	98%	95%
Letter acknowledging death of member	5 days	100%	100%	100%	94%
Letter notifying amount of dependant's benefits	10 days	100%	100%	94%	96%
Calculate and notify deferred benefits	20 days	70%	44%	90%	79%

Performance has generally improved across the board due to improvements in staffing and the implementation process of the new online pension systems. During the financial year ending 31 March 2020, there were no delays in processing pension payments and no impact on the accuracy of final calculations made.

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

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

Scheme employers can use the system to:

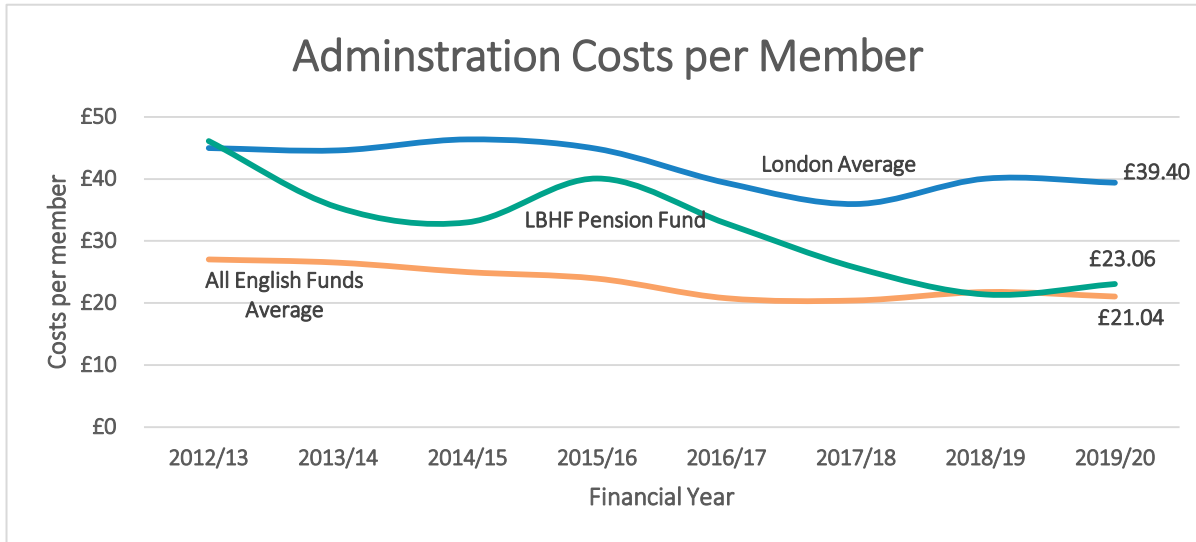
- Submit starter and leaver details and other changes online
- View and update employee details
- Run benefit calculations e.g. early retirements

COMPLAINTS RECEIVED

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

No new complaints have been lodged with the Ombudsman in 2019/20.

Administration Management Performance (continued)



STAFFING INDICATORS

The Pension Fund's cost of administration per member remains below the average for the London borough pension funds as shown in the chart. Administration costs are subject to regular review.

The administration of the Fund comprises of:

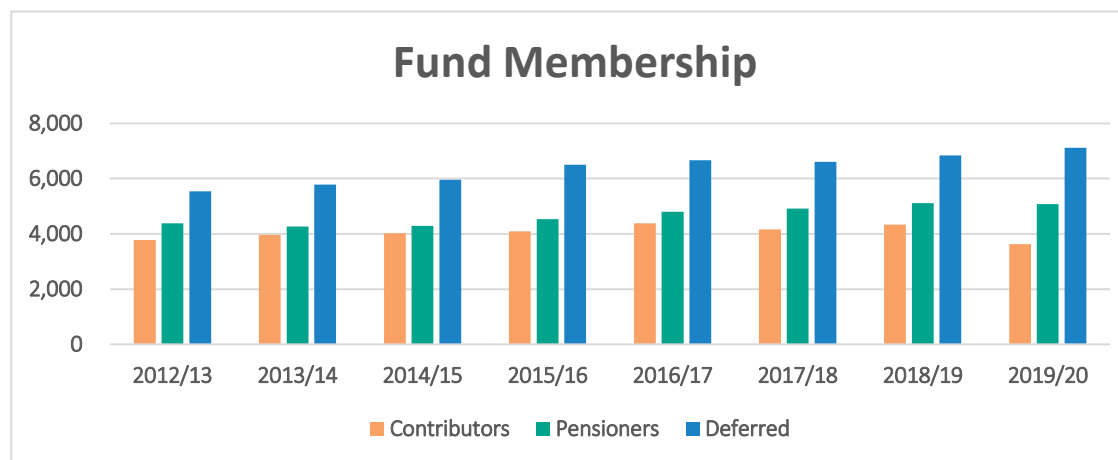
- 3 full-time equivalent (FTE) staff engaged by Surrey CC working directly on pension administration for Hammersmith and Fulham
- 2.8 FTE Hammersmith and Fulham HR staff to deal with internal administration.
- 1.93 FTE Westminster Finance staff assigned to the oversight and governance of the Pension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

Administration Management Performance (continued)

MEMBERSHIP NUMBERS AND TRENDS

Overall membership has increased by about 10% over the past 5 years from 14,269 to 15,828.

The introduction of auto-enrolment in 2013 and the increase in admitted employers has led to an increase in members contributing towards the Scheme. Nonetheless, the number of pensioners has been stable over the last several years in common with other local government pension funds, reflecting the maturity of the Fund.



ENHANCED BENEFITS

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

Reason for leaving	2015/16	2016/17	2017/18	2018/19	2019/20
Ill health retirement	10	10	6	4	3
Early retirement	36	29	18	20	21
	46	39	24	24	24

Administration Management Performance (continued)

CONTRIBUTING EMPLOYERS AND CONTRIBUTIONS RECEIVED

The list below contains a list of the current active contributing employers and the contributions received in 2019/20. The employer's contributions figures include early retirement and deficit funding contributions.

Administering Authority Employer	Employees Contributions £000	Employers Contributions ¹ £000	Total Contributions £000
London Borough of Hammersmith & Fulham	5,043	17,225	22,268
Addison Primary School	34	149	183
All Saints Church of England Primary School	12	51	63
Avonmore Primary School	20	87	107
Bayonne Nursery School	17	73	90
Brackenbury Primary School	25	112	137
Cambridge School	32	139	171
Flora Gardens Primary School	18	76	94
Holy Cross Catholic Primary School	35	155	190
Jack Tizard School	47	203	250
James Lee Nursery School	9	39	48
John Betts Primary School	17	70	87
Kenmont Primary School	16	70	86
Larmenier & Sacred Heart Catholic Primary School	30	137	167
Melcombe Primary School	30	130	160
Miles Coverdale Primary School	25	112	137
Normand Croft Community School	30	133	163
Old Oak Primary School	27	125	152
Queensmill School	121	526	647

¹ Includes early retirement and deficit contributions

Administering Authority Employer	Employees Contributions £000	Employers Contributions ¹ £000	Total Contributions £000
Randolph Beresford Early Years Centre	48	195	243
Sir John Lillie Primary School	37	107	144
St Augustine's Primary School	15	65	80
St John XXIII Catholic Primary School	28	127	155
St John's Walham Green Church of England Primary School	21	91	112
St Mary's Catholic Primary School	24	109	133
St Paul's Catholic Primary School	24	106	130
St Peter's Church of England Primary School	17	75	92
St Stephens Church of England Primary School	36	162	198
St. Thomas of Canterbury Primary School	15	63	78
The Good Shepherd Primary School	17	78	95
Vanessa Nursery School	15	64	79
Wendall Park Primary School	24	108	132
William Morris Sixth Form School	57	226	283
Wood Lane High School	20	85	105
Wormholt Park Primary School	36	149	185
Total Contributions from Administering Authority	6,023	21,420	27,443

Administration Management Performance (continued)

SCHEDULED BODIES

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

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

Scheduled Body	Employees Contributions £000	Employers Contributions ² £000	Total Contributions £000
Ark Bentworth Primary Academy	11	46	57
Ark Burlington Danes Primary Academy	70	163	233
Ark Conway Primary Academy	15	73	88
Brightwells Academy	75	296	371
Fulham Boys School	39	138	177
Fulham College Boys' Academy	40	144	184
Fulham Cross Girls' Academy	53	179	232
Greenside Academy	15	59	74
Hammersmith Academy	57	200	257
Hurlingham & Chelsea Academy	34	119	153
Lady Margaret School	43	153	196
Langford Primary School	10	37	47
Lena Gardens Primary School	4	17	21
London Oratory School	56	135	191
Mortlake Crematorium Board	22	60	82
Phoenix Academy	26	97	123
Phoenix Canberra Academy	21	127	148
Sacred Heart High School	55	183	238

² Includes early retirement and deficit contributions

Scheduled Body	Employees Contributions £000	Employers Contributions ² £000	Total Contributions £000
TBAP Trust	55	205	260
Thomas' Academy	16	65	81
West London Free School	76	295	371
Total Contributions from Scheduled Bodies	795	2,790	3,586

Administration Management Performance (continued)

ADMITTED BODIES

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

Admitted Body	Employees Contributions £000	Employers Contributions ³ £000	Total Contributions £000
3BM	43	121	164
Abelian UK	1	4	5
Agilisys	2	8	10
Amey	6	20	26
Birkin Clean	2	8	10
BT-IT Services	6	8	14
Caterlink	4	23	27
Chigwell Group	6	22	28
CT Plus Transport	9	47	56
Disabilities Trust	1	4	5
Eden Food Services	32	135	167
Family Support Service	68	218	286
FM Conway	17	57	74
Fulham Palace Trust	7	0	7
HTC – Passenger Transport	2	8	10
K&T Heating Services	16	48	64
London Hire Community Services	1	6	7
Medequip Assistive Technology	2	9	11

³ Includes early retirement and deficit contributions

Admitted Body	Employees Contributions £000	Employers Contributions ³ £000	Total Contributions £000
Peabody Trust	11	40	51
Pinnacle PSG	78	272	350
Quadron Services	57	197	255
RM Education	1	2	3
Serco Group	175	451	626
Urban Partnership	17	113	130
Wates Group	4	20	24
Total Contributions from Admitted Bodies	586	1,908	2,494

Administration Management Performance (continued)

EMPLOYER ANALYSIS

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

	Active	Ceased	Total
Administering Authority	1	-	1
Scheduled Bodies	21	3	24
Admitted Bodies	30	22	52
Total number of bodies	52	25	77



3.

Investment Policy and Performance

Investment Policy

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

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

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

The ISS also sets out the Fund's approach to responsible investment and corporate governance issues, and how the Fund demonstrates compliance with the "Myners Principles".

These Principles are a set of recommendations relating to the investment of pension funds originally prepared by Lord Myners in 2001 and subsequently endorsed by Government. The current version of the Myners Principles covers the following areas:

- effective decision making
- clear objectives
- risk & liabilities
- performance measurement
- responsible ownership
- transparency and reporting

The Fund's ISS has been included in this report as Appendix 4.

For 2019/20, the LGPS (Management and Investment of Funds) Regulations 2016, requires the Fund to publish an ISS.

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

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

Any queries relating to the Fund's investment policy should be addressed to:

Tri-Borough Pensions Team
16th Floor
64 Victoria Street
London
SW1E 6QP

Email: pensionfund@lbhf.gov.uk

Asset Allocation

The strategic asset allocation is agreed by the Pensions Sub-Committee and the Fund’s advisers. The allocation during the year ended 31 March 2020 was as follows:

Asset Class	Target Allocation
Global Equities	45.0%
Fixed Income	27.5%
Inflation Protection	10.0%
Infrastructure	7.5%
Multi Asset	5.0%
Long Lease Property	5.0%
Total	100.0%

The Pensions Sub-Fund Committee holds Fund Managers accountable for decisions on asset allocation within the Fund mandate that they operate under. To follow the Myners’ Committee recommendation, Fund Managers are challenged deliberately and formally about asset allocation decisions.

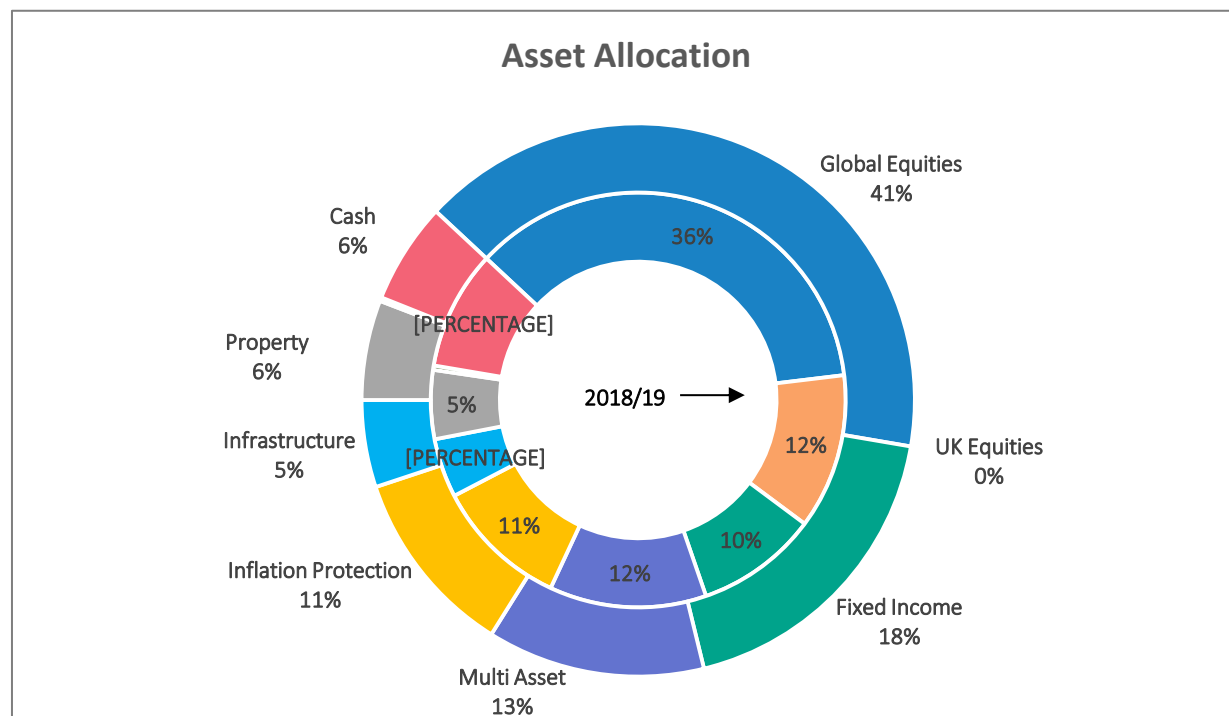
Investment portfolios are reviewed at each Committee meeting in discussion with the Investment Adviser and Officers, and Fund Managers are called to a Sub-Committee meeting if there are issues that need to be addressed. Officers meet Fund Managers regularly and advice is taken from the Investment Advisor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

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

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

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

At 31 March 2020, the fund had an overweight allocation to cash due to assets in transit. This cash is intended to be allocated to private credit in 2020/21.



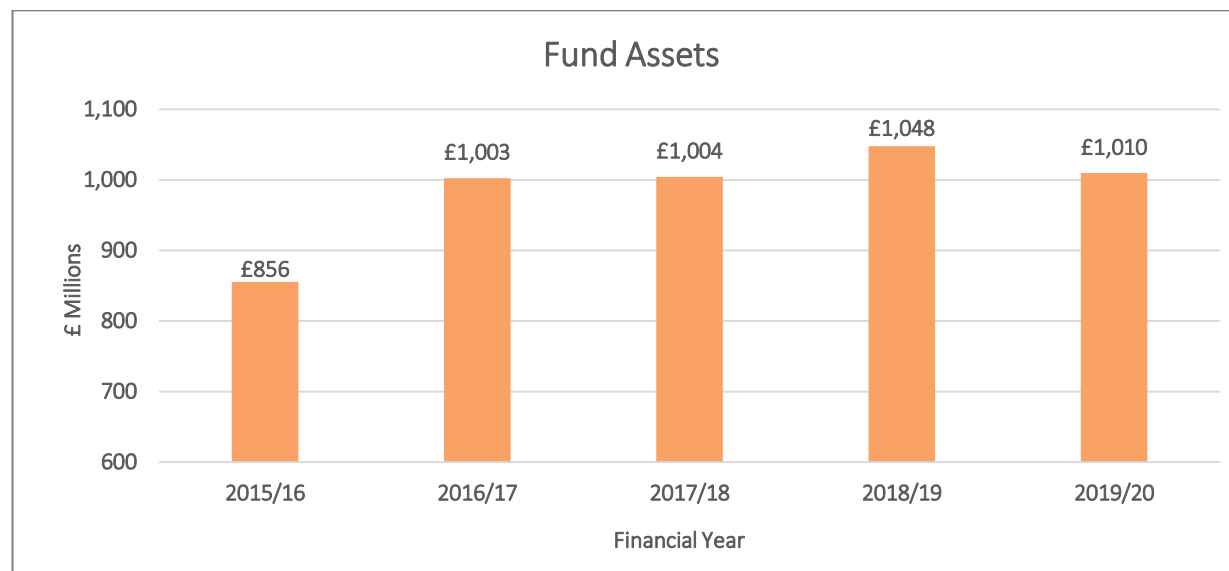
Asset Allocation (continued)

FUND VALUE

The net asset value of the Fund has more than doubled over the past ten years with 28.5% of the growth coming within the last five years.

In 2019/20, the fund's net asset value fell by 3.6% to £1.01bn. The main cause of this negative performance was the uncertainty in the global markets due to the coronavirus disease. The fund had recovered most of these losses by June 2020.

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

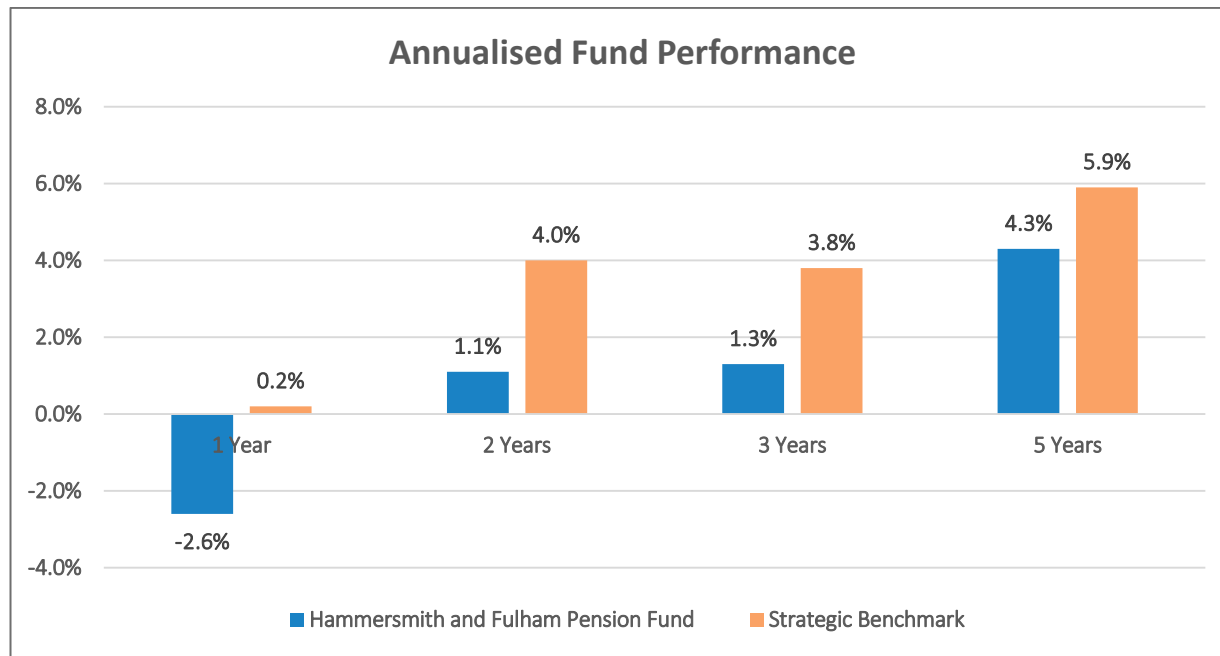


Investment Performance

In 2019/20, the Fund's investment performance was -2.6% (5.0% in 2017/18) to £1.01bn. This was above the average LGPS return of -4.8%.

Performance of the Fund is measured against an overall strategic benchmark. Below this, each fund manager is assigned individual performance targets which are linked to index returns for the assets they management, e.g. FTSE All Share for UK equities. Details of these targets can be found in the Statement of Investment Principles.

The chart below shows the annualised fund performance over different time periods. Overall, the Fund has underperformed strategic benchmark across the different periods with an underperformance of 2.8% in 2019/20.



2019/20 has been a challenging year for the global markets. The response to the global outbreak of the coronavirus disease has introduced volatility across various sectors. This has compounded the effects of the remaining uncertainty surrounding the UK's exit from the EU negotiations.

The Fund's one year performance has been severely impacted due to a number of the Fund's managers working t "cash Plus" benchmarks. These will be underperforming as markets fell in March. This should even out as markets have rebounded in 2020.

Although several of the fund's investment strategies were negatively impacted, in the subsequent months we have seen the fund recover all its losses, increasing by 10.8% since 31 March 2020.

Investment Performance (continued)

The overall performance of each manager is measured over rolling three-year or five-year periods, as inevitably there will be short-term fluctuations in performance.

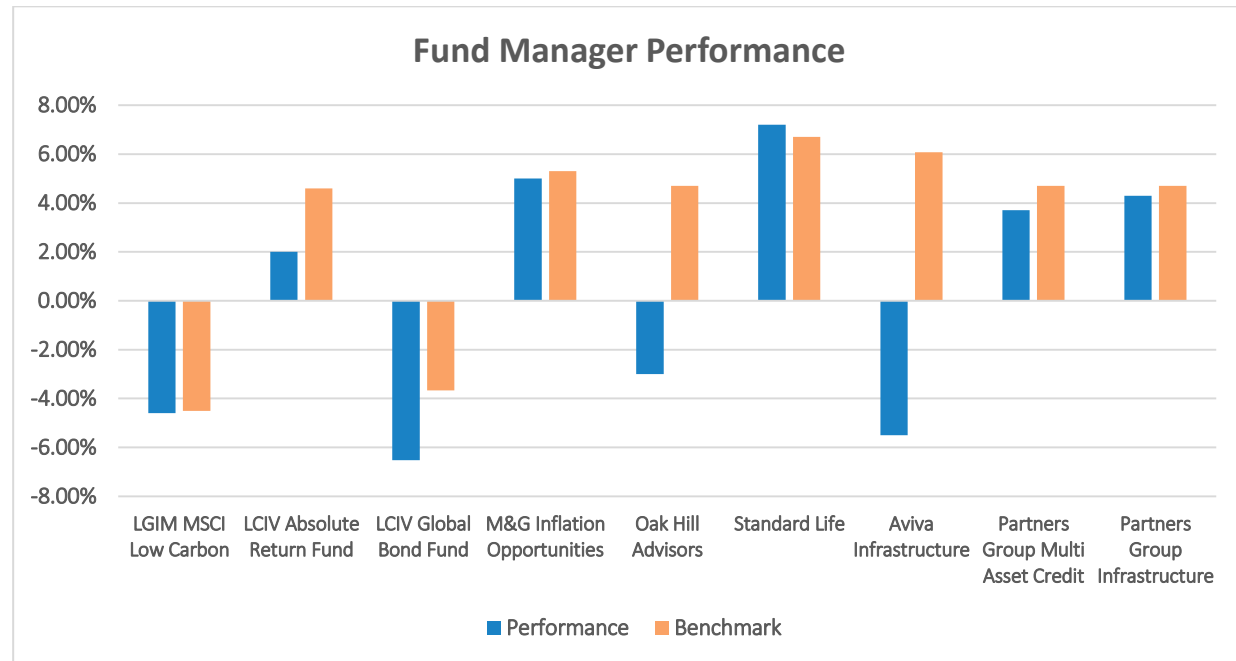
There were a couple new strategies entered during the year; these have been measured on their performance since inception.

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

- Targets for active fund mandates are set to outperform the benchmark by a set percentage through active stock selection and asset allocation.
- Targets for passive funds are set to achieve the benchmark through investment in a stable portfolio.

The table on the below shows the portfolio mixture of the fund.

Active	Passive
London LGPS CIV Ltd LCIV Absolute Return Fund (Ruffer) LCIV Global Bond Fund (PIMCO)	Legal & General Investment Management MSCI Low Carbon Tracker Fund
Partners Group Private Multi Asset Credit Infrastructure	M & G Investments Inflation Opportunities Fund
Aviva Investors Infrastructure	Aberdeen Standard Long Lease Property Fund
Oak Hill Advisors Multi Asset Credit	



Corporate Governance

RESPONSIBLE INVESTMENT POLICY

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

The Fund investment managers, acting in the best financial interests of the Fund, are expected to consider, amongst other factors, the effects of environmental, social and ethical issues on the performance of a company when undertaking the acquisition, retention or realisation of investments for the Fund.

In 2019/20 the Fund drafted its Responsible Investment Statement with a final version expected to be approved later in 2020.

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

PROFESSIONAL BODIES

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

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

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

VOTING

Fund Managers have the delegated authority to vote at shareholder meetings in accordance with their own guidelines, which have been discussed and agreed with the Pensions Sub-Committee. The Committee keeps under close review the various voting reports that it receives from Fund managers.

COLLABORATIVE VENTURES

The Fund has been working closely with other London LGPS funds in the London Collective Investment Vehicle set up to enable greater buying power, reduced fees and enhanced governance arrangements.

The Hammersmith and Fulham Pension Fund is a shareholder in London LGPS CIV Limited and had about 63% of assets invested with the pool as at 31 March 2020.

Corporate Governance (continued)

SEPARATION OF RESPONSIBILITIES

The Fund has appointed Northern Trust as its global custodian, which is independent to the investment managers and responsible for the safekeeping of all the Fund's investments. Northern Trust are also responsible for the settlement of all investment transactions and the collection of income.

The Fund's bank account is held with NatWest Bank. This is used for the operation functions of the Fund which include receiving contributions from employers and paying out benefits to members.

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

STEWARDSHIP CODE

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

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

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

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

FUNDING STRATEGY STATEMENT

The Funding Strategy Statement (Appendix 3) sets out the aims and purpose of the pension fund and the responsibilities of the administering authority regarding funding the scheme.

Its purpose is:

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



**HAMMERSMITH
BRIDGE**

4. Scheme Administration

Scheme Administration

SERVICE DELIVERY

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

The Council administers the scheme for 70 employers (a complete list of employers is provided in section 2). These employers include not only the Council, but also academy schools within the borough and a small number of organisations linked to the Council which have been “admitted” to the pension fund under agreement with the Council.

A not-for-profit contractual arrangement is in place with Surrey County Council for the provision of pension administration services. Performance of this service against targets within the contract is reported on page 19. The Council’s Human Resources provide oversight of the administration service.

COMMUNICATION POLICY STATEMENT

The Local Government Pension Scheme Regulations 2013 require Pension Funds to prepare, publish and maintain a communication policy statement, which can be found on page 87. The Communication Policy details the overall strategy for involving stakeholders in the pension fund. A key part of this strategy is a dedicated pension fund website, which includes a great deal more information about the benefits of the pension fund and this can be accessed via the following link:

www.lbhfpensionfund.org

INTERNAL DISPUTE RESOLUTION PROCEDURE

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

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

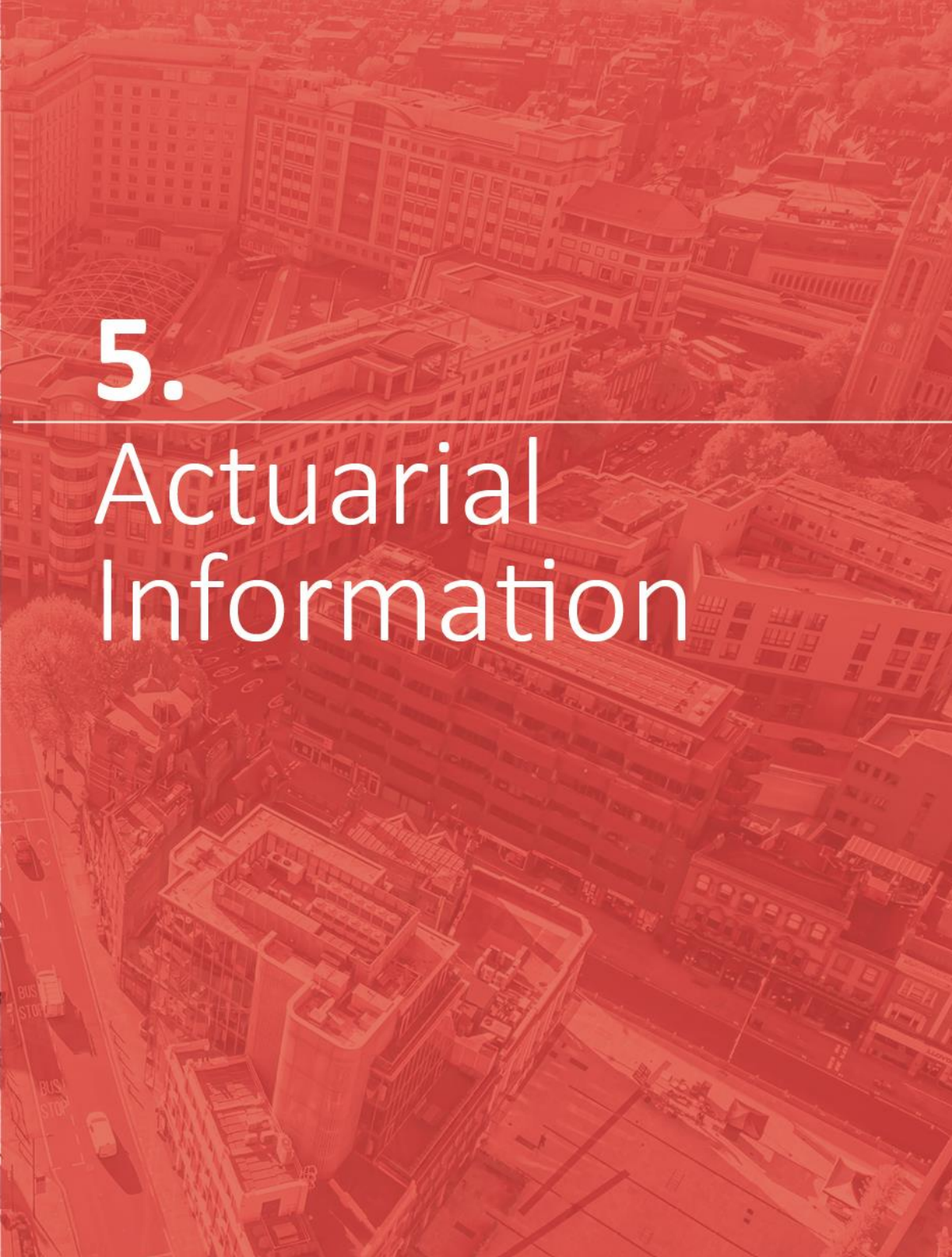
IDRP Stage 2 involves a referral to the administering authority, Hammersmith and Fulham Council to take an independent view.

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

No complaints have been received or referred to the Pensions Ombudsman in 2018/19.

Both TPAS and the Pensions Ombudsman can be contacted at:

11 Belgrave Road
Pimlico
London
SW1V 1RB



5.

Actuarial Information

Report by Actuary

INTRODUCTION

The last full triennial valuation of the Hammersmith and Fulham Pension Fund (“the Fund”) was carried out as at 31 March 2019 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated February 2020.

This statement gives an update on the funding position as at 31 March 2020 and comments on the main factors that have led to a change since the full valuation.

2019 VALUATION

The results for the Fund at 31 March 2019 were as follows:

- The Fund as a whole had a funding level of 97% i.e. the assets were 97% 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 £35m which is lower than the deficit at the previous valuation in 2016.
- To cover the cost of new benefits a total contribution rate of 17.4% of pensionable salaries would be needed.
- The contribution rate for each employer was set based on the annual cost of new benefits plus any adjustment required to pay for their share of the deficit.
- Full details of all the assumptions underlying the valuations are set out in our valuation report.

UPDATED POSITION

Using assumptions consistent with those adopted at the 2019 valuation, we estimate that the funding position at 31 March 2020 has reduced slightly compared with the position as at 31 March 2019.

The next formal valuation will be carried out as at 31 March 2022 with new contribution rates set from 1 April 2023.

Barry McKay FFA

Partner, Barnett Waddingham LLP



6.

Pension Fund Accounts

Statement of Responsibilities

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

THE COUNCIL'S RESPONSIBILITIES

The Council is required to:

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

RESPONSIBILITIES OF THE STRATEGIC DIRECTOR OF FINANCE

The Strategic Director of Finance and Governance is responsible for the preparation of the Pension Fund Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

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

- selected suitable accounting policies and then applied them consistently
- made judgments and estimates that were reasonable and prudent;
- complied with the Code of Practice on Local Authority Accounting.

The Strategic Director of Finance and Governance has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities
- assessed the authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- Used the going concern basis of accounting on assumption that the functions of the authority will continue in operational existence for the foreseeable future.
- Maintained such internal control as they determine as necessary to enable the preparation of financial statements free from material misstatement, whether due to fraud or error.

CERTIFICATE OF THE STRATEGIC DIRECTOR OF FINANCE

I certify that the Statement of Accounts (set out on pages 42 to 78) present a true and fair view of the financial position of the London Borough of Hammersmith and Fulham Pension Fund as at 31 March 2020 and income and expenditure for the year for the financial year 2019/20.

Emily Hill
Strategic Director of Finance and Governance
Section 151 Officer

Date:

Independent Auditors Report

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

We have audited the pension fund financial statements of Hammersmith and Fulham Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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

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

RESPECTIVE RESPONSIBILITIES OF THE STRATEGIC DIRECTOR OF FINANCE AND THE AUDITOR

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

Independent Auditors Report (continued)

SCOPE OF THE AUDIT OF THE PENSION FUND FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Strategic Director of Finance; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

OPINION ON THE PENSION FUND FINANCIAL STATEMENTS

In our opinion the pension fund financial statements:

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

OPINION ON OTHER MATTERS

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

[NAME]

for and on behalf of Grant Thornton, Appointed Auditor

Grant Thornton

[ADDRESS]

[DATE]

Pension Fund Accounts and Explanatory Notes

FUND ACCOUNT

2018/19		Notes	2019/20
£'000			£'000
Dealings with members, employers and other directly involved in the fund			
Contributions			
(25,074)	From Employers	7	(26,135)
(7,157)	From Members	7	(7,408)
(2,934)	Individual Transfers in from Other Pension Funds		(4,326)
(1,221)	Other income		-
(36,386)	Total Contributions		(37,869)
Benefits			
32,912	Pensions	8	34,916
8,167	Commutation, Lump Sum Retirement and Death Benefits	8	8,502
-	Payment in respect of tax		898
Payments to and on account of leavers			
7,726	Individual Transfers Out to Other Pension Funds		7,225
41	Refunds to Members Leaving Service		119
48,846	Total Benefits		51,660
12,460	Net Additions (Withdrawals) from dealings with members		13,791

Pension Fund Accounts and Explanatory Notes (continued)

FUND ACCOUNT

2018/19		Notes	2019/20
6,199	Management expenses	9	5,866
	Returns on Investment		
(11,967)	Investment Income	10	(13,911)
-	Other Income	10	(731)
(49,142)	(Profit) and losses disposal of investments and changes in value of investments	12	(33,043)
(61,109)	Net Return on Investments		(18,401)
(42,450)	Net (Increase)/Decrease in the net assets available for benefits during the year		(38,058)
(1,009,623)	Opening Net Assets of the Scheme		(1,052,073)
(1,052,073)	Closing Net Assets of the Scheme		(1,014,015)

Pension Fund Accounts and Explanatory Notes (continued)⁴

NET ASSETS STATEMENT

2018/19		Notes	2019/20
£'000			£'000
Investment Assets			
150	Equities	12	150
55,558	Pooled Property Vehicles	12	58,881
902,851	Pooled Investment Vehicles	12	817,347
76,442	Private Equity/Infrastructure	12	73,693
12,843	Cash Deposits	12	59,524
Other Investment Balances			
34	Investment income due	12	26
1,047,878	Net Investment Assets		1,009,621
2,723	Current Assets	20	3,897
(1,201)	Current Liabilities	21	(1,178)
2,673	Cash Balances (held directly by Fund)		1,675
1,052,073	Net assets of the Fund available to fund benefits at the period end		1,014,015

⁴ 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 19a.

Note 1 Description of Hammersmith and Fulham Pension Fund

A. GENERAL

The Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Hammersmith and Fulham Council (the 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. Teachers are excluded from this scheme as they are administered under the Teachers' Pension Scheme.

The benefits payable in respect of service from 1 April 2014 are based on an employee's career average revalued earnings (CARE) and the number of years of eligible service. The benefits payable in respect of service prior to 1 April 2014 are based on an employee's final salary and the number of years eligible service. Pensions are increased each year in line with the Consumer Price Index.

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

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

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and from investment returns on the Fund's investment assets. Contributions from employees are made in accordance with the Local Government Pension Scheme Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2020. Employer contributions are set based on the triennial actuarial funding valuation, as detailed in Note 19.

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 (the Sub-Committee) and delegated all pensions responsibilities to it. The Sub-Committee decides on the investment strategy most suitable to meet the liabilities of the Fund and has responsibility for the investment strategy. The Sub-Committee is made up of five members, four of whom are elected representatives of the Council with voting rights and one co-opted member. Members of the admitted bodies and representatives of the Trade Unions may attend the 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 Director of Finance and Governance, 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 Local Pension Board to oversee the governance arrangements of the Pension Fund. The Board meets twice a year and has its own Terms of Reference. Board members are independent of the Pensions Sub-Committee.

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

D. INVESTMENT PRINCIPLES

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 the Sub-Committee approved an Investment Strategy Statement on 11 February 2020 (available on the Council's website). The Statement shows the Authority's compliance with the Myner's principles of investment management.

The Sub-Committee has delegated the management of the Fund's investments to regulated 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.

E. MEMBERSHIP

Membership of the LGPS is voluntary and employees, whilst auto-enrolled into the scheme, are free to choose whether to stay in or leave 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 academies and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies and private contractors undertaking a local authority function following outsourcing to the private sector.

The Deferred member numbers include 1,018 undecided leavers, who are no longer paying contributions or in receipt of benefits.

31 March 2019		31 March 2020
50	Number of active employers	50
4,332	Contributing employees	3,635
5,111	Pensioners receiving benefit	5,081
6,840	Deferred pensioners	7,112
16,283	Total members	15,828

Details of the scheduled and admitted bodies are in Section 2 of this report.

Note 2 Basis of Preparation of Financial Statements

The Statement of Accounts summarise the Fund's transactions for 2019/20 and its position at year end as at 31 March 2020. The accounts been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (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 consider 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). The Pension Fund Accounts have been prepared on a going concern basis.

Note 3 Summary of Significant Accounting Policies

FUND ACCOUNT – REVENUE RECOGNITION

A. CONTRIBUTION INCOME

Normal contributions, both from active members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the actuary in the payroll period to which they relate. Employer deficit funding contributions are accounted for on the due dates on which they are due under the schedule of contributions set by the actuary or on receipt if earlier than the due date.

B. TRANSFERS TO AND FROM OTHER SCHEMES

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

C. INVESTMENT INCOME

Investment income arising from the underlying investments of the Pooled Investment Vehicles is either reinvested within the Pooled Investment Vehicles and reflected in the unit price or taken as a cash dividend to support the Fund's outgoing cash flow requirements.

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset. Where the amount of an income distribution has not been received from an investment manager by the balance sheet date, an estimate based upon the market value of their mandate at the end of the year is used.

Changes in the value of investments are recognised as income and comprise all realised and unrealised profits and losses during the year.

Note 3 Summary of significant accounting policies (continued)

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 a registered public service scheme 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. VSP, MSP AND LIFE TIME ALLOWANCE

Members are entitled to request that the Pension Fund pays their tax liabilities due in respect of annual allowance and life time allowance in exchange for a reduction in pension. Where the Fund pays member

tax liabilities direct to HMRC, it is treated as an expense in the year in which the payment occurs.

G. MANAGEMENT EXPENSES

The fund discloses its pension fund management expenses in accordance with the CIPFA guidance “Accounting for Local Government Pension Scheme Management Expenses 2016”.

- **Administrative expenses** – All staff costs of the pension administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.
- **Oversight and governance** – All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund. The cost of obtaining investment advice from the external advisor is included in oversight and governance costs.
- **Investment management expenses** – The Sub-Committee has appointed external investment managers to manage the investments of the Fund. Managers are paid a fee based on the market value of the investments they manage, and/or a fee based on performance.

Where an investment manager’s fee note has not been received by the Balance Sheet date, an estimate based upon the market value of the mandate as at the end of the year is used for inclusion in the fund account.

Note 3 Summary of significant accounting policies (continued)

NET ASSET STATEMENT

H. FINANCIAL ASSETS

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net asset statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the value of the asset are recognised in the Fund account.

The values of investments as shown in the net asset statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 14a).

I. DERIVATIVES

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes (see Note 14a).

J. FOREIGN CURRENCY TRANSACTIONS

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of the transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

K. CASH AND CASH EQUIVALENTS

Cash comprises cash in hand and deposits with financial institutions which are repayable on demand without penalty.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

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

N. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed for information 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 LGPS (Management and Investment of Funds) Regulations 2016 permit the Council to charge administration costs to the Fund. A proportion of the relevant Council costs have been charged to the Fund based on 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 9.

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 based on 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 every three years 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 several judgements and assumptions. In particular, 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 effects on the net pension liability of changes in assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £29m. A 0.1% increase in assumed earnings would increase the value of liabilities by approximately £2m, a 0.1% increase in pension increases would increase the

liability by about £28m and a one-year increase in life expectancy would increase the liability by about £58m.

B. COVID 19 IMPACT

The ongoing impact of the COVID-19 pandemic has created uncertainty around the valuations of illiquid assets. As such, the Pension Fund's property and infrastructure allocations as at 31 March 2020 have been difficult to value according to the preferred accounting policy. Professional valuers have not been able to actively value many similar sized assets in the market due to the current lockdown environment to obtain a reliable fair value for the Pension Fund's assets. As a result, the values have been largely based on the previously reported period with an estimate included as at 31 March 2020.

C. 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 £2.2m.

D. PRIVATE DEBT/INFRASTRUCTURE INVESTMENTS

The fair value of the Partners Group Multi Asset Credit fund and Infrastructure fund is also to some extent subjective. Several of the underlying assets are traded in private markets only and therefore judgement needs to be made about value, using factors such as the enterprise value and net debt. As at 31 March 2020, the assets invested with Partners Group were valued at £45.5m (£42.3m in 2018/19).

The same applies to the Aviva Infrastructure which is has a quarterly valuation cycle. As at 31 March 2020, the value of the investment was £26.1m (£30.6m in 2018/19).

Note 5 Assumptions Made About the Future and Other Major Sources of Uncertainty

Preparing financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end and the amounts reported for income and expenditure during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual results could differ from the assumptions and estimates.

Note 6 Events After the Balance Sheet Date

In November 2019, the Pension Fund Sub-Committee agreed to appoint Aberdeen Standard Investments as its new private credit manager with a commitment of £55m. As at the balance sheet date, this investment had not been completed but was finalised in full on 24 April 2020.

Note 7 Contributions Receivable

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

The tables on the right show a breakdown of the total amount of contributions by authority and by type.

BY AUTHORITY

2018/19		2019/20
£000		£000
(25,322)	Administering authority	(27,442)
(3,583)	Scheduled bodies	(3,607)
(3,326)	Admitted bodies	(2,494)
(32,231)	Total Contributions Receivable	(33,543)

BY TYPE

2018/19		2019/20
£000		£000
(7,157)	Employees' normal contributions	(7,408)
	Employer's contributions:	
(15,740)	Normal contributions	(16,432)
(9,334)	Deficit recovery contributions	(9,703)
(32,231)	Total Contributions Receivable	(33,543)

Note 8 Benefits Payable

The tables on the right below show a breakdown of the total amount of benefits payable.

BY AUTHORITY

2018/19		2019/20
£000		£000
37,640	Administering authority	39,593
476	Scheduled bodies	672
6,454	Admitted bodies	3,153
41,079	Total Benefits Payable	43,418

BY TYPE

2018/19		2019/20
£000		£000
32,912	Pensions	34,916
7,297	Commutation and lump sum retirement benefits	7,407
870	Lump sum death benefits	1,095
41,079	Total Benefits Payable	43,418

Note 9 Management Expenses

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

MANAGEMENT EXPENSES

2018/19		2019/20
£000		£000
334	Administrative costs	365
5,298	Investment management expenses	4,735
567	Oversight and governance costs	766
6,199	Total Management Expenses	5,866

The table on the right provides a breakdown of the Investment Management Expenses.

INVESTMENT MANAGEMENT EXPENSES

2018/19		2019/20
£000		£000
4,763	Management fees	4,250
244	Performance fees	36
185	Transaction costs	421
106	Custody fees	28
5,298	Total Investment Management Expenses	4,735

Note 10 Investment Income

The table below shows a breakdown of investment income.

2018/19		2019/20
£000		£000
(8,874)	Pooled investments – unit trusts and other managed funds	(10,777)
(2,995)	Income from Alternative Investments	(3,009)
(98)	Interest on Cash Deposits	(125)
-	Other Investment Income	(731)
(11,967)	Total Investment Income	(14,642)

Note 11 Investment Strategy

During 2019/20, the Fund's strategy had the following developments:

- In March 2019, the Pensions Sub-Committee agreed to an investment of £85m into the London CIV (LCIV) Global Bonds Fund (managed by PIMCO). This investment was completed in May 2019, with an additional £20m invested with the Fund later that year.
- In July 2019, the Pensions Sub-Committee made a decision to no longer use Legal and General Investment Management's (LGIM) Sterling Liquidity Fund to manage its temporary cash holdings. All temporary cash holdings will be managed through the Fund's custodian, Northern Trust.
- In November 2019, the Fund completed the transition of the LCIV UK Equity (£125m) into the MSCI Low Carbon Fund under the management of LGIM. As at 31 March 2020, the value of the Fund's global equity assets was £411m.
- In December 2019, the Pensions Sub-Committee appointed Aberdeen Standard Investments as the Fund's new private credit manager. This investment would be financed through the sale of global equity assets which would later be refunded from the proceeds received from the Partners Group Multi Asset Credit (MAC)

The market value and proportion of investments managed by each fund manager at 31 March 2020 was as follows:

31 March 2019 £000	%	Fund Manager	Mandate	31 March 2020 £000	%
Investment managed by the London CIV asset pool:					
374,028	35.7%	LGIM – MSCI Low Carbon	Global Equity (Passive)	411,304	40.8%
126,636	12.1%	LCIV – Ruffer	Absolute Return (Active)	128,526	12.7%
-	-	LCIV – PIMCO	Global Bonds (Active)	100,960	10.0%
125,154	11.9%	LCIV – Majedie	UK Equity (Active)	-	-
625,818	59.7%	Total assets managed by the London CIV asset pool		640,790	63.5%
Investment managed outside of the London CIV asset pool:					
107,834	10.3%	M&G Investments	Inflation Opportunities	110,996	11.0%
73,203	7.0%	Oak Hill Advisors	Secured Income (Active)	65,570	6.4%
55,558	5.3%	Aberdeen Standard	Long Lease Property	58,881	5.8%
30,644	2.9%	Aviva Investors	Infrastructure	26,062	2.6%
16,987	1.6%	Partners Group	Infrastructure	25,347	2.5%
25,318	2.4%	Partners Group	Multi Asset Private Credit	20,108	2.0%
2,199	0.2%	Invesco	Private Equity	1,523	0.2%
1,293	0.1%	Unigestion	Private Equity	653	0.1%
12,867	1.2%	Inhouse Cash	Cash	59,541	5.9%
150	0.0%	London CIV Ltd	UK Equity	150	0.0%
96,007	9.2%	LGIM – Sterling Liquidity Fund	UK Equity	-	0.0%
408,032	40.3%	Total assets managed outside of the London CIV asset pool		368,831	36.5%
1,047,878	100.0%	Total investments		1,009,621	100.0%

Note 11 Investment Strategy (continued)

As part of the Fund's ongoing investment strategy, there remains an outstanding commitment which was made to the Partners Group Direct Infrastructure fund in August 2015. As at 31 March 2020 €26.4m still remained unfunded.

The private equity investments made some years ago are now in the redistribution phase of the cycle, which will be completed in late 2019. As at 31 March 2020, £2.2m remained to be redistributed back into the Fund.

As shareholders of London LGPS CIV Ltd, (the organisation set up to run pooled LGPS investments in London), the Fund has funded £150,000 of regulatory capital. This is in the form of unlisted UK equity shares. The Council has been active in the transfer of assets under management to the London Collective Investment Vehicle (CIV) to gain efficiencies and fee reductions. As at 31 March 2020, the Fund had £721.8m invested with the London CIV, which accounts for 63.5% of the fund's total 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%.

31 March 2019 £000	%	Fund Manager	Mandate	31 March 2020 £000	%
374,028	35.7%	LGIM – MSCI Low Carbon	Global Equity (Passive)	411,304	40.7%
126,636	12.1%	LCIV – Ruffer	Absolute Return (Active)	128,526	12.7%
107,834	10.3%	M&G Investments	Inflation Opportunities	110,996	11.0%
73,203	7.0%	Oak Hill Advisors	Secured Income (Active)	65,570	6.5%
55,558	5.3%	Aberdeen Standard	Long Lease Property	58,881	5.8%
125,154	11.9%	LCIV – Majedie	UK Equity (Active)	-	-
96,007	9.2%	LGIM – Sterling Liquidity Fund	Cash	-	-

Note 12 Reconciliation of Movement in Investments

The table below shows a reconciliation of the movement in the total investment assets of the Fund by asset class during 2019/20.

Fund Manager	Value at 1 April 2019 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in market value during the year £000	Value at 31 March 2020 £000
Equities	150	-	(25)	25	150
Pooled equity Investments	90,851	107,550	(156,567)	(36,487)	817,347
Pooled property investments	55,558	39	-	3,284	58,881
Private equity/infrastructure	76,442	4,654	(7,316)	(87)	73,693
Total	1,035,001	112,243	(163,908)	(33,265)	950,071
Cash deposits	12,843	-	-	238	59,524
Investment income due	34	-	-	-	26
Spot FX contracts	-	-	-	(166)	-
Net investment assets	1,047,878	112,243	(163,908)	(33,043)	1,009,621

Note 12 Reconciliation of Movement in Investments (continued)

The equivalent analysis for 2018/19 is provided below:

Fund Manager	Value at 1 April 2018 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in market value during the year £000	Value at 31 March 2019 £000
Equities	150	-	(10)	10	150
Pooled equity Investments	890,947	836,089	(867,391)	43,206	90,851
Pooled property investments	51,933	33	-	3,592	55,558
Private equity/infrastructure	55,261	38,866	(20,023)	2,338	76,442
Total	998,291	874,988	(887,424)	49,146	1,035,001
Cash deposits	6,168	-	-	22	12,843
Investment income due	35	-	-	-	34
Spot FX contracts	-	-	-	(26)	-
Net investment assets	1,004,494	874,988	(887,424)	49,142	1,047,878

Note 13 Fair Value Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled Investments – Equity Funds UK and Overseas Managed Funds	Level 2	The NAV for each share class is calculated based on the market value of the underlying equity assets	Evaluated price feeds	Not required
Unquoted Bonds and Unit Trusts	Level 2	Fixed income securities are priced based on evaluated prices provided by independent pricing services	Evaluated price feeds	Not required
Pooled Long Lease Property Fund	Level 2	The Standard Life Long Lease Property Fund is priced on a Single Swinging Price	In house evaluation of market data	Not required
Private Equity	Level 3	Comparable valuation of similar companies in accordance with International Private and Venture Capital Valuation Guidelines 2012	Earnings before interest, tax, depreciation and amortisation (EBITDA) multiple Revenue multiple	Valuations could be affected by changes to expected cashflows, cost of replacing key business assets, or by any differences between the audited and unaudited accounts
Infrastructure funds	Level 3	Valued by Fund Managers at the lower of cost and fair value	Managers use their judgement having regard to the Equity and Venture Capital Valuation Guidelines 2012 guidelines noted above	Upward valuations are only considered where there is validation of the investment objectives and such progress can be demonstrated Downward valuations are enacted where the manager considers there is an impairment to the underlying investment

Note 14a Valuation of Financial Instruments Carried at Fair Value

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

LEVEL 1

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

LEVEL 2

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

LEVEL 3

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

The values of the private equity investments are based on valuations provided by the General Partners to the private equity funds. The Partners Group multi asset credit and the infrastructure funds

are closed ended and therefore not tradable. The valuation is based on market prices where available for some underlying assets and on estimates of prices in secondary markets for others.

31 March 2019			31 March 2020		
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					
-	958,409	76,592	-	876,228	73,843
-	958,409	76,592	-	876,228	73,843
1,035,001			950,071		

Note 14b Transfers Between Levels 1 and 2

In 2019/20, the Fund's operational activity resulted in no transfers between Levels 1 and 2.

Note 14c Reconciliation of Fair Value Measurements Within Level 3

	Market Value as at 31 March 2019	Purchases	Sales	Unrealised Gains/(losses)	Realised Gains/(losses)	Market Value as at 31 March 2020
	£000	£000	£000	£000	£000	£000
Overseas infrastructure	20,480	4,654	(1,855)	2,948	1,296	27,523
UK Infrastructure	30,644	-	-	(4,582)	-	26,062
Private Credit	25,318	-	(5,461)	251	-	20,108
London LGPS CIV	150	-	-	-	-	150
Total	76,592	4,654	(7,316)	(1,383)	1,296	73,843

Note 14d Reconciliation of Fair Value Measurements Within Level 3

The Pension Fund has analysed historical data and current trends in consultation with independent investment advisors to determine the accuracy of the valuations of its Level 3 investments. The potential impact on the reported valuations as at 31 March 2020 has been estimated to be accurate within the following ranges:

	Assessed Valuation Range (+/-)	Valuation at 31 March 2020	Valuation on increase	Valuation on decrease
Aviva Infrastructure	8.50%	26,062	28,277	23,847
Partners Group Infrastructure	10.00%	27,523	30,275	24,771
Partners Group Multi Asset Credit	10.00%	20,108	22,119	18,097
Total		73,693	80,671	66,715

Note 15a 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.

Designated at fair value through profit & loss	31 March 2019			Designated at fair value through profit & loss	31 March 2020	
	Financial assets at amortised cost	Financial liabilities at amortised cost			Financial assets at amortised cost	Financial liabilities at amortised cost
£000	£000	£000		£000	£000	£000
Financial Assets						
<i>Pooled Investment Vehicles:</i>						
733,642			UK equity funds	650,817		
25,318			UK fixed income funds	121,068		
55,558			UK property funds	58,881		
30,644			UK infrastructure	26,062		
73,203			Overseas fixed income funds	65,570		
16,987			Overseas infrastructure	25,347		
3,493			Overseas venture capital	2,176		
150			London LGPS CIV	150		
96,007			UK cash funds	-		
34			Investment Income Due	26		
	12,843		Cash deposits with managers		59,524	
	2,679		Debtors		2,897	
	2,673		Cash balances (held by fund)		1,675	
1,035,036	18,195	-	Total Financial Assets	950,097	64,096	
Financial Liabilities						
		(1,185)	Creditors	-		(1,178)
1,035,036	18,195	(1,185)	Total Financial Liabilities	950,097	64,096	(1,178)
		1,052,046	Total Net Assets			1,013,015

Note 15b Net Gains and Losses on Financial Statements

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

31 March 2019		31 March 2020
Financial Assets		
49,146	Fair value through profit and loss	(33,264)
23	Loans and receivables	238
Financial Liabilities		
(27)	Fair value through profit and loss	(17)
49,142	Net Gains /(losses) on Financial Instruments	(33,043)

Note 16 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 and changes in inflation.

The Pensions 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 2016 actuarial valuation, the fund managers have been set differing targets appropriate to the types of assets they manage. The ongoing economic uncertainty that has been caused by the global response to COVID 19 presents an increased risk to the Fund achieving these targets. As such, the Fund continues to invest its assets 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's portfolio within a tolerable level of risk of an overall reduction in the value of the Fund. Responsibility for the Fund's investment strategy rests with the

Pensions sub-committee and is reviewed on a regular basis.

B. PRICE RISK

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

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

All assets except for 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.

Assets exposed to price risk	Value £000	+10% £000	-10% £000
At 31 March 2019	1,035,001	1,138,501	931,501

Assets exposed to price risk	Value £000	+10% £000	-10% £000
At 31 March 2020	950,071	1,045,079	855,064

C. INTEREST RATE RISK

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

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

Assets exposed to interest rate risk	Value £000	+1% £000	-1% £000
At 31 March 2019	225,147	226,318	230,307
At 31 March 2020	355,708	343,911	367,505

Note 16 Nature and Extent of Risks Arising from Financial Instruments (continued)

D. 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

Assets exposed to currency risk	Value £000	+1% £000	-1% £000
At 31 March 2019	400,113	440,124	360,101
At 31 March 2020	453,863	499,249	408,476

E. 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.

F. 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 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 10.55% of the Fund's Net Assets at 31 March 2020 (9.67% at 31 March 2019). The remaining can all be liquidated within days.

Manager	Portfolio	31 March 2019	31 March 2020
Aberdeen Standard	Property	55,558	58,881
Partners Group	Infrastructure	16,987	25,347
Partners Group	Multi Asset Credit	25,318	20,108
Invesco	Private Equity	2,199	1,523
Unigestion	Private Equity	1,293	653
	Total	107,196	106,512

Note 17 Contingent Liabilities and Contractual Commitments

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

	31 March 2019	31 March 2020
	£000	£000
Aberdeen Standard Multi Sector Private Credit	-	55,000
Partners Group Direct Infrastructure Fund 2015	29,098	23,623
	29,098	78,623

In December 2019, the Pension Fund Sub-Committee appointed Aberdeen Standard Investment as the Fund's new private credit manager. This investment is expected to be fully funded in Q1 2020/21.

The Partners Group infrastructure commitment is expected to be fully funded by December 2020.

Note 18 Stock Lending Arrangements

The Fund did not participate in stock lending or underwriting.

Note 18 Funding Arrangements

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

The latest full triennial valuation of the London Borough of Hammersmith and Fulham Pension Fund was carried out by Barnett Waddingham, the Fund's actuary, as at 31 March 2016 in accordance with the Funding Strategy Statement of the Fund and the Local Government Pension Scheme Regulations 2013. The results were published in the triennial valuation report dated 30 March 2017. This valuation set the employer contribution rates from 1 April 2017 through to 31 March 2020.

The 2016 valuation certified a common contribution rate of 15.5% of pensionable pay (13.6% as at March 2013) to be paid by each employing body participating in the Fund, based on a funding level of 88% (83% as at March 2013). In addition, each employing body must pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

The actuary's smoothed market value of the scheme's assets at 31 March 2016 was £851m and the actuary assessed the present value of the funded obligation at £965m indicating a net liability of £114m (£147m 2013).

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

- 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.
- Future rises in pensionable pay due to inflation and pension increases.
- Withdrawals from membership due to mortality, ill health and ordinary retirement.
- 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 31 March 2019 and will be published in 2020.

Note 19a Actuarial Present Value of Promised Retirement Benefits

The table below shows the total net liability of the Fund as at 31 March 2019. 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.

31 March 2019 £000		31 March 2020 £000
(1,651,279)	Present value of promised retirement benefits	(1,527,085)
1,052,073	Fair value of scheme assets (bid value)	1,013,015
(599,206)	Net Liability	(514,070)

Present Value of Promised Retirement Benefits comprises of £1,509.4m (£1,617.1m at 31 March 2019) and £17.7m (£34.1m at 31 March 2019) in respect of vested benefits and non-vested benefits respectively as at 31 March 2019.

The assumptions applied by the actuary are set out below:

FINANCIAL ASSUMPTIONS

	31 March 2019	31 March 2020
Salary increases	3.90%	2.90%
Pension increases	2.40%	1.90%
Discount rate	2.40%	2.35%

DEMOGRAPHIC ASSUMPTIONS

The post mortality tables adopted are the S3PA tables with multiplier of 110% for males and 105% for females. The base tables are projected using the CMI 2018 Model, allowing for a long-term rate of improvement of 1.25% p.a. The assumed life expectancies from age 65 are:

		31 March 2019	31 March 2020
Retiring today	Males	23.4	21.8
	Females	24.8	24.4
Retiring in 20 years	Males	25.0	23.2
	Females	26.6	25.8

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

DEBTORS

31 March 2019		31 March 2020
£000		£000
1,030	Contributions due – employers	1,073
453	Contributions due – employees	486
941	London Borough of Hammersmith & Fulham	941
229	Sundry Debtors	1,397
2,723	Total Current Assets	3,897

ANALYSIS OF DEBTORS

31 March 2019		31 March 2020
£000		£000
941	Local authorities	941
1,782	Other entities and individuals	2,956
2,723	Total Current Assets	3,897

Note 21 Current Liabilities

CREDITORS

31 March 2019		31 March 2020
£000		£000
(527)	Unpaid benefits	(541)
(461)	Management expenses	(375)
(212)	Sundry creditors	(262)
(1,201)	Total Current Liabilities	(1,178)

ANALYSIS OF DEBTORS

31 March 2019		31 March 2020
£000		£000
(1,201)	Other entities and individuals	(1,178)
(1,201)	Total Current Liabilities	(1,178)

Note 22 Additional Voluntary Contributions (AVCS)

The Fund's AVC providers are Zurich Assurance and the Equitable Life Assurance Society. AVCs are invested separately from the Pension Fund and their valuations are shown in the table below. The same valuations as at 31 March 2019 have been carried forward to this year due to uncertainty in obtaining accurate valuations as at 31 March 2020.

31 March 2019		31 March 2020
£000		£000
908	Zurich Assurance	908
203	Equitable Life Assurance	203
1,111	Total Additional Voluntary contributions	1,111

In accordance with Regulation 4(1)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009 the contributions paid, and the investments are not included in the Pension Fund Accounts.

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

Note 23 Related Party Transactions

LONDON BOROUGH OF HAMMERSMITH AND FULHAM

The Pension Fund is administered by the London Borough of Hammersmith and Fulham. The Council incurred costs of £0.447m in 2019/20 (£0.334m in 2018/19) in relation to the administration of the Fund and were reimbursed by the Fund for the expenses.

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 key management personnel of the Fund are the Members of the Pensions Sub-Committee, the Strategic Director of Finance and Governance, the Tri-borough Director of Pensions and Treasury and the Director of Corporate Services. Total remuneration payable to key management personnel in respect of the pension fund is set out below:

	31 March 2019	31 March 2020
Short-term benefits	29	31
Post-employment benefits	41	255
Total	71	286

Note 25 External Audit Costs

The external audit fee payable to Fund's external auditors, Grant Thornton LLP, was £25,000 (£16,170 in 2018/19).



7.

Glossary and Contacts

Glossary of Terms

ACCOUNTING POLICIES

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

ACCRUALS

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

ACTIVE MANAGEMENT

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

ACTIVE MEMBER

Current employee who is contributing to a pension scheme.

ACTUARIAL GAINS AND LOSSES

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

ACTUARY

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

ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)

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

ADMITTED BODY

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

ASSET ALLOCATION

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

BENCHMARK

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

BONDS

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

CIPFA (CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTING)

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

CREDITORS

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

DEBTORS

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

DEFERRED MEMBERS

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

DEFINED BENEFIT SCHEME

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

Glossary of Terms (continued)

DERIVATIVE

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

EMPLOYER CONTRIBUTION RATES

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

EQUITIES

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

EXCHANGE TRADED

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

FINANCIAL ASSETS

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

FINANCIAL INSTRUMENT

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

FINANCIAL LIABILITIES

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

FORWARD FOREIGN EXCHANGE DERIVATIVE

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

INDEX

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

OVER THE COUNTER

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

PASSIVE MANAGEMENT

Passive management is where the investments mirror a market index.

POOLED INVESTMENT VEHICLES

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

PROJECTED UNIT METHOD – PENSION FUND VALUATION

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

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

Glossary of Terms (continued)

RELATED PARTIES

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

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

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

RELATED PARTY TRANSACTION

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

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

RETURN

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

SCHEDULED BODY

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

THE CODE

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

UNREALISED GAINS/LOSSES

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

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

Contact Information

FOR FURTHER DETAILS CONTACT:

FINANCE ENQUIRIES

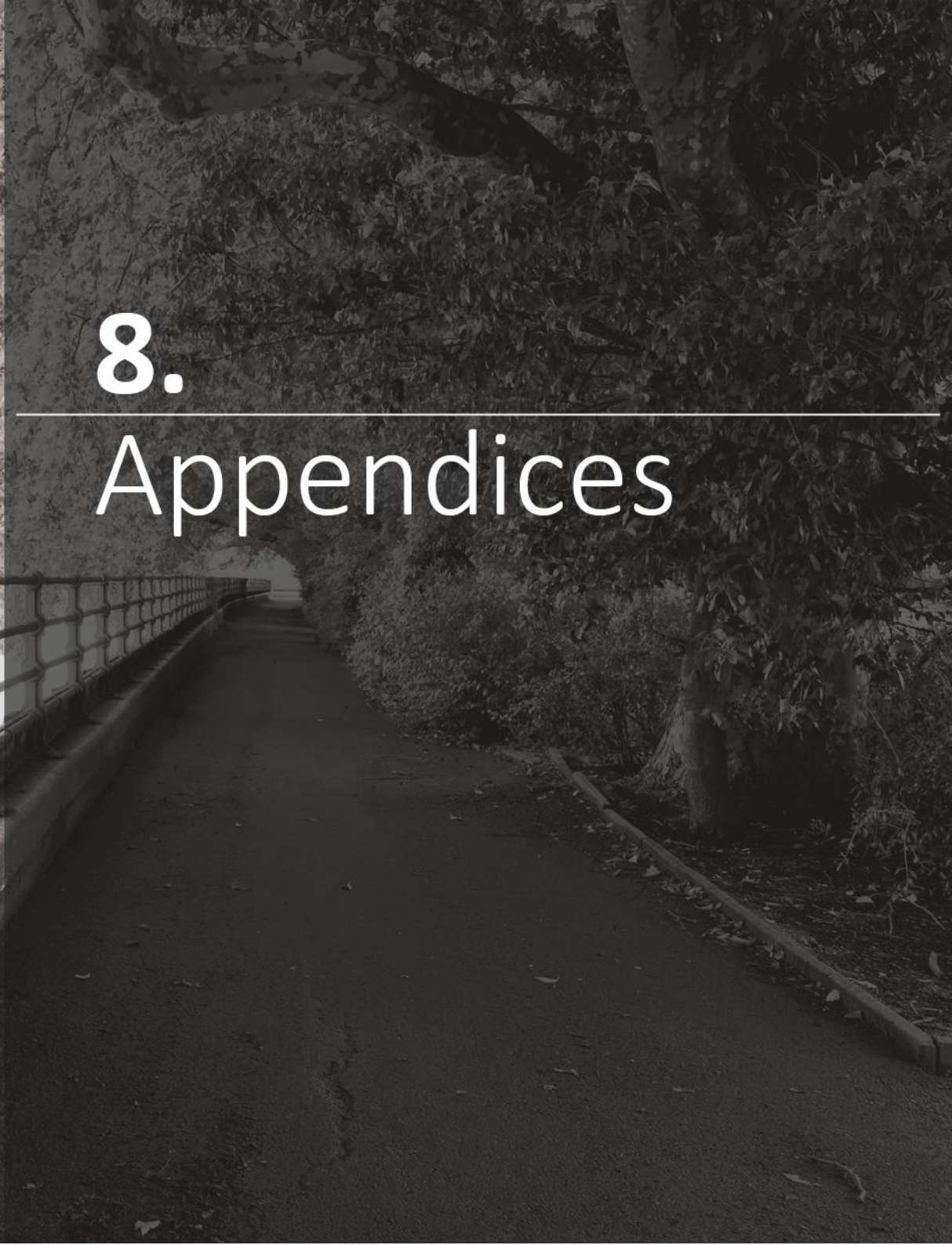
Tri-Borough Pensions Team
16th Floor
64 Victoria Street
London
SW1E 6QP
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HR ENQUIRIES

Bi-Borough Pensions Manager
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The Town Hall
Hornton Street
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W8 7NX
pensions@rbkc.gov.uk

ADMINISTRATIVE ENQUIRIES

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



8.

Appendices

Appendix 1. Governance Compliance Statement

BACKGROUND

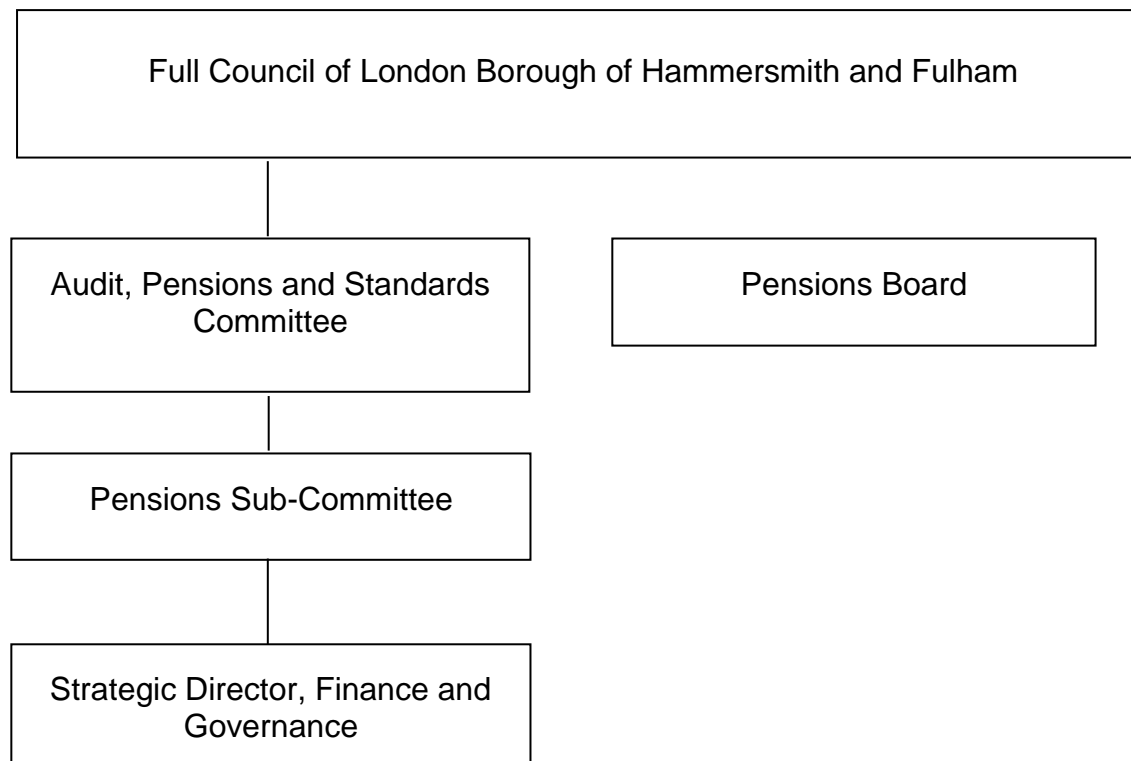
The London Borough of Hammersmith and Fulham Council is the administering authority for the London Borough of Hammersmith and Fulham (“the Fund”) and it administers the Local Government Pension Scheme on behalf of the participating employers.

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

GOVERNANCE STRUCTURE

The diagram on the right shows the governance structure in place for the Fund.

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



Governance Compliance Statement (continued)

AUDIT, PENSIONS AND STANDARDS COMMITTEE

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

PENSIONS SUB-COMMITTEE

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

The sub-committee is made up of four elected members of the Audit, Pensions and Standards Committee and one co-opted member. Three members of the committee are administration councillors and one member represents the opposition. The sub-committee is chaired by the Chair of the Audit, Pensions and Standards Committee. The Sub Committee may co-opt non-voting independent members, including Trade Unions and representatives from the admitted and scheduled bodies in the Pension Fund.

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

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

The terms of reference for the sub-committee are:

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

Governance Compliance Statement (continued)

PENSION BOARD

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

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

The membership of the Board is as follows:

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

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

COMPLIANCE WITH STATUTORY GUIDANCE

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

REVIEW OF STATEMENT

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

Annex 1: Governance Compliance Statement

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

Annex 1: Governance Compliance Statement (continued)

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

Appendix 2. Communication Policy

1. BACKGROUND

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

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

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

LBHF in its capacity as the Administering Authority engages with other employers (under their status as Admitted and Scheduled Bodies) and has 3,635 active members, 7,112 deferred members and 5,081 pensioners as at 31st March 2019

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

2. ROLES AND RESPONSIBILITIES

Retained team within HR

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

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

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

Surrey County Council

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

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

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

3. HOW INFORMATION IS COMMUNICATED

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

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

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

Communication Policy (continued)

4. DETAILS OF WHAT IS COMMUNICATED

Joiner information with Scheme details

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

Newsletters

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

Fund Report and Accounts

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

Annual Benefit Statements

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

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

Factsheets

Information that provides a summary in relation to specific topics, such as topping up pension rights, transfer values in and out of the scheme, death

benefits and, for pensioners, annual pensions increases.

Roadshows

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

Face to face/personal discussions.

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

Posters

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

Employers' Guide

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

Employers meeting

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

Briefing papers

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

Committee papers

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

Training and Development.

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

Press releases

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

Other employers joining the fund

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

Pension disputes IDRP

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

Statutory returns and questionnaires

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

Communication Policy (continued)

FURTHER INFORMATION

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

Surrey County Council

Pension Services (LBHF Team)

Surrey County Council

Room G59, County Hall

Penrhyn Road

Kingston upon Thames

Surrey KT1 2DN

Email: myhelpdeskpensions@surreycc.gov.uk

General enquiries and complaints:

Helpdesk: 0208 231 2802

General enquiries and complaints: 0208 541 9293

RETAINED HR TEAM

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Pensions Manager

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Email: Maria.Bailey@rbkc.gov.uk

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Appendix 3. Funding Strategy Statement

INTRODUCTION

This is the Funding Strategy Statement for the London Borough of Hammersmith and Fulham Pension Fund (the Fund). It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 as amended (the Regulations) and describes the London Borough of Hammersmith and Fulham's strategy, in its capacity as administering authority, for the funding of the London Borough of Hammersmith and Fulham Pension Fund.

The Fund's employers and the Fund Actuary, Barnett Waddingham LLP, have been consulted on the contents of this statement.

This statement should be read in conjunction with the Fund's Investment Strategy Statement (ISS) and has been prepared with regard to the guidance (*Preparing and Maintaining a funding strategy statement in the LGPS 2016 edition*) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

PURPOSE OF THE FUNDING STRATEGY STATEMENT

The purpose of this Funding Strategy Statement (FSS) is to:

- Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as required by Regulation 62(6) of the Regulations;
- Ensure that the regulatory requirements to set contributions to meet the future liability to provide Scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the Fund are met; and
- Take a prudent longer-term view of funding those liabilities.

AIMS AND PURPOSE OF THE FUND

The aims of the Fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- Enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to all relevant parties (such as the taxpayers, scheduled, resolution and admitted bodies), while achieving and maintaining Fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the administering authority and employers alike; and
- Seek returns on investment within reasonable risk parameters.

The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits to Scheme members as provided for under the Regulations;
- Meet the costs associated in administering the Fund; and
- Receive and invest contributions, transfer values and investment income.

Funding Strategy Statement (continued)

FUNDING OBJECTIVES

Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.

The funding objectives are to:

- Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- Ensure the solvency of the Fund;
- Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
- Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and
- Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

In developing the funding strategy, the administering authority should also have regard to the likely outcomes of the review carried out under Section 13(4)(c) of the Public Service Pensions Act 2013. Section 13(4)(c) requires an independent review of the actuarial valuations of the LGPS funds; this involves reporting on whether the rate of employer contributions set as part of the actuarial valuations

are set at an appropriate level to ensure the solvency of the Fund and the long-term cost efficiency of the Scheme so far as relating to the pension Fund. The review also looks at compliance and consistency of the actuarial valuations.

KEY PARTIES

The key parties involved in the funding process and their responsibilities are set out below.

The administering authority

The administering authority for the Fund is the London Borough of Hammersmith and Fulham. The main responsibilities of the administering authority are to:

- Operate the Fund in accordance with the LGPS Regulations;
- Collect employee and employer contributions, investment income and other amounts due to the Fund as stipulated in the Regulations;
- Invest the Fund's assets in accordance with the Fund's Investment Strategy Statement;
- Pay the benefits due to Scheme members as stipulated in the Regulations;
- Ensure that cash is available to meet liabilities as and when they fall due;
- Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain this FSS and also the ISS after consultation with other interested parties;

- Monitor all aspects of the Fund's performance;
- Effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and Scheme employer; and;
- Enable the Local Pension Board to review the valuation process as they see fit.

Scheme employers

In addition to the administering authority, a number of other Scheme employers participate in the Fund.

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

- Collect employee contributions and pay these together with their own employer contributions, as certified by the Fund Actuary, to the administering authority within the statutory timescales;
- Notify the administering authority of any new Scheme members and any other membership changes promptly;
- Develop a policy on certain discretions and exercise those discretions as permitted under the Regulations;
- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures; and
- Pay any exit payments due on ceasing participation in the Fund.

Funding Strategy Statement (continued)

Scheme members

Active Scheme members are required to make contributions into the Fund as set by the Ministry of Housing, Communities and Local Government (MHCLG).

Fund Actuary

The Fund Actuary for the Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

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

relevance to their role in advising the Fund; and;

- Advise on other actuarial matters affecting the financial position of the Fund.

KEY PARTIES

The factors affecting the Fund's finances are constantly changing, so it is necessary for its financial position and the contributions payable to be reviewed from time to time by means of an actuarial valuation to check that the funding objectives are being met.

The most recent valuation of the Fund was as at 31 March 2019. The individual employer contribution rates are set out in the Rates and Adjustments Certificate which forms part of the Fund's 2019 valuation report.

The actuarial valuation involves a projection of future cashflows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund. A summary of the methods and assumptions adopted is set out in the sections below.

FUNDING METHOD

The key objective in determining employers' contribution rates is to establish a funding target and then set levels of employer contribution rates to meet that target over an agreed period.

The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund.

For all employers, the method adopted is to consider separately the benefits accrued before the valuation date (past service) and benefits expected to be accrued after the valuation date (future service).

These are evaluated as follows:

- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay and pensions. A funding level in excess of 100% indicates a surplus of assets over liabilities; while a funding level of less than 100% indicates a deficit; and
- The future service funding rate (also referred to as the primary rate as defined in Regulation 62(5) of the Regulations) is the level of contributions required from the individual employers which, in combination with employee contributions is expected to cover the cost of benefits accruing in future.

The adjustment required to the primary rate to calculate an employer's total contribution rate is referred to as the secondary rate, as defined in Regulation 62(7). Further details of how the secondary rate is calculated for employers is given below in the Deficit recovery/surplus amortisation periods section.

authority holds details of the open or closed status

Funding Strategy Statement (continued)

The approach to the primary rate will depend on specific employer circumstances and in particular may depend on whether an employer is an “open” employer – one which allows new recruits access to the Fund, or a “closed” employer – one which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the total contribution rate.

For open employers, the actuarial funding method that is adopted is known as the Projected Unit Method. The key feature of this method is that, in assessing the future service cost, the primary rate represents the cost of one year’s benefit accrual only.

For closed employers, the actuarial funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over a specific period, such as the length of a contract or the remaining expected working lifetime of active members.

The approach by employer may vary to reflect an employer’s specific circumstance, however, in general the closed employers in the Fund are admission bodies who have joined the Fund as part of an outsourcing contract and therefore the Attained Age Method is used in setting their contributions. All other employers (for example councils, higher education bodies and academies) are generally open employers and therefore the Projected Unit Method is used. The administering

of each employer.

VALUATION ASSUMPTIONS AND FUNDING MODEL

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

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

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

Future price inflation

The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities, as measured by the Retail Price Index (RPI). This is derived using the 20-year point on the Bank of England implied Retail Price Index (RPI) inflation curve, with consideration of the market conditions over the six months straddling the valuation date. The 20-year point on the curve is taken as 20 years is consistent with the average duration of an LGPS Fund.

Future pension increases

Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. A deduction of 1.0% p.a. is therefore made to the RPI assumption to derive the CPI assumption.

Future pay increases

As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay increases. Historically, there has been a close link between price inflation and pay increases with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2019 was CPI plus 1.0% p.a. which includes allowance for promotional increases.

Future investment returns/discount rate

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

The discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the Fund’s long-term investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so

determined may be referred to as the “ongoing” discount rate.

Funding Strategy Statement (continued)

A summary of the financial assumptions adopted for the 2019 valuation is set out in the table below:

Financial assumptions as at 31 March 2019	
RPI inflation	3.6% p.a.
CPI inflation	2.6% p.a.
Pension/deferred pension increases and CARE revaluation	In line with CPI inflation
Pay increase	CPI inflation + 1.0% p.a.
Discount rate	5.0% p.a.

Asset valuation

For the purpose of the valuation, the asset value used is the market value of the accumulated fund at the valuation date, adjusted to reflect average market conditions during the six months straddling the valuation date. This is referred to as the smoothed asset value and is calculated as a consistent approach to the valuation of the liabilities.

The Fund’s assets are allocated to employers at an individual level by allowing for actual Fund returns achieved on the assets and cashflows paid into and out of the Fund in respect of each employer (e.g. contributions received, and benefits paid).

Demographic assumptions

The demographic assumptions incorporated into the valuation are based on Fund-specific experience and

national statistics, adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

Further details of the assumptions adopted are included in the Fund’s 2019 valuation report.

McCloud/Sargeant judgements

The McCloud/Sargeant judgements were in relation to two employment tribunal cases which were brought against the government in relation to possible age and gender discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. These judgements were not directly in relation to the LGPS, however, do have implications for the LGPS.

In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounted to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government’s request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members’ past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

Further details of this can be found below in the Regulatory risks section.

At the time of drafting this FSS, it is still unclear how this will affect current and future LGPS benefits. As

part of the Fund’s 2019 valuation, in order to mitigate the risk of member benefits being uplifted and becoming more expensive, the potential impact

of McCloud was covered by the prudence allowance in the discount rate assumption. As the remedy is still to be agreed the cost cannot be calculated with certainty, however, the Fund Actuary expects it is likely to be less than, the impact of reducing the discount rate assumption by 0.05%.

Guaranteed Minimum Pension (GMP) indexation and equalisation

As part of the restructuring of the state pension provision, the government needs to consider how public service pension payments should be increased in future for members who accrued a Guaranteed Minimum Pension (GMP) from their public service pension scheme and expect to reach State Pension Age (SPA) post December 2018. In addition, a resulting potential inequality in the payment of public service pensions between men and women needs to be addressed. Information on the current method of indexation and equalisation of public service pension schemes can be found [here](#).

On 22 January 2018, the government published the outcome to its *Indexation and equalisation of GMP in public service pension schemes* consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals’ public service pension would be extended to those individuals reaching SPA before 6 April 2021. HMT published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April

2016. Details of this outcome and the Ministerial Direction can be found [here](#).

Funding Strategy Statement (continued)

The 2019 valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the government providing the remainder of the inflationary increase. For members that reach SPA after this date, it is assumed that the Fund will be required to pay the entire inflationary increase.

DEFICIT RECOVERY/SURPLUS AMORTISATION PERIODS

Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. This theory applies down to an individual employer level; each employer in the Fund has their own share of deficit or surplus attributable to their section of the Fund.

Where the valuation for an employer discloses a deficit then the level of required employer contributions includes an adjustment to fund the deficit over a maximum period of 17 years. The adjustment will usually be set as a fixed monetary amount.

Where the valuation for an employer discloses a surplus then the level of required employer

contribution may include an adjustment to amortise a proportion of the surplus.

The deficit recovery period or amortisation period that is adopted, and the proportion of any surplus

that is amortised, for any particular employer will depend on:

- The significance of the surplus or deficit relative to that employer's liabilities;
- The covenant of the individual employer (including any security in place) and any limited period of participation in the Fund;
- The remaining contract length of an employer in the Fund (if applicable); and
- The implications in terms of stability of future levels of employers' contribution.

POOLING OF INDIVIDUAL EMPLOYERS

The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

However, academy employers are pooled for the purposes of determining contribution rates to recognise the common characteristics of these employers.

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

Pooling of other individual employers may be considered in exceptional circumstances if deemed appropriate by the administering authority and Fund

Actuary.

Forming/disbanding a funding pool

Where the Fund identifies a group of employers with similar characteristics and potential merits for pooling, it is possible to form a pool for these employers. Advice should be sought from the Fund Actuary to consider the appropriateness and practicalities of forming the funding pool.

Conversely, the Fund may consider it no longer appropriate to pool a group of employers. This could be due to divergence of previously similar characteristics or an employer becoming a dominant party in the pool (such that the results of the pool are largely driven by that dominant employer). Where this scenario arises, advice should be sought from the Fund Actuary.

Funding pools should be monitored on a regular basis, at least at each actuarial valuation, in order to ensure the pooling arrangement remains appropriate.

NEW EMPLOYERS JOINING THE FUND

When a new employer joins the Fund, the Fund Actuary is required to set the contribution rates payable by the new employer and allocate a share of Fund assets to the new employer as appropriate. The most common types of new employers joining

the Fund are admission bodies and new academies. These are considered in more detail below.

Funding Strategy Statement (continued)

ADMISSION BODIES

New admission bodies in the Fund are commonly a result of a transfer of staff from an existing employer in the Fund to another body (for example as part of a transfer of services from a council or academy to an external provider under Schedule 2 Part 3 of the Regulations). Typically, these transfers will be for a limited period (the contract length), over which the new admission body employer is required to pay contributions into the Fund in respect of the transferred members.

Funding at start of contract

Generally, when a new admission body joins the Fund, they will become responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. This is known as a full risk transfer. In these cases, it may be appropriate that the new admission body is allocated a share of Fund assets equal to the value of the benefits transferred, i.e. the new admission body starts off on a fully funded basis. This is calculated on the relevant funding basis and the opening position may be different when calculated on an alternative basis (e.g. on an accounting basis).

However, there may be special arrangements made as part of the contract such that a full risk transfer approach is not adopted. In these cases, the initial assets allocated to the new admission body will reflect the level of risk transferred and may therefore not be on a fully funded basis or may not reflect the full value of the benefits attributable to the transferring members.

Contribution rate

The contribution rate may be set on an open or a closed basis. Where the funding at the start of the contract is on a fully funded basis then the contribution rate will represent the primary rate only; where there is a deficit allocated to the new admission body then the contribution rate will also incorporate a secondary rate with the aim of recovering the deficit over an appropriate recovery period.

Depending on the details of the arrangement, for example if any risk sharing arrangements are in place, then additional adjustments may be made to determine the contribution rate payable by the new admission body. The approach in these cases will be bespoke to the individual arrangement.

Security

To mitigate the risk to the Fund that a new admission body will not be able to meet its obligations to the Fund in the future, the new admission body may be required to put in place a bond in accordance with Schedule 2 Part 3 of the Regulations, if required by the letting authority and administering authority.

If, for any reason, it is not desirable for a new admission body to enter into a bond, the new admission body may provide an alternative form of security which is satisfactory to the administering authority.

NEW ACADEMIES

When a school converts to academy status, the new academy (or the sponsoring multi-academy trust) becomes a Scheme employer in its own right.

Funding at start

On conversion to academy status, the new academy will become part of the Academies funding pool and will be allocated assets based on the funding level of the pool at the conversion date.

Contribution rate

The contribution rate payable when a new academy joins the Fund will be in line with the contribution rate certified for the Academies funding pool at the 2019 valuation.

CESSATION VALUATIONS

When a Scheme employer exits the Fund and becomes an existing employer, as required under the Regulations the Fund Actuary will be asked to carry out an actuarial valuation in order to determine the liabilities in respect of the benefits held by the exiting employer's current and former employees. The Fund Actuary is also required to determine the exit payment due from the exiting

employer to the Fund or the exit credit payable from the Fund to the exiting employer.

Funding Strategy Statement (continued)

Any deficit in the Fund in respect of the exiting employer will be due to the Fund as a single lump sum payment, unless it is agreed by the administering authority and the other parties involved that an alternative approach is permissible. For example:

- It may be agreed with the administering authority that the exit payment can be spread over some agreed period;
- the assets and liabilities relating to the employer may transfer within the Fund to another participating employer; or
- the employer's exit may be deferred subject to agreement with the administering authority, for example if it intends to offer Scheme membership to a new employee within the following three years.

Similarly, any surplus in the Fund in respect of the exiting employer may be treated differently to a payment of an exit credit, subject to the agreement between the relevant parties and any legal documentation.

In assessing the value of the liabilities attributable to the exiting employer, the Fund Actuary may adopt differing approaches depending on the employer

and the specific details surrounding the employer's cessation scenario.

For example, if there is no guarantor in the Fund willing to accept responsibility for the residual liabilities of the exiting employer, then those liabilities are likely to be assessed on a "minimum risk" basis leading to a higher exit payment being

required from (or lower exit credit being paid to) the employer, in order to extinguish their liabilities to the Fund and to reduce the risk of these liabilities needing to be met by other participating employers in future.

If it is agreed that another employer in the Fund will accept responsibility for the residual liabilities, then the assumptions adopted will be consistent with the current ongoing funding position, but additional prudence will be included in order to take potential uncertainties and risk into account e.g. due to market changes, additional liabilities arising from regulatory or legislative change and political/economic uncertainties. The additional level of prudence will be set by considering the distribution of funding levels under a large number of economic scenarios, with the aim being to gain a reasonable level of confidence that the Fund will be able to meet its benefits obligations to the relevant members in future.

REGULATORY FACTORS

At the date of drafting this FSS, the government is currently consulting on potential changes to the Regulations, some which may affect the regulations surrounding an employer's exit from the Fund. This is set out in the *Local government pension scheme:*

changes to the local valuation cycle and the management of employer risk consultation document.

Further details of this can be found in the Regulatory risks section below.

BULK TRANSFERS

Bulk transfers of staff into or out of the Fund can take place from other LGPS Funds or non-LGPS Funds. In either case, the Fund Actuary for both Funds will be required to negotiate the terms for the bulk transfer – specifically the terms by which the value of assets to be paid from one Fund to the other is calculated.

The agreement will be specific to the situation surrounding each bulk transfer but in general the Fund will look to receive the bulk transfer on no less than a fully funded transfer (i.e. the assets paid from the ceding Fund are sufficient to cover the value of the liabilities on the agreed basis).

A bulk transfer may be required by an issued Direction Order. This is generally in relation to an employer merger, where all the assets and liabilities attributable to the transferring employer in its original Fund are transferred to the receiving Fund.

LINKS WITH THE INVESTMENT STRATEGY STATEMENT (ISS)

The main link between the Funding Strategy Statement (FSS) and the ISS relates to the discount rate that underlies the funding strategy as set out in

the FSS, and the expected rate of investment return which is expected to be achieved by the long-term investment strategy as set out in the ISS.

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

Funding Strategy Statement (continued)

RISKS AND COUNTER MEASURES

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

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

FINANCIAL RISKS

The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

The valuation results are most sensitive to the real discount rate (i.e. the difference between the discount rate assumption and the price inflation assumption). Broadly speaking an increase/decrease of 0.1% p.a. in the real discount rate will decrease/increase the valuation of the liabilities by around 2% and decrease/increase the required employer contribution by around 0.5% of payroll p.a.

However, the Investment and Pension Fund Committee regularly monitors the investment returns achieved by the fund managers and receives advice from the independent advisers and officers on investment strategy.

The Committee may also seek advice from the Fund Actuary on valuation related matters.

In addition, the Fund Actuary provides funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

DEMOGRAPHIC RISKS

Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase in the long-term rate of mortality improvement of 0.25% p.a. will increase the liabilities by around 1%.

The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review. For the past two funding valuations, the Fund has commissioned a bespoke longevity analysis by Barnett Waddingham's specialist longevity team in order to assess the mortality experience of the Fund and help set an appropriate mortality assumption for funding purposes.

The liabilities of the Fund can also increase by more than has been planned as a result of the additional financial costs of early retirements and ill-health

retirements. However, the administering authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

The London Borough of Hammersmith and Fulham Council do not pay additional amounts to cover any strain costs arising from early retirements at the retirement date but instead allow for the additional liability at the next formal valuation and pay additional contributions to meet these strains as part of their secondary rate contributions. The Fund is comfortable with this approach due the strong covenant of the Council.

The administering authority is currently implementing an ill-health self-insurance pool within the Fund whereby a portion of all employers' contributions into the Fund are allocated to a segregated ill-health section of the Fund. When an ill-health retirement occurs, a funding strain (i.e. the difference between the value of the benefits payable to the ill-health member and the value that was assumed as part of the actuarial valuation) is generated in the employer's section of the Fund. As part of the self-insurance policy, assets equal to the funding strain are transferred from the segregated ill-health assets section of the Fund to the employer's section of the Fund to cover the funding strain.

Funding Strategy Statement (continued)

MATURITY RISK

The maturity of a Fund (or of an employer in the Fund) is an assessment of how close on average the members are to retirement (or already retired). The more mature the Fund or employer, the greater proportion of its membership that is near or in retirement. For a mature Fund or employer, the time available to generate investment returns is shorter and therefore the level of maturity needs to be considered as part of setting funding and investment strategies.

The cashflow profile of the Fund needs to be considered alongside the level of maturity: as a Fund matures, the ratio of active to pensioner members falls, meaning the ratio of contributions being paid into the Fund to the benefits being paid out of the Fund also falls. This therefore increases the risk of the Fund having to sell assets in order to meet its benefit payments.

The government has published a consultation (*Local government pension scheme: changes to the local valuation cycle and management of employer risk*) which may affect the Fund's exposure to maturity risk. More information on this can be found in the Regulatory risks section below.

REGULATORY RISKS

The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by the government.

The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

However, the administering authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

There are a number of general risks to the Fund and the LGPS, including:

- If the LGPS was to be discontinued in its current form it is not known what would happen to members' benefits.
- The potential effects of GMP equalisation between males and females, if implemented, are not yet known.
- More generally, as a statutory scheme the benefits provided by the LGPS or the structure of the scheme could be changed by the government.
- The State Pension Age is due to be reviewed by the government in the next few years.

At the time of preparing this FSS, specific regulatory risks of particular interest to the LGPS are in relation to the McCloud/Sargeant judgements, the cost cap mechanism and the timing of future funding valuations consultation. These are discussed in the sections below.

McCloud/Sargeant judgements and cost cap

The 2016 national Scheme valuation was used to determine the results of HM Treasury's (HMT) employer cost cap mechanism for the first time. The HMT cost cap mechanism was brought in after Lord Hutton's review of public service pensions with the aim of providing protection to taxpayers and employees against unexpected changes (expected to be increases) in pension costs. The cost control mechanism only considers "member costs". These are the costs relating to changes in assumptions made to carry out valuations relating to the profile of the Scheme members; e.g. costs relating to how long members are expected to live for and draw their pension. Therefore, assumptions such as future expected levels of investment returns and levels of inflation are not included in the calculation, so have no impact on the cost management outcome.

The 2016 HMT cost cap valuation revealed a fall in these costs and therefore a requirement to enhance Scheme benefits from 1 April 2019. However, as a funded Scheme, the LGPS also had a cost cap mechanism controlled by the Scheme Advisory Board (SAB) in place and HMT allowed SAB to put together a package of proposed benefit changes in order for the LGPS to no longer breach the HMT cost cap. These benefit changes were due to be consulted on with all stakeholders and implemented from 1 April 2019.

Funding Strategy Statement (continued)

However, on 20 December 2018 there was a judgement made by the Court of Appeal which resulted in the government announcing their decision to pause the cost cap process across all public service schemes. This was in relation to two employment tribunal cases which were brought against the government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. Transitional protection enabled some members to remain in their pre-2015 schemes after 1 April 2015 until retirement or the end of a predetermined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted

by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

At the time of drafting this FSS, it is not yet known what the effect on the current and future LGPS benefits will be.

CONSULTATION: LOCAL GOVERNMENT PENSION SCHEME: CHANGES TO THE LOCAL VALUATION CYCLE AND MANAGEMENT OF EMPLOYER RISK

On 8 May 2019, the government published a consultation seeking views on policy proposals to amend the rules of the LGPS in England and Wales. The consultation covered:

- amendments to the local fund valuations from the current three year (triennial) to a four year (quadrennial) cycle;
- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle;
- proposals for flexibility on exit payments;
- proposals for further policy changes to exit credits; and
- proposals for changes to the employers required to offer LGPS membership.

The consultation is currently ongoing: the consultation was closed to responses on 31 July 2019 and an outcome is now awaited. This FSS will be revisited once the outcome is known and reviewed where appropriate.

TIMING OF FUTURE ACTUARIAL VALUATIONS

LGPS valuations currently take place on a triennial basis which results in employer contributions being reviewed every three years. In September 2018 it was announced by the Chief Secretary to HMT, Elizabeth Truss, that the national Scheme valuation would take place on a quadrennial basis (i.e. every four years) along with the other public sector pension schemes. These results of the national Scheme valuation are used to test the cost control cap mechanism and HMT believed that all public sector scheme should have the cost cap test happen at the same time with the next quadrennial valuation in 2020 and then 2024.

MANAGING EMPLOYER EXITS FROM THE FUND

The consultation covers:

- Proposals for flexibility on exit payments. This includes:
 - Formally introducing into the Regulations the ability for the administering authority to allow an exiting employer to spread the required exit payment over a fixed period.
 - Allowing employers with no active employees to defer payment of an exit payment in return for an ongoing commitment to meeting their existing liabilities (deferred employer status).

Funding Strategy Statement (continued)

- Proposals for further policy changes to exit credits. The proposed change would require the exiting employer's exposure to risk to be taken into account in calculating any exit credit due (for example a pass through employer who is not responsible for any pensions risk would likely not be due an exit credit if the amendments are made to the Regulations).

CHANGES TO EMPLOYERS REQUIRED TO OFFER LGPS MEMBERSHIP

At the time of drafting this FSS, under the current Regulations further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

With consideration of the nature of the LGPS and the changes in nature of the further education and higher education sectors, the government has proposed to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS. This could impact on the level of maturity of the Fund and the cashflow profile for these employers. For example, increased risk of contribution income being insufficient to meet benefit outgo, if not in the short term then in the long term as the payroll in respect of these types of employers decreases with fewer and fewer active members participating in the Fund.

This also brings an increased risk to the Fund in relation to these employers becoming exiting employers in the Fund. Should they decide not to admit new members to the Fund, the active membership attributable to the employers will gradually reduce to zero, triggering an exit under the Regulations and a potential significant exit payment. This has the associated risk of the employer not being able to meet the exit payment and thus the exit payment falling to the other employers in the Fund.

There are very few employers of this type currently participating in the Fund and so the risks are considered relatively low at present.

EMPLOYER RISKS

Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer specific events could impact on the funding strategy including:

- Structural changes in an individual employer's membership;
- An individual employer deciding to close the Scheme to new employees; and
- An employer ceasing to exist without having fully funded their pension liabilities.

However, the administering authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required. In particular, the Fund regularly commissions an employer risk review from the Fund Actuary, to help identify the employers in

the Fund that might be considered as high risk. In the case of admitted bodies, the Fund has a policy of requiring some form of security from the employer, in the form of a guarantee or a bond, in case of employer default where the risk falls to the Fund. Where the risk of default falls on the liabilities of an original letting authority, the Fund provides advice to the letting authority to enable them to make a decision on whether a guarantee, some other form of security or a bond should be required.

In addition, the administering authority keeps in close touch with all individual employers participating in the Fund to ensure that, as administering authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

GOVERNANCE RISKS

Accurate data is necessary to ensure that members ultimately receive their correct benefits. The administering authority is responsible for keeping data up to date and results of the actuarial valuation depend on accurate data. If incorrect data is valued, then there is a risk that the contributions paid are not adequate to cover the cost of the benefits accrued.

MONITORING AND REVIEW

This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.

The most recent valuation was carried out as at 31 March 2019, certifying the contribution rates payable by each employer in the Fund for the period from 1 April 2020 to 31 March 2023.

Funding Strategy Statement (continued)

The timing of the next funding valuation is due to be confirmed as part of the government's *Local government pension scheme: changes to the local valuation cycle and management of employer risk* consultation which closed on 31 July 2019. At the time of drafting this FSS, it is anticipated that the next funding valuation will be due as at 31 March 2022 but the period for which contributions will be certified remains unconfirmed.

The administering authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.

- d) The authority's approach to pooling investments, including the use of collective investment vehicles;
- e) The authority's policy on how

Accounts & Audit Regulations made from time to time.

- To receive and consider the Auditor's report on the governance of the Fund.

Appendix 4. Investment Strategy Statement

PURPOSE OF THE INVESTMENT STRATEGY STATEMENT

This is the Investment Strategy Statement (ISS) adopted by the London Borough of Hammersmith & Fulham Pension Fund ("the Fund"), which is administered by the London Borough of Hammersmith & Fulham Council ("the Administering Authority").

Under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the London Borough of Hammersmith & Fulham Pension Fund is required to publish this ISS. The regulations require administering authorities to outline how they meet each of the six objectives, aimed at improving the investment and governance processes of the Fund.

This statement addresses each of the objectives included in the 2016 Regulations:

- a) A requirement to invest fund money in a wide range of instruments;
- b) The authority's assessment of suitability of particular investments and types of investment;
- c) The authority's approach to risk, including the way in which risks are to be measured and managed;

environmental, social or governance (ESG) considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

- f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The Pension Fund Sub-Committee ("the Sub-Committee") of the London Borough of Hammersmith & Fulham Pension Fund oversees the management of the Fund's assets. Although not trustees, the Members of the Sub-Committee owe a fiduciary duty similar to that of trustees to the council taxpayers, who ultimately have to meet any shortfall in the assets of the Fund, as well as to the contributors and beneficiaries of the Fund.

The relevant terms of reference for the Sub-Committee within the Council's Constitution are:

- To make all decisions under Regulations made pursuant to Sections 7, 12 or 24 of the Superannuation Act not otherwise falling to the Director of Finance to determine as set out in the officers' scheme of delegation.
- The consideration and approval of the authority statement of accounts and annual report in accordance with the relevant

- To receive actuarial valuations of the Fund regarding the level of employers' contributions necessary to balance the Fund.
- To have responsibility for all aspects of the investment and other management activity of the Fund.
- To agree the investment strategy and strategic asset allocation having regard to the advice of the fund managers and the investment consultant.
- To monitor performance of the Pension Fund, individual fund managers, custodians, actuary and other external advisors to ensure that they remain suitable.
- To determine the Fund management arrangements, including the appointment and termination of the investment managers, actuary, custodians and fund advisers.
- To agree the Investment Strategy Statement, the Funding Strategy Statement, the Business Plan for the Fund, the Governance Policy Statement, the Communications Policy Statement and to ensure compliance with these.
- To oversee and approve any changes to the administrative arrangements, material contracts and policies and procedures of

- the Council for the payment of pensions, and allowances to beneficiaries.
- To make and review an admission policy relating to admission agreements generally with any admission body.

Investment Strategy Statement (continued)

- To ensure compliance with all relevant statutes, regulations and best practice with both the public and private sectors.
- To review the arrangements and managers for the provision of Additional Voluntary Contributions for fund members.
- To 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 has responsibility for:

- Determining an overall investment strategy and strategic asset allocation, with regard to diversification and the suitability of asset classes to the Fund.
- Appointing the investment managers, an independent custodian, the actuary, the investment advisor(s) and any other external consultants considered necessary.
- Reviewing on a regular basis the investment managers' performance against benchmarks, portfolio risk and satisfying themselves as to the managers' expertise and the quality of their internal systems and controls.

- Monitoring compliance with the ISS & Funding Strategy Statement (FSS) and reviewing its contents.
- Reviewing social, environmental, governance (ESG) and ethical

considerations policies, and the exercise of voting rights.

The Director of Finance, officers and the appointed consultants and actuaries support the Sub-Committee. The day-to-day management of the Fund's assets is delegated to the investment managers.

This ISS will be reviewed at least annually, or more frequently as required, in particular, following valuations, future asset/liability studies and performance reviews, which may indicate a need to change investment policy, or significant changes to the Funding Strategy Statement (FSS).

Under the previous Regulations the Statement of Investment Principles required administering authorities to state how they complied with the revised six investment principles as outlined within the CIPFA Pensions Panel Principles. Although not formally required under the 2016 Regulations, this information is given in Appendix A.

OBJECTIVE 7.2 (A) – A REQUIREMENT TO INVESTMENT FUND MONEY IN A WIDE RANGE OF INSTRUMENTS

Funding and investment risks are discussed in more detail later in this document. However, at this stage, it is important to state that the Sub-Committee is aware of the risks it runs within the Fund and the consequences associated with these risks.

In order to control risk, the Sub-Committee recognises that the Fund should have an investment strategy that has:

- Exposure to a diverse range of sources of return; such as the financial markets, the manager's skill and the use of alternative investments which are less liquid.
- A diverse range of investible asset classes.
- A diverse range of approaches to the management of the underlying assets.

This approach to diversification has seen the Fund dividing its assets into six broad categories as shown in the table below:

Asset Category	Asset Allocation	Review Range
Global Equities	45.0%	+/- 3.0%
Fixed Income	22.5%	+/- 2.0%
Global Bonds	10.0%	
Multi Asset Credit	7.5%	
Private Credit	5.0%	
Alternatives	12.5%	+/- 0.5%
Infrastructure	7.5%	
Illiquid Strategies	5.0%	
Inflation Protection	10.0%	+/- 1.0%
Multi-Asset	5.0%	+/- 1.0%

Asset Category	Asset Allocation	Review Range
Property	5.0%	+/- 1.0%

It is important to note that within each category, the Fund's underlying investments are not concentrated to one particular sector, thereby providing further diversification benefits. The asset allocation is regularly reviewed and subject to change depending on the prevalent investment conditions.

Investment Strategy Statement (continued)

The Sub-Committee is mainly concerned about ensuring the Fund's long-term ability to meet pension and other benefit obligations, as and when they fall due. To this end, the Sub-Committee places a high degree of importance on ensuring the expected return on the assets is sufficient to do so and does not have to rely on a level of risk which the Sub-Committee considers to be excessive.

The Sub-Committee regularly reviews both the performance and expected returns from the Fund's investments to measure whether it has met, and is likely to meet in the future, its return objectives. The Fund currently has a negative cash flow position. This means that the contributions paid in by active members are less than the pension obligations paid out on a monthly basis. The Sub-Committee regularly monitors the Fund's cash flow position and the impact investment income has towards mitigating this risk.

In addition to keeping its investment strategy and policy under regular review, the Sub-Committee will keep this ISS under review to ensure that it reflects the approaches being taken. At all times, the Sub-Committee takes the view that its investment

decisions, including those involving diversification, are in the best long-term interest of the Fund's beneficiaries and seeks appropriate advice from investment advisors.

OBJECTIVE 7.2 (B) THE AUTHORITY'S

ASSESSMENT OF THE SUITABILITY OF PARTICULAR INVESTMENTS AND TYPES OF INVESTMENT

When assessing the suitability of investments, the Fund considers several factors:

- Expected return
- Risk profile
- Market concentration
- Risk management qualities provided by the asset when the whole portfolio is considered
- Geographic and currency exposures
- The extent to which the management of the asset meet the Fund's ESG criteria

Suitability is a critical test for whether or not a particular investment should be made. Each of the Fund's investments has an individual performance benchmark, against which their reported performance is measured.

The Sub-Committee monitors the suitability of the Fund's assets on a quarterly basis. This includes the monitoring of investment returns and the volatility of the individual investments, together with the Fund's expected level of returns and acceptable risk. This latter point being to ensure that risks caused by interactions between investments within the portfolio are properly understood. When comparative statistics are available, the Sub-Committee will also compare the Fund asset

performance with those of similar funds.

The Sub-Committee relies on external advice in relation to the collation of the statistics for review.

OBJECTIVE 7.2 (C) THE AUTHORITY'S APPROACH TO RISK, INCLUDING WAYS IN WHICH RISKS ARE TO BE MEASURED AND MANAGED

The Sub-Committee recognises that there are several risks involved in the investment of fund assets, which include:

Geopolitical and currency risks:

- are measured by the value assets (concentration risk) in any one market, leading to the risk of an adverse influence on investment values arising from political intervention; and
- are managed by regular reviews of the actual investments relative to policy and through regular assessment of levels of diversification.

Manager risk:

- is measured by the expected deviation of the prospective risk and return as set out in the manager(s) investment objectives, relative to the investment policy; and
- is managed by monitoring the actual deviation of returns relative to the objective and factors inherent in the manager(s) investment process.

trades on time and provide secure safekeeping of the assets under custody.

Employer contributions are based upon financial and demographic assumption determined by the actuary. The main risks to the Fund are highlighted within the Funding Strategy Statement (FSS). The risks to the Fund are controlled in the following ways:

- the adoption and monitoring of asset allocation benchmarks, ranges and

The Sub-Committee is of the view that the diversification of the Fund assets is sufficiently broad to ensure the investment risk is low and will continue to be low. When putting in place the investment strategy, the Sub-Committee carefully considers both the individual asset risk characteristics and those of the combined portfolio to ensure the risks are appropriate.

Estimating the likely volatility of future investment returns is difficult as it relies on both estimates of

Investment Strategy Statement (continued)**Solvency and mismatching risks:**

- are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies and;
- are managed by assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

performance targets constrain the investment managers from deviating significantly from the intended approach while permitting the flexibility for managers to enhance returns.

- the appointment of more than one manager with different mandates and approaches provides for the diversification of manager risk.

individual asset class returns and the correlation between them. These can be based on historic asset class information for some of the listed asset classes in which the Fund invests. However, for other private market and less liquid assets, it is much more difficult.

The Sub-Committee is mindful that correlations change over time and at time of stress, it can be significantly different from when they are in more benign market conditions.

Liquidity risk:

- is measured by the level of cash flow required over a specified period; and
- managed by assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment cash policy.

The investment management agreements constrain the manager's actions in areas of particular risk and set out the respective responsibilities of both the manager and the Fund.

The Sub-Committee is aware that investment risk is only one aspect of the risks facing the Fund. The other key risk relates to the Fund's ability to meet the future liabilities, support the investment risk (i.e. the level of volatility of investment return) and underwrite actuarial risk, namely, the volatility in the actuarial funding position and the impact this has on contributions.

To help manage risk, the Sub-Committee uses an external investment adviser to monitor the portfolio risk level. In addition, when carrying out their investment strategy review, the Sub-Committee can appoint different investment advisors to assess the level of risk involved.

The Fund targets a return of 5.0%, in line with the latest triennial actuarial valuation provided by the fund's actuary. This investment strategy is considered to have a low degree of volatility.

Custodial risk:

- Is measured by assessing the creditworthiness of the global custodian and the ability of the organisation to settle

When reviewing the investment strategy on a quarterly basis, the Sub-Committee considers advice from their advisers and the need to take additional steps to protect the value of the assets that may arise or capitalise on opportunities if they are deemed suitable. In addition to this, the risk registers are also reviewed and updated on a quarterly basis.

At each review of the Investment Strategy Statement, the assumptions on risk and return, and their impact on asset allocation will be reviewed.

Investment Strategy Statement (continued)

OBJECTIVE 7.2 (D) THE AUTHORITY'S APPROACH TO POOLING INVESTMENTS, INCLUDING THE USE OF COLLECTIVE INVESTMENT VEHICLES

The Fund recognises the Government's requirement for LGPS funds to pool their investments and is committed to pursuing a pooling solution that ensures maximum cost effectiveness for the Fund, both in terms of return and management cost. The Fund's pooling arrangements meet the criteria set out in the Local Government Pension Scheme: Investment Reform Criteria and Guidance.

The Fund is a member of the London Collective Investment Vehicle (CIV) and joined the asset pool as part of the Government's pooling agenda. The London CIV was launched in December 2015 by the

32 local authorities within London and has about £19.5 billion of assets under management, of which £8.8 billion is managed directly with 14 active funds as of 30 September 2019.

As at the 31st December 2019, the Fund had transitioned assets into the London CIV with a value of £788 million, equivalent to 71% of the fund's assets. The Fund continues to monitor the ongoing development of investment strategies available on the London CIV platform and will look to transition further assets as and when there are suitable investment strategies available on the platform that are compatible with the Fund's investment strategy and objectives.

The table below details the investment assets held by the Fund, the availability of similar mandates on the London CIV platform and how much of the assets are invested with the pool as at 31 December 2019:

Asset Category	Availability on LCIV	Investment with LCIV
Global Equities		
MSCI Low Carbon (LGIM)	Contract negotiated on behalf of LCIV Clients	£546.2m
Multi Asset		
LCIV Absolute Return (Ruffer)	Yes	£132.9m
Fixed Income		
LCIV Global Bonds (PIMCO)	Yes	£108.8m

Asset Category	Availability on LCIV	Investment with LCIV
Private Multi Asset Credit (Partners Group, Aberdeen Standard)	No	-
Multi Asset Credit (Oakhill)	No	-
Infrastructure		
Renewable Infrastructure (Aviva)	No	-
Global Infrastructure (Partners Group)	Yes	-

Inflation Strategies (M&G) Yes

Long Lease Property (Aberdeen Standard) No

The Fund has committed capital to alternative investment strategies such as property, infrastructure and illiquid debt. The cost of exiting these strategies early would present a material negative financial impact for the Fund. As such, the Fund will continue to hold these investments outside of the London CIV pooling structure to maturity, at which point, the Fund will assess the viability of making such investments within the pool, subject to availability and the Fund's asset allocation.

The Sub-Committee is aware that transitioning certain investment assets to the London CIV could incur significant costs. Whilst it is the expectation of

the Fund to make use of the London CIV for the management of most of the Fund's assets in the longer term, the Sub-Committee recognises that transitioning from the current structure to the London CIV will be a protracted exercise spread over several years to ensure that unnecessary costs are not incurred.

The Fund reviews its investment strategy at least once every three years, an exercise which considers the suitability of each investment within the portfolio, including an assessment of transition and investment opportunities with the London CIV.

Investment Strategy Statement (continued)

Governance structure of the London CIV

The London CIV is an authorised company by the Financial Conduct Authority (FCA), which was established by the London Local Authorities (LLAs) to provide a collaborative vehicle for pooling LGPS pension fund assets. The current Corporate Governance and Controls Framework was approved by London CIV shareholders in 2018. This framework details the governance arrangements for approving the London CIV's annual budget, business plan and objectives, governance structures and appointments, shareholder agreement and transparency of information and reporting.

The London CIV Company Board (the Board) comprises of an independent chair, seven non-executive directors (NEDs) of which two are nominated by the LLAs, three executive directors and the London CIV Treasurer. The Board has a duty to act in the best interests of the shareholders and have collective responsibility for:

- Strategy and oversight
- Budget and forward plans
- Performance reviews
- Major contracts and significant decisions, including decisions relating to funds
- Financial reporting and controls
- Compliance, risk and internal controls
- Governance and key policies

The London CIV has four committees responsible for investment oversight, audit and risk, remuneration and nominations and day to day operations of the company. These comprise of executive and non-executive members.

The role of the Investment Oversight Committee is to:

- Determine, maintain and monitor the company's investment strategy, investment performance and investment risks of the portfolios in accordance with the company's strategy and business plan.

The responsibilities of the Compliance, Audit and Risk Committee include:

- overseeing compliance obligations;
- developing and monitoring a risk management framework; and

- ensuring the integrity of financial statements and reporting.

The responsibilities of the Remuneration & Nomination Committee include:

- developing and monitoring a remuneration policy;
- overseeing the remuneration of key staff; and
- handling nominations and succession planning of key staff and board members.

The Executive Directors acting collectively as the Executive Committee have a number of specific delegated responsibilities for the day-to-day operations of the company, supported by the wider executive leadership team. The role of the Executive Committee in summary is to:

- execute board-approved strategic objectives and business plan in line with risk appetite and financial limits;

- identify, discuss and formulate effective solutions to address issues and opportunities facing the company;
- ensure the day-to-day operations meet the relevant legal requirements and compliance obligations of the company; and
- ensure the Board and Committee members receive timely, accurate and transparent management information and reporting to fulfil their duties and responsibilities.

The London CIV's Shareholder Committee is responsible for scrutinising the actions of the Board, reporting and transparency, consultation on the

strategy and business plan, matters reserved to shareholders, responsible investment and emerging issues. The Shareholder Committee meets on a quarterly basis and comprises of 12 members, including Councillors and Treasurers from the LLAs.

The London CIV hosts an AGM on a semi-annual basis, to which all 32 members are invited. This allows members the opportunity to exercise shareholder power, approve the annual budget and hold the Board to account.

External independent oversight and assurance of the pool company is provided to the FCA, depositary, external auditors and the Ministry of Housing, Communities and Local Government (MHCLG).

Investment Strategy Statement (continued)

OBJECTIVE 7.2 (E) HOW ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CONSIDERATIONS ARE TAKEN INTO ACCOUNT IN THE SELECTION, NON-SELECTION AND RETENTION AND REALISATION OF INVESTMENTS

The Fund recognises environmental, social and governance (ESG) factors as central themes in measuring the sustainability and impact of its investment decisions. Failure to appropriately

manage these factors is considered to be a key risk for the fund as this can have an adverse impact on the fund's overall investment performance, which ultimately affects the scheme members, employers and local council taxpayers.

The United Nations (UN) has established 17 Sustainable Development Goals (SDGs) as a blueprint to achieving a better and more sustainable future for all. These goals aim to address the challenges of tackling climate change, supporting industry, innovation and infrastructure, and investing in companies that are focused on playing a key role in building that sustainable future.

Whilst it might not be practical for any organisation to achieve all the SDGs solely by itself, the Fund has developed a Responsible Investment policy that targets several of the UN's SDGs that are aligned with the Fund's investment values.

The Fund, alongside its administering authority

employer, has committed itself to achieving carbon neutrality by the year 2030. This commitment demonstrates the Fund's intention to act as a responsible investor and will increasingly play a fundamental role in fund's asset allocation and investment manager selection processes.

The Fund maintains a policy of engagement with all its stakeholders, including those operating in the investment industry. It is broadly recognised that in the foreseeable future, the global economy will transition from its reliance on fossil fuels to the widespread adoption of renewables as the main source of energy production. The impact of this

transition on the sustainability of investment returns will be continually assessed.

The Sub-Committee is committed to playing an active role in the transition to a sustainable economic and societal environment. To that end, the Fund will continue to seek investments that match its pension liability profile, whilst having a positive impact on society. The Fund is of the view that greater impact can be achieved through active ownership and lobbying for firms to change and utilise their resources sustainably.

The Sub-Committee recognises that it has a fiduciary duty to act in the best interests of the scheme's members to ensure that their benefits are honoured in retirement. Such responsibility extends also to making a positive contribution to the long-term sustainability of the global environment. ESG integration into the Fund's investment decision processes aims to mitigate the associated investment risks, whilst enhancing investment returns for the Fund, thereby safeguarding

members' futures.

Policy implementation – Selection process

The Sub-Committee delegates the individual investment selection decisions to its investment managers. In doing so, the Fund maintains a policy of non-interference with the day-to-day decision-making processes of the investment managers. However, as part of its investment manager appointment process, the Sub-Committee assesses the investment managers' abilities to integrate ESG factors into their investment selection process. This includes, but is not limited to:

- evidence of the existence of a responsible investment policy;
- evidence of ESG integration in the investment process;
- evidence of sign up to relevant responsible investment frameworks such as the United Nations Principles of Responsible Investment (UNPRI);
- commitment to addressing the challenges posed by climate change;
- a track record of actively engaging with stakeholders to influence best practice;
- an ability to appropriately disclose, measure and report on the overall impact of ESG decisions made

As part of its investment manager selection process, the Sub-Committee will obtain proper advice from the Fund's internal and external advisers with the requisite knowledge and skills; this will be supplemented by regular training.

Investment Strategy Statement (continued)

Investment managers are expected to follow industry best practice and use their influence as major institutional investors and long-term stewards of capital to promote best practice in the companies/projects in which they invest. Investable companies will be expected to comply with all the applicable laws and regulations in their respective markets as a minimum.

Policy Implementation – Ongoing engagement

Whilst it is still quite difficult to quantify the impact of the less tangible non-financial factors on the economic performance of an organisation, this is an area that continues to see significant improvements.

Several benchmarks and disclosure frameworks exist to measure the difference aspects of available ESG data which includes carbon emissions, diversity on company boards and social impact. It is apparent that poor scoring on these ESG factors can have an adverse impact on an organisation's financial performance. It is therefore important for the appointed investment managers to effectively assess the impact such factors may have on the underlying investments.

The Fund's officers will continue to engage with the investment managers on an ongoing basis to monitor overall investment performance, including ESG considerations. This can be implemented in several forms which include but are not limited to:

- regular meetings with investment managers to assess investment performance and the progress made towards achieving ESG targets;
- reviewing reports issued by investment managers and challenging performance where appropriate;
- working with investment managers to establish appropriate ESG reporting and disclosures in line with pension fund's objectives;
- contribution to various working groups that seek to positively influence the reporting of industry standards on ESG metrics;
- actively contributing to the efforts of engagement groups such as the Local Authority Pension Fund Forum (LAPFF), of which the fund is a member.

The Fund's officers will work closely with the London CIV (through which the Fund will increasingly invest) in developing and monitoring its internal frameworks and policies on all issues which could present a material financial risk to the long-term performance of the Fund. This will include the London CIV's ESG frameworks and policies for investment analysis and decision making.

Fund officers will report on the Fund's investment performance, including an update on the ongoing ESG performance, to the Sub-Committee at least once every quarter. This will include a review into the Fund's progress towards achieving its ESG targets.

In preparing and reviewing its Investment Strategy

Statement, the Fund will consult with the relevant stakeholders including, but not limited to:

- pension fund employers;
- local pension board;
- advisers/consultants to the fund;
- investment managers.

Policy Implementation - Training

The Sub-Committee and the Fund's officers will receive regular training on responsible investment. A review of training requirements and needs will be carried out at least annually. Training is intended to

cover the latest updates in legislation and regulations, as well as best practice with regards to ESG integration into the Fund's investment process.

OBJECTIVE 7.2 (F) THE EXERCISE OF RIGHTS (INCLUDING VOTING RIGHTS) ATTACHED TO INVESTMENTS

The Fund recognises the importance of its role as good stewards of capital and the need to ensure the highest standards of governance, promoting corporate responsibility in the underlying companies in which it holds its investments. The Sub-Committee has delegated the Fund's voting rights to its investment managers who are required and expected, where practical, to make considered use of voting in the interests of the Fund.

Investment Strategy Statement (continued)

Through its participation as a member of the London CIV, the Fund continues to work closely with other LGPS funds in London to enhance the level of engagement with both the investment managers and the underlying companies in which it invests.

The Fund is a member of the LAPFF, a leading collaborative shareholder engagement group in the UK. The LAPFF regularly issues voting alerts to investment managers on behalf of its members. Investment managers are encouraged to vote in accordance with these alerts where possible or provide an explanation as to why they are unable to do so. The Fund's membership in the LAPFF and the Pensions and Lifetime Savings Association (PSLA)

helps in magnifying the voice and influence of pension fund assets owners.

Feedback on this statement

Any feedback on this Investment Statement is welcomed. If you have any comments or wish to discuss any issues, please contact:

Tri-Borough Pensions Team

pensionfund@lbhf.gov.uk

Disclosure in the Local Government Pension Scheme in the United Kingdom 2012”.

The Fund aims to comply with all of the Myners’ Principles, recognising it is in all parties’ interests if the Fund operates to standards of investment decision-making and governance identified as best practice. It is therefore important for the Fund to demonstrate how it meets principles and intends to achieve best practice.

The Secretary of State has previously highlighted the principle contained in *Roberts v. Hopwood*, for pension funds whose administering bodies exercise their duties and powers under regulations governing the investment and management of funds:

“A body charged with the administration for definite purposes of funds contributed in whole or in part by persons other than members of that body owes, in my view, a duty to those latter persons to conduct that administration in a fairly business-like

manner with reasonable care, skill and caution, and with a due and alert regard to the interest of those contributors who are not members of the body. Towards these latter persons the body stands somewhat in the position of trustees or managers of others”.

The Myners’ Principles are widely accepted to be in support of this approach. The principles, together with the Fund’s position on compliance, are set out below.

Investment Strategy Statement (continued)

COMPLIANCE WITH CIPFA PENSIONS PANELS PRINCIPLES

DECISION MAKING

Regulation 12(3) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires an administering authority to report on its compliance with the six Myners’ Principles, in accordance with guidance given by the Secretary of State. The guidance for the Local Government Pension Scheme is set out in the CIPFA publication *“Investment Decision Making and*

PRINCIPLE 1 – EFFECTIVE DECISION MAKING

Administrating authorities should ensure that:

- decisions are taken by persons or organisations with the skills, knowledge advice and resources necessary to make them effectively and monitor their implementation; and
- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive whilst also managing any conflicts of interest.

Full compliance

The Hammersmith & Fulham Council (the Council) has delegated the management and administration of the Fund to the Pension Fund Sub-Committee (the Sub-Committee). The Sub-Committee meets at least quarterly. The responsibilities of the Sub-Committee are described in section 1 of the Investment Strategy

Statement (ISS).

The Sub-Committee is made up of elected members of the Council who each have voting rights. Representatives from the admitted and scheduled bodies, as well as the trade unions may attend as observers.

The Sub-Committee obtains and considers advices from the Fund’s officers, appointed actuary, investment managers and advisors. Investment managers are appointed in accordance with the scheme’s regulations and the scope of their activities are specified in detailed investment management

agreements and regularly monitored. Business plans are presented to the Sub-Committee annually and progress is monitored on a quarterly basis.

Several of the Sub-Committee members have extensive experience of dealing with investment matters and training is made available to new members when they are appointed to the committee.

PRINCIPLE 2 – CLEAR OBJECTIVES

The Fund should set investment objectives that consider the following factors:

- the funds overall pension liabilities
- the potential impact of investment risks on local council tax players
- the strength of the covenant for non-local authority employers
- the attitude towards risk of both the administering authority and the scheme employers

These should be clearly communicated to advisors and investment managers.

Investment Strategy Statement (continued)

Full compliance

The aims and objectives of the Fund are set out within the Funding Strategy Statement and the Investment Strategy Statement. The main objective of the fund is to meet the cost of pension liabilities whilst minimising the fluctuations in the employer

contribution rates, thereby keeping costs to taxpayers and admitted bodies at a reasonable level.

In order to ensure that the Fund's assets are sufficient to meeting its short-term and long-term pension liabilities, the Fund's investment strategy has been set to include a combination of income yielding and growth assets. The Fund's investment performance is measured against this objective on a quarterly basis. The Fund's investment strategy is also reviewed regularly.

PRINCIPLE 3 – RISK AND LIABILITIES

The Fund should consider the form and structure of its liabilities. This includes:

- the implications for local council taxpayers;
- the strength of the covenant for non-local authority employers;
- the risk of their default; and
- longevity risk.

Full compliance

The Sub-Committee, in conjunction with its advisers, agrees an investment strategy that is appropriate to meet the Fund's liabilities. A fund actuarial valuation is carried out every three years, with the most recent triennial valuation having been conducted in 2019. The investment strategy is designed to be well

diversified, achieving the optimal risk adjusted return for the Fund.

An appropriate asset allocation has been agreed, which aims to maximise the potential to close the funding deficit over future years. This is included as an appendix to the ISS.

PRINCIPLE 4 – PERFORMANCE ASSESSMENT

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. Administering authorities should periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to the scheme members.

Full compliance

The Sub-Committee has appointed investment managers with clear index strategic benchmarks as a means of monitoring the investment manager's skill. Investment managers are held accountable to any under performance against the appropriate agreed upon benchmark.

Manager performance is monitored on a quarterly basis and independent detailed monitoring of the Fund's investments is carried out by the Fund's investment adviser and custodian. Portfolio risk is measured on a quarterly basis and the risk/return implications of the different strategic options are fully evaluated.

The investment adviser is assessed on the appropriateness of the quality of the advice given which include the asset allocation recommendations

and the performance of the funds on their rated list. The actuary is assessed on the quality and consistency of the actuarial advice received. Both the advisor and the actuary have fixed term contracts which when expired are tendered for under the Official Journal of the European Union (OJEU) procedures.

PRINCIPLE 5 – RESPONSIBLE OWNERSHIP

Administering authorities should:

- adopt, or ensure their investment managers adopt, the Institutional Shareholders Committee Statement of Principles on the responsibilities of shareholders and agents.
- include a statement of their policy on responsible ownership in the statement of investment principles.
- report periodically to scheme members on the discharge of such responsibilities.

Full compliance

The Fund is committed to making full use of its shareholder rights. The approach used is outlined in Section 7 of the ISS. Authority has been delegated to investment managers to exercise voting rights on behalf of the Fund. Investment managers are required to report how they have voted in their quarterly reports.

The Fund intends on using its influence as a shareholder to promote corporate social responsibility and high standards of corporate governance in the companies in which it invests. The Fund's approach to this is outline in the ISS.

Investment Strategy Statement (continued)

PRINCIPLE 6 – TRANSPARENCY AND REPORTING

Administering authorities should:

- act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks including performance against stated objectives.
- provide regular communications to scheme members in the form they consider most appropriate.

Full compliance

The Fund publishes an annual report each year which communicates the Fund's strategy and performance to stakeholders. Copies of the Investment Strategy Statement, Funding Strategy Statement and other policy documents are also made publicly available online on the Council's website.

All Pension Fund Sub-Committee meetings are open to members of the public, and agendas and minutes are also published on the Council's website.

The Stewardship Code is a set of principles or guidelines released in 2010 and updated in 2020 by the Financial Reporting Council (FRC), directed at institutional investors who hold rights in United Kingdom companies. Its principal aim is to make shareholders who manage other people's money actively engage in corporate governance in the interests of their beneficiaries.

The Code applies to pension funds and adopts the same "comply or explain" approach used in the UK Corporate Governance Code. This means that it does not require compliance with principles but if fund managers and institutional investors do not comply with any of the principles set out, they must explain why they have not done so. The Committee has not formally adopted the latest version of the Stewardship Code, however, expects any directly appointed fund managers and the pool company (London CIV, in this Fund's case) to comply and this is monitored on an annual basis.

COMPLIANCE WITH THE STEWARDSHIP CODE

Investment Strategy Statement: Appendix B

INVESTMENT AND ADMINISTRATION RISK REGISTER

London Borough of Hammersmith & Fulham Pension Fund Risk Register – Investment Risk Register							
Risk Group	Risk Description	Impact Total	Likelihood	Total Risk Score	Mitigation Actions	Revised Likelihood	Net Risk Score
Investment	The global outbreak of COVID-19 poses economic uncertainty across the global investment markets. Valuations of illiquid assets such as property and infrastructure are increasingly difficult to determine.	11	4	44	TREAT 1) Since March, the financial markets have rebounded strongly, and the fund has recovered its previous losses. 2) Officers will continue to monitor the impact lockdown measures have on the fund's underlying investments and the wider economic environment 3) The Fund will continue to review its asset allocation and make any changes when necessary 4) The Fund holds a well-diversified portfolio, which should reduce the downside risks of adverse stock market movements.	3	33
Investment	Significant volatility and negative sentiment in global investment markets following disruptive geopolitical and economic uncertainty.	10	4	40	TREAT 1) Continued dialogue with investment managers regarding management of political risk in global developed markets. 2) Investment strategy integrates portfolio diversification and risk management. 3) The Fund alongside its investment consultant continually reviews its investment strategy in different asset classes.	3	30
Funding	Price inflation is significantly more than anticipated in the actuarial assumptions: an increase in CPI inflation by 0.1% over the assumed rate will increase the liability valuation by upwards of 1.7%.	10	4	40	TREAT 1) The fund holds investment in index-linked bonds (RPI protection which is higher than CPI) and other real assets to mitigate CPI risk. Moreover, equities will also provide a degree of inflation protection. 2) Officers continue to monitor the increases in CPI inflation on an ongoing basis.	3	30

Investment	Volatility caused by uncertainty regarding the withdrawal of the UK from the European Union, including the failure to agree to a trade deal and the economic fallout after the transition period at the end of 2020.	9	3	27	<p>TREAT</p> <p>1) Officers to consult and engage with advisors and investment managers.</p> <p>2) Possibility of hedging currency and equity index movements.</p> <p>3) The UK exited the EU on 31 January 2020, there is now a transition period until the end of 2020. During this time current rules on trade, travel and business for the UK and EU will apply.</p>	3	27
Funding	There is insufficient cash available to the Fund to meet pension payments due to reduced income generated from underlying investments, leading to investment assets being sold at sub-optimal prices to meet pension obligations.	12	3	36	<p>TREAT</p> <p>1) Cashflow forecast maintained and monitored. Cashflow position reported to sub-committee quarterly.</p> <p>2) The Fund receives quarterly income distributions from some of its investments to help meet its short-term pensions obligations.</p> <p>3) The fund will review the income it receives from underlying investments and make suitable investments to meet its target income requirements.</p>	2	24
Governance	The London Collective Investment Vehicle (LCIV) disbands or the partnership fails to produce proposals/solutions deemed sufficiently ambitious.	12	2	24	<p>TOLERLATE</p> <p>1) Partners for the pool have similar expertise and like-mindedness of the officers and members involved with the fund, ensuring compliance with the pooling requirements.</p> <p>2) Monitor the ongoing fund and pool proposals are comprehensive and meet government objectives.</p> <p>3) The LCIV has recently bolstered its investment team with the successful recruitment of a permanent CIO, Head of Responsible Investment & Client Relations Director.</p> <p>4) Fund representation on key officer groups.</p>	2	22
Investment	Investment managers fail to achieve benchmark outperformance targets over the longer term: a shortfall of 0.1% on the investment target will result in an annual impact of £1.1m.	11	3	33	<p>TREAT</p> <p>1) The Investment Management Agreements (IMAs) clearly state LBHF's expectations in terms of investment performance targets.</p> <p>2) Investment manager performance is reviewed on a quarterly basis.</p> <p>3) The Pension Fund Committee is positioned to move quickly if it is felt that targets will not be achieved.</p> <p>4) Portfolio rebalancing is considered on a regular basis by the Pension Fund Committee.</p> <p>5) The Fund's investment management structure is highly diversified, which lessens the impact of manager risk compared with less diversified structures.</p>	2	22

Funding	Scheme members live longer than expected leading to higher than expected liabilities.	11	2	22	<p>TOLERATE</p> <p>1)The scheme's liability is reviewed at each triennial valuation and the actuary's assumptions are challenged as required.</p> <p>2)The actuary's most recent longevity analysis has shown that the rate of increase in life expectancy is slowing down.</p>	2	22
Funding	Employee pay increases are significantly more than anticipated for employers within the Fund.	10	2	20	<p>TOLERATE</p> <p>1) Fund employers continue to monitor own experience.</p> <p>2) Assumptions made on pay and price inflation (for the purposes of IAS19/FRS102 and actuarial valuations) should be long term assumptions. Any employer specific assumptions above the actuary's long-term assumption would lead to further review.</p> <p>3) Employers to made aware of generic impact that salary increases can have upon the final salary linked elements of LGPS benefits (accrued benefits before 1 April 2014).</p>	2	20
Investment	Global investment markets fail to perform in line with expectations leading to deterioration in funding levels and increased contribution requirements from employers.	10	3	30	<p>TREAT</p> <p>1) Proportion of total asset allocation made up of equities, fixed income, property funds and other alternative asset funds, limiting exposure to one asset category.</p> <p>2) The investment strategy is continuously monitored and periodically reviewed to ensure optimal risk asset allocation.</p> <p>3) Actuarial valuation and strategy review take place every three years post the actuarial valuation.</p> <p>4) IAS19 data is received annually and provides an early warning of any potential problems.</p> <p>5) The actuarial assumption regarding asset outperformance is regarded as achievable over the long term when compared with historical data.</p>	2	20
Governance	Implementation of proposed changes to the LGPS (pooling) does not conform to plan or cannot be achieved within laid down timescales	6	3	18	<p>TOLERATE</p> <p>1) Officers consult and engage with MHCLG, LGPS Scheme Advisory Board, advisors, consultants, peers, various seminars and conferences.</p> <p>2) Officers engage in early planning for implementation against agreed deadlines.</p> <p>3) Uncertainty surrounding new MHCLG guidance</p>	3	18

Governance	London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers.	8	3	24	<p>TREAT</p> <p>1) Tri-Borough Director of Treasury & Pensions is a member of the officer Investment Advisory Committee which gives the Fund influence over the work carried out by the London CIV.</p> <p>2) Officers continue to monitor the ongoing staffing issues and the quality of the performance reporting provided by the London CIV.</p>	2	16
Funding	Impact of economic and political decisions on the Pension Fund's employer workforce.	8	2	16	<p>TOLERATE</p> <p>1) Barnet Waddingham uses prudent assumptions on future of employees within workforce.</p> <p>2) Employer responsibility to flag up potential for major bulk transfers outside of the LBHF Fund.</p> <p>3) Officers to monitor the potential for a significant reduction in the workforce as a result of the public sector financial pressures.</p>	2	16
Funding	Ill health costs may exceed "budget" allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	7	2	14	<p>TOLERATE</p> <p>1) Review "budgets" at each triennial valuation and challenge actuary as required.</p> <p>2) Charge capital cost of ill health retirements to admitted bodies at the time of occurring.</p> <p>3) Occupational health services provided by the Council and other large employers to address potential ill health issues early.</p>	2	14
Funding	Impact of increases to employer contributions following the actuarial valuation	13	2	26	<p>TREAT</p> <p>1) Officers to consult and engage with employer organisations in conjunction with the actuary.</p> <p>2) Actuary will assist where appropriate with stabilisation and phasing in processes.</p>	1	13
Governance	Failure to take difficult decisions inhibits effective Fund management	12	2	24	<p>TREAT</p> <p>1) Officers ensure that governance process encourages decision making on objective empirical evidence rather than emotion.</p> <p>2) Officers ensure that the basis of decision making is grounded in the Investment Strategy Statement (ISS), Funding Strategy Statement (FSS), Governance Policy statement and Committee Terms of Reference and that appropriate expert advice is sought.</p>	1	12

Governance	Changes to LGPS regulations	6	3	18	<p>TREAT</p> <p>1) Fundamental change to LGPS Regulations implemented from 1 April 2014 (change from final salary to CARE scheme).</p> <p>2) Future impacts on employer contributions and cash flows will considered during the 2019 actuarial valuation process.</p> <p>3) Fund will respond to several ongoing consultation processes.</p> <p>4) Impact of LGPS (Management of Funds) Regulations 2016 to be monitored. Impact of Regulations 8 (compulsory pooling) to be monitored.</p>	2	12
Investment	Failure to keep up with the pace of change regarding economic, policy, market and technology trends relating to climate change	6	3	18	<p>TREAT</p> <p>1) Officers regularly receive updates on the latest ESG policy developments from the fund managers.</p> <p>2) The Pensions Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which engages with companies on a variety of ESG issues including climate change.</p>	2	12
Governance	Failure by the audit committee to perform its governance, assurance and risk management duties	6	3	18	<p>TREAT</p> <p>1) Audit Committee performs a statutory requirement for the Pension Fund with the Pension Sub-Committee being a sub-committee of the audit committee.</p> <p>2) Audit Committee meets regularly where governance issues are regularly tabled.</p>	2	12
Operational	Insufficient attention paid to environmental, social and governance (ESG) issues, leading to reputational damage. The Council declared a climate emergency in July 2019, the full impact of this decision is uncertain.	6	3	18	<p>TREAT</p> <p>1) Review ISS in relation to published best practice (e.g. Stewardship Code, Responsible Investment Statement)</p> <p>2) The Fund currently holds investments all it passive equities in a low carbon tracker fund, and is invested in renewable infrastructure.</p> <p>3) The Fund's actively invests in companies that are contributing to global sustainability through its Global Core Equity investment</p> <p>4) The Fund has updated its ESG Policy and continues to review its Responsible Investment Policy</p> <p>5) The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which raises awareness of ESG issues and facilitates engagement with fund managers and corporate company directors.</p>	2	12

Funding	Mismatching of assets and liabilities, inappropriate long-term asset allocation or investment strategy, mistiming of investment strategy	11	2	22	<p>TREAT</p> <p>1) Active investment strategy and asset allocation monitoring from Pension Fund Committee, officers and consultants.</p> <p>2) Officers, alongside the Fund's advisor, set fund specific benchmarks relevant to the current position of fund liabilities.</p> <p>3) Fund manager targets set and based on market benchmarks or absolute return measures.</p>	1	11
Investment	Financial loss of cash investments from fraudulent activity	11	2	22	<p>TREAT</p> <p>1) Active investment strategy and asset allocation monitoring from Pension Fund Committee, officers and consultants.</p> <p>2) Officers, alongside the Fund's advisor, set fund specific benchmarks relevant to the current position of fund liabilities.</p> <p>3) Fund manager targets set and based on market benchmarks or absolute return measures.</p>	1	11
Operational	Failure to hold personal data securely in breach of General Data Protection Regulation (GDPR) legislation.	11	2	22	<p>TREAT</p> <p>1) Data encryption technology is in place which allow the secure transmission of data to external service providers.</p> <p>2) LBHF IT data security policy adhered to.</p> <p>3) Implementation of GDPR</p>	1	11
Governance	Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	11	2	22	<p>TREAT</p> <p>1) Officers maintain knowledge of legal framework for routine decisions.</p> <p>2) Eversheds retained for consultation on non-routine matters.</p>	1	11
Funding	Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.	11	2	22	<p>TREAT</p> <p>1) Transferee admission bodies required to have bonds in place at time of signing the admission agreement.</p> <p>2) Regular monitoring of employers and follow up of expiring bonds.</p>	1	11
Governance	Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.	10	2	20	<p>TREAT</p> <p>1) At time of appointment, the Fund ensures advisers have appropriate professional qualifications and quality assurance procedures in place.</p> <p>2) Committee and officers scrutinise, and challenge advice</p>	1	10

					provided routinely.		
Operational	Financial failure of third-party supplier results in service impairment and financial loss.	10	2	20	TREAT 1) Performance of third-party suppliers regularly monitored. 2) Regular meetings and conversations with global custodian (Northern Trust) take place. 3) Actuarial and investment consultancies are provided by two different providers.	1	10
Investment	Failure of global custodian or counterparty.	10	2	20	TREAT 1)At time of appointment, ensure assets are separately registered and segregated by owner. 2)Review of internal control reports on an annual basis. 3)Credit rating kept under review.	1	10
Operational	Financial failure of a fund manager leads to value reduction, increased costs and impairment.	10	2	20	TREAT 1) Adequate contract management and review activities are in place. 2) Fund has processes in place to appoint alternative suppliers at similar price, in the event of a failure. 3) Fund commissions the services of Legal & General Investment Management (LGIM) as transition manager. 4) Fund has the services of the London CIV.	1	10
Governance	Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	10	2	20	TREAT 1) Person specifications are used at recruitment to appoint officers with relevant skills and experience. 2) Training plans are in place for all officers as part of the performance appraisal arrangements. 3) Shared service nature of the pensions team provides resilience and sharing of knowledge. 4) Officers maintain their CPD by attending training events and conferences.	1	10
Governance	Failure to comply with legislative requirements e.g. ISS, FSS, Governance Policy, Freedom of Information requests	10	2	20	TREAT 1) Publication of all documents on external website. 2) Officers expected to comply with ISS and investment manager agreements. 3) Local Pension Board is an independent scrutiny and assistance function. 4) Annual audit reviews.	1	10

Operational	Inaccurate information in public domain leads to damage to reputation and loss of confidence	5	3	15	TREAT 1) Ensure that all requests for information (Freedom of Information, member and public questions at Council, etc) are managed appropriately and that Part 2 Exempt items remain so. 2) Maintain constructive relationships with employer bodies to ensure that news is well managed.	2	10
Funding	Changes to LGPS Scheme moving from Defined Benefit to Defined Contribution	10	1	10	TOLERATE 1) Political power required to effect the change.	1	10
Funding	Transfers out of the scheme increase significantly due to members transferring their pensions to DC funds to access cash through new pension freedoms.	10	1	10	TOLERATE 1) Monitor numbers and values of transfers out being processed. If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values. 2) Evidence has shown that members have not been transferring out of the CARE scheme at the previously anticipated rates.	1	10
Funding	Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	9	2	18	TREAT 1) Review maturity of scheme at each triennial valuation. 2) Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions. 3) Cashflow position monitored monthly.	1	9
Governance	Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	9	2	18	TREAT 1) External professional advice is sought where required. Knowledge and skills policy in place (subject to Committee Approval)	1	9
Governance	Failure to comply with recommendations from the Local Pension Board, resulting in the matter being escalated to the scheme advisory board and/or the pensions regulator	9	2	18	TREAT 1) Ensure that a cooperative, effective and transparent dialogue exists between the Pension Fund Committee and Local Pension Board.	1	9
Regulation	Loss of 'Elective Professional	8	2	16	TREAT	1	8

	Status' with any Fund managers and counterparties resulting in reclassification of fund from professional to retail client status impacting Fund's investment options and ongoing engagement with the Fund managers.				1)Keep quantitative and qualitative requirements under review to ensure that they continue to meet the requirements. 2)Training programme and log are in place to ensure knowledge and understanding is kept up to date. 3)Existing and new Officer appointments subject to requirements for professional qualifications and CPD.		
Operational	Procurement processes may be challenged if seen to be non-compliant with OJEU rules. Poor specifications lead to dispute. Unsuccessful fund managers may seek compensation following non-compliant process	7	2	14	TREAT 1) Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process.	1	7
Funding	The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities	7	2	14	TREAT 1) Review at each triennial valuation and challenge actuary as required. 2) Growth assets and inflation linked assets in the portfolio should rise as inflation rises.	1	7
Regulation	Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	7	2	14	TREAT 1) Maintain links with central government and national bodies to keep abreast of national issues. 2)Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.	1	7
Governance	Change in membership of Pension Fund Committee leads to dilution of member knowledge and understanding	7	2	14	TREAT 1) Succession planning processes are in place. 2) Ongoing training of Pension Fund Committee members. 3) Pension Fund Committee new member induction programme. 4) Training to be based on the requirements of CIPFA Knowledge and Skills Framework under designated officer.	1	7

London Borough of Hammersmith & Fulham Pension Fund Risk Register – Administration Risk

Risk Group	Risk Description	Impact Total	Likelihood	Total Risk Score	Mitigation Actions	Revised Likelihood	Net Risk Score
Admin	After agreeing on changing the fund's pensions administration provider at the same time as bringing back the retained pensions team in house, the pension fund may experience difficulty in finding an appropriately qualified candidate in a competitive recruitment market. A private sector solution may not meet the necessary service requirements.	10	5	50	TREAT 1) A task force of key stakeholders has been assembled. Officers to feed into the internal processes necessary for the setup of an effective retained pensions team. 2) Recruitment is underway for the pensions manager of the retained team. 3) Officers to receive a handover pack from the departing RBKC retained pensions team. 4) Consultant to assist in recommending an appropriate replacement for the third-party administration provider.	4	40
Admin	COVID-19 affecting the day to day functions of the Pensions Administration services including customer telephony service, payment of pensions, retirements, death benefits, transfers and refunds.	9	3	27	TOLERATE 1) The Pensions Administration team have shifted to working from home 2) The administrators have prioritised death benefits, retirements including ill health and refunds. If there is any spare capacity the administrators will prioritise transfers and divorce cases. 3) Revision of processes to enable electronic signatures and configure the telephone helpdesk system to work from home.	3	27
Admin	Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.	7	4	28	TOLERATE 1) Officers to continue monitor the ongoing staffing changes at Surrey CC. 2) Ongoing monitoring of contract and KPIs	3	21

Admin	Structural changes in an employer's membership or an employer fully/partially closing the scheme. Employer bodies transferring out of the pension fund or employer bodies closing to new membership. An employer ceases to exist with insufficient funding or adequacy of bond placement.	9	3	27	<p>TREAT</p> <p>1) Administering Authority actively monitors prospective changes in membership. 2) Maintain knowledge of employer future plans. 3) Contributions rates and deficit recovery periods set to reflect the strength of the employer covenant. 4) Periodic reviews of the covenant strength of employers are undertaken and indemnity applied where appropriate. 5) Risk categorisation of employers planned to be part of 2019 actuarial valuation. 6) Monitoring of gilt yields for assessment of pensions deficit on a termination basis.</p>	2	18
Admin	Failure of fund manager or other service provider without notice resulting in a period of time without the service being provided or an alternative needing to be quickly identified and put in place.	9	2	18	<p>TREAT</p> <p>1) Contract monitoring in place with all providers. 2) Procurement team send alerts whenever credit scoring for any provider changes for follow up action. 3). Officers to take advice from the investment advisor on fund manager ratings and monitoring investment</p>	2	18
Admin	Concentration of knowledge in a small number of officers and risk of departure of key staff.	7	3	21	<p>TREAT</p> <p>1) Process notes are in place. 2) Development of team members and succession planning improvements to be implemented. 3) Officers and members of the Pension Fund Committee will be mindful of the proposed CIPFA Knowledge and Skills Framework when setting objectives and establishing training needs.</p>	1	14
Admin	Incorrect data due to employer error, user error or historic error leads to service disruption, inefficiency and conservative actuarial assumptions.	11	2	22	<p>TREAT</p> <p>1) Update and enforce admin strategy to assure employer reporting compliance. 2) Implementation and monitoring of a Data Improvement Plan as part of the Service Specification between the Fund and Orbis.</p> <p>TOLERATE</p> <p>1) Northern Trust provides 3rd party validation of performance and valuation data. Admin team and members can interrogate data to ensure accuracy.</p>	1	11
Admin	Loss of funds through fraud or	10	2	20	<p>TREAT</p>	1	10

	misappropriation leading to negative impact on reputation of the Fund as well as financial loss.				<p>1) Third parties regulated by the FCA and separation of duties and independent reconciliation processes are in place.</p> <p>2) Review of third-party internal control reports.</p> <p>3) Regular reconciliations of pensions payments undertaken by Pension Finance Team.</p> <p>4) Periodic internal audits of Pensions Finance and HR Teams.</p>		
Admin	Non-compliance with regulation changes relating to the pension scheme or data protection leads to fines, penalties and damage to reputation.	8	2	16	<p>TREAT</p> <p>1) The Fund has generally good internal controls regarding the management of the Fund. These controls are assessed on an annual basis by internal and external audit as well as council officers.</p> <p>2) Through strong governance arrangements and the active reporting of issues, the Fund will seek to report all breaches as soon as they occur in order to allow mitigating actions to take place to limit the impact of any breaches.</p>	1	8
Admin	Failure of financial system leading to lump sum payments to scheme members and supplier payments not being made and Fund accounting not being possible.	8	2	16	<p>TREAT</p> <p>1) Contract in place with HCC to provide service, enabling smooth processing of supplier payments.</p> <p>2) Process in place for Surrey CC to generate lump sum payments to members as they are due.</p> <p>3) Officers undertaking additional testing and reconciliation work to verify accounting transactions.</p>	1	8
Admin	Inability to respond to a significant event leads to prolonged service disruption and damage to reputation.	8	2	16	<p>TREAT</p> <p>1) Disaster recovery plan in place as part of the service specification between the Fund and Surrey County Council</p> <p>2) Ensure system security and data security is in place</p> <p>3) Business continuity plans regularly reviewed, communicated and tested</p> <p>4) Internal control mechanisms ensure safe custody and security of LGPS assets.</p> <p>5) Gain assurance from the Fund's custodian, Northern Trust, regarding their cyber security compliance.</p>	1	8
Admin	Poor reconciliation process leads to incorrect contributions.	4	3	12	<p>TREAT</p> <p>1) Reconciliation is undertaken by the pension fund team. Officers to ensure that reconciliation process notes are understood and applied correctly the team.</p> <p>2) Ensure that the Pension Fund team is adequately</p>	2	8

					resourced to manage the reconciliation process.		
Admin	Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	7	2	14	TREAT 1) In the event of a pension payroll failure, we would consider submitting the previous months BACS file to pay pensioners a second time if a file could not be recovered by the pension administrators and our software suppliers.	1	7
Admin	Failure to detect material errors in bank reconciliation process.	6	2	12	TREAT 1) There are occasional circumstances where under/over payments are identified. Where underpayments occur, arrears are paid as soon as possible, usually in the next monthly pension payment. Where an overpayment occurs, the member is contacted, and the pension corrected in the next month. Repayment is requested and sometimes this is collected over several months.	1	6
Admin	Failure to pay pension benefits accurately leading to under or over payments.	6	2	12	TREAT 1) There are occasional circumstances where under/over payments are identified. Where underpayments occur, arrears are paid as soon as possible, usually in the next monthly pension payment. Where an overpayment occurs, the member is contacted, and the pension corrected in the next month. Repayment is requested and sometimes this is collected over several months.	1	6
Admin	Unstructured training leads to underdeveloped workforce resulting in inefficiency.	6	2	12	TREAT 1) Implementation and monitoring of a Staff Training and Competency Plan as part of the Service Specification between the Fund and Surrey County Council. 2) Officers regularly attend training seminars and conferences 3) Designated officer in place to record and organise training sessions for officers and members	1	6
Admin	Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	3	3	9	TREAT 1) Pension administration records are stored on the Surrey CC servers who have a disaster recovery system in place and records should be restored within 24 hours of any issue. 2) All files are backed up daily.	2	6
Admin	Failure to identify GMP liability	6	1	6	TREAT	1	6

	leads to ongoing costs for the pension fund.				1) GMP to be identified as a Project as part of the Service Specification between the Fund and Surrey County Council.		
Admin	Lack of guidance and process notes leads to inefficiency and errors.	5	2	10	TREAT 1) The team will continue to ensure process notes are updated and circulated amongst colleagues in the Pension Fund and Administration teams.	1	5
Admin	Lack of productivity leads to impaired performance.	5	2	10	TREAT 1) Regular appraisals with focused objectives for pension fund and admin staff.	1	5
Admin	Rise in ill health retirements impact employer organisations.	5	2	10	TREAT 1) Engage with actuary re assumptions in contribution rates.	1	5
Admin	Rise in discretionary ill-health retirements claims adversely affecting self-insurance costs.	5	2	10	TREAT 1) Pension Fund monitors ill health retirement awards which contradict IRMP recommendations.	1	5

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