

Pension Fund Accounts

Fund Account

Net Assets Statement

Notes to the Pension Fund

FUND ACCOUNT

	Notes	2022/23		2021/22	
		£000	£000	£000	£000
Dealings with members, employers and others directly involved in the scheme					
Contributions					
From Employers	7	27,421		25,568	
From Members	7	9,539	36,960	8,735	34,303
Transfers In from other Pension Funds			6,847		8,617
Benefits					
Pensions	8	(40,045)		(37,839)	
Commutation & Lump Sum Retirement Benefits	8	(7,792)		(10,097)	
Payment in respect of tax		(210)	(48,047)	(271)	(48,207)
Payments to and on account of leavers					
Transfers Out to other Pension Funds			(6,738)		(5,737)
Refunds to members leaving service			(84)		(152)
Net Additions (Withdrawals) from dealings with members			(11,062)		(11,176)
Management expenses	9		(8,283)		(9,915)
Returns on Investments					
Investment Income	10		24,673		11,170
Other Income	10		21		26
Profit and losses on disposal of investments and changes in value of investments	12		(39,819)		115,585
Net Return on Investments			(15,125)		126,781
Net Increase (Decrease) in the net assets available for benefits during the year			(34,470)		105,690
Opening Net Assets of the Scheme			1,324,913		1,219,223
Closing Net Assets of the Scheme			1,290,443		1,324,913

NET ASSET STATEMENT

	Notes	31 March 2023 £000	31 March 2022 £000
Investment Assets			
Equities	11	150	150
Pooled Property Vehicles	11	78,572	87,987
Pooled Investment Vehicles	11	1,118,138	1,127,189
Private Equity / Infrastructure	11	63,531	72,202
Cash Deposits	11	20,245	32,104
Other Investment Balances			
Investment Income Due	11	39	7
Net Investment Assets	11	1,280,675	1,319,639
Current Assets	19	3,911	4,525
Current Liabilities	20	(1,979)	(2,118)
Cash Balances (held directly by Fund)		7,836	2,867
Net assets of the Fund available to fund benefits at the period end		1,290,443	1,324,913

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 18a.

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 1. DESCRIPTION OF HAMMERSMITH AND FULHAM PENSION FUND

a) General

The Pension Fund (the Fund) is part of the Local Government Pension Scheme (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 2023. Employer contributions are set based on the triennial actuarial funding valuation, as detailed in Note 18.

b) Pension Fund Committee

The Council has delegated the investment arrangements of the scheme to the Audit and Pensions Committee, which in December 2014 formed a Pension Fund Committee (the Committee) and delegated all pensions responsibilities to it. The Committee decides on the investment strategy most suitable to meet the liabilities of the Fund and has responsibility for the investment strategy. The Committee is made up of seven members, five of whom are elected representatives of the Council with voting rights and two co-opted members. Members of the admitted bodies and representatives of the Trade Unions may attend the Committee meetings but have no voting rights.

The Committee reports annually to the Audit and Pensions Committee and has full delegated authority to make investment decisions. The Committee obtains and considers advice from the Director of Finance, and as necessary from the Fund's appointed actuary, investment managers and adviser.

c) Pensions Board

In line with the provisions of the Public Service Pensions Act 2013, the Council has set up a Local Pensions 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 Pension Fund Committee.

d) Investment Principles

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

The 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 whilst employees are auto-enrolled into the scheme, they 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 605 undecided leavers, who are no longer paying contributions or in receipt of benefits.

	31 March 2023	31 March 2022
Number of Active Employers	48	55
Contributing employees	5,150	4,856
Pensioners receiving benefit	5,960	5,804
Deferred members	6,218	6,232
Total members	17,328	16,892

Details of the scheduled and admitted bodies are included in the Fund's Annual Report.

NOTE 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Statement of Accounts summarise the Fund's transactions for 2022/23 and its position at year end as at 31 March 2023. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (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 Council has opted to disclose this information in a note to the accounts (Note 18).

The Hammersmith & Fulham Pension Fund is a statutory, state backed Local Government Pension Scheme (LGPS) that is 105% funded on a conservative basis and backed by an administering authority with tax raising powers. As such, the Pension Fund Accounts have been prepared on a going concern basis.

It is recognised that the current environment gives rise to a risk of uncertainty and volatility in investment markets and the Fund has reviewed fund manager assessments and no material uncertainty has been identified. The Fund continues to monitor cashflows and invests in a diverse range of investment vehicles including liquid assets.

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.

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) Voluntary Scheme Pays, Mandatory Scheme Pays and lifetime allowance

Members are entitled to request that the Pension Fund pays their tax liabilities due in respect of annual allowance and lifetime 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 directly 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 directly 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 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.

Net Assets Statement

h) Financial Assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. 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

A financial liability is recognised in the Net Assets Statement on the date the fund becomes party to the liability. The Fund recognises liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the Change in Value of Investments.

Other financial liabilities classed as amortised costs are carried at amortised cost i.e., the amount carried in the Net Asset Statement is the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis and included in administration costs.

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 18a).

n) Additional Voluntary Contributions (AVCs)

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 21. There are also some residual policies with Equitable Life, which are disclosed in Note 21, 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:

Aviva Infrastructure

One of the LBHF Pension Fund's infrastructure investment managers, Aviva, is facing legal challenge from a former construction contractor relating to a contractual dispute on one of their biomass infrastructure projects. The carrying value of the total infrastructure portfolio in the Pension Fund is £26m.

Within the manager's financial statements at 31 December 2019, 31 December 2020, 31 December 2021, and 31 December 2022, fund management were unable to quantify the financial impact of the challenge, thus placing a degree of uncertainty on the value of the portfolio overall. As such the underlying accounts have been qualified by the auditors. On the 20th of June 2022, the committee voted to disinvest from the Aviva fund with the redemption documents being submitted prior to the 30th June 2022 deadline for redemptions. The disinvested monies are anticipated to be received by LBHF Pension by the end of 2023.

Having carefully considered this fund's financial statements, audit opinion and LBHF Pension Fund's holding in the fund being under redemption procedure, officers do not consider that this could result in any material uncertainty in the context of LBHF's total pension fund value. This is because the maximum value of the claims lodged are approximately 8% of the total portfolio value of the underlying Aviva fund (which is in the worst-case scenario that all claims are successful and no counter claims are successful, the Pension Fund would stand to lose approximately £2m which is LBHF's share). As the estimated maximum impact on the Council's pension fund value is considered to be £2m, officers do not consider that the legal challenge/ claims could result in a material uncertainty in the LBHF pension fund accounts, nor the pension related transactions contained within this particular investment and disclosures in the wider financial statements.

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 considering 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.

Description of asset	Uncertainties	Basis of valuation
Actuarial present value of promised retirement benefits (Note 18a)	Estimation of the net liability to pay pensions depends on several complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates and returns on fund assets. Hymans Robertson are engaged to provide the fund with expert advice about the assumptions to be applied.	For instance: <ul style="list-style-type: none">• 0.1% decrease in the discount rate assumption would result in an increase in promised retirement benefits of £20m• 0.1% increase in assumed earnings would increase the value of the liabilities by approximately £1m• 0.1% increase in pension increases would increase the liability by approximately £19m• A one-year increase in life expectancy would increase the liability by approximately £51m

Management has agreed a reasonable set of actuarial assumptions in consultation with the actuary which derives the total pension fund liability.

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 Note 18a. 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.

b) Private debt/Infrastructure investments

The fair value of the Partners Group Multi Asset Credit fund and Infrastructure fund is also subject to some valuation uncertainty. 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 2023, the assets invested with Partners Group were valued at £45.6m (£53.5m in 2021/22).

The same applies to the Aviva Infrastructure which has a quarterly valuation cycle. As at 31 March 2023, the value of the investment was £26.0m (£26.6m in 2021/22). The impact of the uncertainty surrounding these investments has also been included in the sensitivity analysis in Note 14d.

NOTE 6. EVENTS AFTER THE BALANCE SHEET

There are no events after the balance sheet date.

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 table below shows a breakdown of the total amount of employers' and employees' contributions.

	Employers' Contributions				Employees' Contributions	
	Normal		Deficit Recovery		2022/23	2021/22
	2022/23 £000	2021/22 £000	2022/23 £000	2021/22 £000	2022/23 £000	2021/22 £000
Administering Authority	18,687	17,061	3,844	3,792	8,141	7,329
Scheduled Bodies	3,821	3,478	24	-	1,092	1,006
Admitted Bodies	1,060	1,253	(15)	(16)	306	400
Total	23,568	21,792	3,853	3,776	9,539	8,735
Total Contributions			27,421	25,568	9,539	8,735

NOTE 8. BENEFITS PAYABLE

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

	Pensions		Lump sum retirement benefits		Lump sum death benefits	
	2022/23 £000	2021/22 £000	2022/23 £000	2021/22 £000	2022/23 £000	2021/22 £000
Administering Authority	(36,544)	(34,701)	(5,662)	(8,294)	(598)	(792)
Scheduled Bodies	(599)	(502)	(529)	(74)	(290)	(96)
Admitted Bodies	(2,903)	(2,636)	(528)	(712)	(185)	(130)
Total	(40,045)	(37,839)	(6,719)	(9,080)	(1,073)	(1,017)
Total Lump Sum Benefits					(7,792)	(10,097)

NOTE 9. MANAGEMENT EXPENSES

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

	2022/23 £000	2021/22 £000
Administrative costs	(962)	(1,225)
Investment management expenses	(7,014)	(8,406)
Oversight and governance costs	(307)	(284)
	(8,283)	(9,915)

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

	2022/23 £000	2021/22 £000
Management fees	(5,428)	(6,431)
Performance fees	(107)	(79)
Transaction costs	(1,377)	(1,845)
Custody fees	(102)	(51)
	(7,014)	(8,406)

NOTE 10. INVESTMENT INCOME

The table below shows a breakdown of investment income.

	2022/23 £000	2021/22 £000
Pooled investments - unit trusts and other managed funds	22,386	8,037
Income from Alternative Investments	1,982	3,129
Interest on Cash Deposits	305	4
Other Investment Income	21	26
Total	24,694	11,196

NOTE 11. INVESTMENT STRATEGY

During 2022/23 the Fund's investment strategy had the following developments:

- In June 2022, the Fund had its first capital call from Alpha Real Capital and has since fulfilled the initial total commitment of £60m.
- In February 2023, the Pension Fund committee agreed a top up of 2.5% (£37m) into the Alpha Real Capital (Commercial Ground Rents) fund. This is due to be funded in May 2023.

In August 2015, the Fund made a commitment to the Partners Group Direct Infrastructure fund. As at 31 March 2023 €8.3m (£7.3m) still remained unfunded.

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 Fund has been active in the transfer of assets under management to the London Collective Investment Vehicle (LCIV) to gain efficiencies and fee reductions. As at 31 March 2023, the Fund had £908m invested with the London CIV, which accounts for 70.9% of the fund's total assets.

The market value and proportion of investments managed by each fund manager at 31 March 2023 was as follows:

	31 March 2023		31 March 2022	
	Market Value	Total	Market Value	Total
	£000	%	£000	%
Investments manager by the London CIV asset pool				
LGIM - MSCI Low Carbon (Passive)	399,782	31.2%	405,364	30.7%
Ruffer - Absolute Return (Active)	232,271	18.1%	270,935	20.5%
PIMCO - Global Bonds (Active)	90,078	7.0%	99,766	7.6%
Morgan Stanley - Global Sustain Fund	185,900	14.5%	188,554	14.3%
	908,031	70.90%	964,619	73.10%
Investments managed outside of the London CIV asset pool				
Darwin Alternatives - Leisure Fund	34,694	2.7%	32,582	2.5%
Alpha Real Capital - Ground Rents	55,930	4.4%	-	0.0%
Man Group - Affordable Housing	24,027	1.9%	18,231	1.4%
Oak Hill Advisers - Secured Income (Active)	65,179	5.1%	66,283	5.0%
Abrdn - Long Lease Property	54,545	4.3%	69,756	5.3%
Aviva - Private Infrastructure	25,965	2.0%	26,596	2.0%
Partners Group - Infrastructure	37,536	2.9%	45,468	3.4%
Partners Group - Multi Asset Private Credit	8,094	0.6%	7,986	0.6%
Invesco - Private Equity	-	0.0%	-	0.0%
Unigestion - Private Equity	30	0.0%	138	0.0%
Inhouse Cash - Cash	20,284	1.6%	32,111	2.4%
London CIV Ltd	150	0.0%	150	0.0%
NT Ultra Short Bond Fund	1	0.0%	1	0.0%
Abrdn - MSPC	46,209	3.6%	55,718	4.2%
	372,644	29.1%	355,020	26.9%
	1,280,675	100.0%	1,319,639	100.0%

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 2023		31 March 2022	
	Market Value	Total	Market Value	Total
	£000	%	£000	%
LGIM - MSCI Low Carbon (Passive)	399,782	31.2%	405,364	30.7%
Ruffer - Absolute Return (Active)	232,271	18.1%	270,935	20.5%
PIMCO - Global Bonds (Active)	90,078	7.0%	99,766	7.6%
Oak Hill Advisers - Secured Income (Active)	65,179	5.1%	66,283	5.0%
Morgan Stanley - Global Sustain Fund	185,900	14.5%	188,554	14.3%

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 2022/23

	Value at 1 April 2022	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Value at 31 March 2023
Fund Manager	£000	£000	£000	£000	£000
Equities	150	-	-	-	150
Pooled equity investments	1,119,203	32,000	(75,159)	(21,930)	1,054,114
Pooled property investments	87,987	57	301	(15,568)	72,777
Private equity/infrastructure	80,188	70,203	(14,683)	(2,358)	133,350
Sub-total	1,287,528	102,260	(89,541)	(39,856)	1,260,391
Cash Deposits	32,104			152	20,245
Investment income due	7			-	39
Spot FX contracts	-			(115)	-
Totals	1,319,639			(39,819)	1,280,675

The equivalent analysis for 2021/22 is provided below:

	Value at 1 April 2021	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Value at 31 March 2022
Fund Manager	£000	£000	£000	£000	£000
Equities	150				150
Pooled equity investments	1,081,786	32,000	(91,882)	97,299	1,119,203
Pooled property investments	61,162	55	(100)	8,640	87,987
Private equity/infrastructure	71,863	31,260	(14,347)	9,642	80,188
Sub-total	1,214,961	63,315	(106,329)	115,581	1,287,528
Cash Deposits	8			(1)	32,104
Investment income due	13			-	7
Spot FX contracts	-			5	-
Totals	1,214,982			115,585	1,319,639

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
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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 Aberdeen Standard 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
Illiquid Alternatives	Level 3	Valued by Fund Managers at the lower of cost and fair value.	In house evaluation of market data	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

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 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 2023			31 March 2022		
	Quoted Market Price	Using observable inputs	With significant unobservable inputs	Quoted Market Price	Using observable inputs	With significant unobservable inputs
	Level 1 £000	Level 2 £000	Level 3 £000	Level 1 £000	Level 2 £000	Level 3 £000
Financial Assets						
Designated at fair value through profit and loss	-	1,073,965	186,426	-	1,156,377	131,151
Total Financial Assets	-	1,073,965	186,426	-	1,156,377	131,151
Financial Liabilities						
Designated at fair value through profit and loss	-	-	-	-	-	-
Total Financial Liabilities	-	-	-	-	-	-
Net Financial Assets	-	1,073,965	186,426	-	1,156,377	131,151
			1,260,391			1,287,528

NOTE 14b. TRANSFERS BETWEEN LEVELS 1 AND 2

In 2022/23, 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 2022 £000	Transfers in/out of Level 3	Purchases £000	Sales £000	Unrealised gains / (losses) £000	Realised gains / (losses) £000	Market Value as at 31 March 2023 £000
Overseas venture capital	45,606	-	3,261	(10,782)	(696)	176	37,565
UK Infrastructure	26,596	-	-	-	(631)	-	25,965
UK Venture Capital	26,216	-	66,942	(3,900)	(1,207)	-	88,051
London LGPS CIV	150	-	-	-	-	-	150
Overseas Equity Funds	32,582	(32,000)	-	-	(582)	-	0
UK Equity Funds	-	32,000	-	-	2,694	-	34,694
Total	131,151	-	70,203	(14,683)	(422)	176	186,426

NOTE 14d. SENSITIVITY OF ASSETS VALUED AT 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 2023 has been estimated to be accurate within the following ranges:

Description of assets	Assessed Valuation Range (+)	Assessed Valuation Range (-)	Value at 31 March 2022	Value on increase	Value on decrease
			£000	£000	£000
Aviva - Private Infrastructure	6.90%	7.80%	25,965	27,757	23,940
Partners Group - Infrastructure	8.73%	8.73%	37,536	40,813	34,259
Partners Group - Multi Asset Private Credit	9.73%	9.73%	8,094	8,882	7,306
Darwin Alternatives - Leisure Fund	7.90%	6.90%	34,694	37,435	32,300
Alpha Real Capital - Ground Rents	10.10%	8.00%	55,930	61,579	51,456
Man Group - Affordable Housing	9.50%	8.80%	24,027	26,310	21,913
Total			186,246	202,774	171,174

*Three assets (totalling £0.180m) have been excluded from this note due to immateriality.

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.

	31 March 2023			31 March 2022		
	Designated at fair value through profit & loss £000	Financial assets at amortised cost £000	Financial Liabilities at amortised cost £000	Designated at fair value through profit & loss £000	Financial assets at amortised cost £000	Financial Liabilities at amortised cost £000
FINANCIAL ASSETS						
Index Linked Securities						
<i>Pooled Investment Vehicles:</i>						
UK equity funds	817,953	-	-	864,853	-	-
UK fixed income fund	144,382	-	-	163,471	-	-
UK property fund	113,266	-	-	120,569	-	-
UK infrastructure	81,895	-	-	26,596	-	-
Overseas fixed income fund	65,179	-	-	66,283	-	-
Overseas infrastructure	37,536	-	-	45,468	-	-
Overseas venture capital	30	-	-	138	-	-
London LGPS CIV	150	-	-	150	-	-
Investment income due	-	39	-	-	6	-
Cash deposits with managers	-	20,245	-	-	32,105	-
Debtors	-	3,911	-	-	4,525	-
Cash balances (held by fund)	-	7,836	-	-	2,867	-
	1,260,391	32,031	-	1,287,528	39,503	-
FINANCIAL LIABILITIES						
Creditors	-	-	(1,979)	-	-	(2,118)
	-	-	(1,979)	-	-	(2,118)
GRAND TOTALS	1,260,391	32,031	(1,979)	1,287,528	39,503	(2,118)
			1,290,443			1,324,913

NOTE 15b. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

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

	31 March 2023	31 March 2022
	£000	£000
Financial Assets		
Fair value through profit and loss	(39,856)	115,581
Loans and receivables	152	5
Financial Liabilities		
Fair value through profit and loss	(115)	(1)
	(39,819)	115,585

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 Pension Fund Committee maintains a Pension Fund risk register and reviews the risks and appropriate mitigating actions at every meeting.

a) Market Risk

Market risk is the risk of loss emanating from general market fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk across all its investment activities. To manage excessive volatility in market risk, 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 Pension Fund Committee and is reviewed on a regular basis.

On 24 February 2022, Russia invaded Ukraine, a severe escalation in the conflict which had been ongoing since 2014. Subsequently, numerous global powers implemented sanctions against major Russian banks and financial institutions, including freezing of overseas assets and removing access to SWIFT international payments. The Pension Fund can report that as at 31 March 2023, the value of investments in Russia or Ukraine is immaterial.

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 9.25% higher or 9.25% lower.

Assets exposed to price risk

	Value	Price Risk	Positive increase	Negative increase
	£000		£000	£000
At 31st March 2023	1,288,511	9.3%	1,407,552	1,169,170
At 31st March 2022	1,322,506	9.4%	1,447,181	1,197,831

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.

Fixed income investments, 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 31 March 2023 and what the value would have been if interest rates had been 1% higher or 1% lower.

Assets exposed to interest rate risk

	Value	+ 1%	- 1%
	£000	£000	£000
At 31st March 2023	328,483	318,649	344,299
At 31st March 2022	341,107	331,880	348,737

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	Currency Risk	Positive increase	Negative increase
	£000		£000	£000
At 31st March 2023	676,661	7.2%	725,540	627,782
At 31st March 2022	739,360	6.8%	789,358	689,363

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 16.8% of the Fund's Net Assets at 31 March 2023 (13.2% at 31 March 2022). The remaining assets can all be liquidated within days.

Manager	Portfolio	31 March 2023	31 March 2022
		£000	£000
Standard Life	Property	54,545	69,756
Partners Group	Infrastructure	37,536	45,468
Partners Group	Multi Asset Credit	8,094	7,986
Invesco	Private Equity	-	-
Unigestion	Private Equity	30	138
Darwin Alternatives	Illiquid Alternatives	34,694	32,582
Alpha Real Capital	Ground Rents	55,930	-
Man Group	Property	24,027	18,231
		214,856	174,161

NOTE 17. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

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

	31 March 2023	31 March 2022
	£000	£000
Alpha Real Capital	37,000	60,000
Man Group - Affordable Housing	8,013	9,969
Partners Group Direct Infrastructure Fund 2015	7,320	10,193
	52,333	80,162

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 2019 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 29 January 2020. This valuation set the employer contribution rates from 1 April 2020 through to 31 March 2023.

The 2019 valuation certified a common contribution rate of 17.4% of pensionable pay (15.5% as at March 2016) to be paid by each employing body participating in the Fund, based on a funding level of 97% (88% as at March 2016). 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 2019 was £1,043m (£851m 2016) and the actuary assessed the present value of the funded obligation at £1,079m indicating a net liability of £35m (£965m 2016).

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

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

Financial Assumptions	March 2019	March 2016
Consumer Price Index (CPI) increases	2.60%	2.40%
Salary Increases	3.60%	3.90%
Pension Increases	2.40%	2.40%
Discount Rate	5.00%	5.40%

Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by Barnett Waddingham LLP, an independent firm of actuaries. Estimates for the Pension Fund are based on the full valuation of the scheme as at 31 March 2019. The next actuarial valuation of the Fund was carried out as at 31 March 2022 and will set contribution rates for the period 1 April 2023 to 31 March 2026. The 2022 Triennial valuation has now been signed off and is publicly available.

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 19 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.

NOTE 18a. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

The table below shows the total net liability of the Fund as at 31 March 2023. The figures have been prepared by Hymans Robertson, 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 2023	31 March 2022
	£000	£000
Present Value of Promised Retirement Benefits*	(1,339)	(1,876)
Fair Value of Scheme Assets (bid value)	1,290	1,325
Net Liability	(49)	(551)

The assumptions applied by the actuary are set out below:

Financial Assumptions	31 March 2023	31 March 2022
	£000	£000
Salary increases	4.00%	4.20%
Pension increases	3.00%	3.20%
Discount Rate	4.75%	2.70%

Demographic Assumptions

The longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 10% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long-term rate of improvement of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

Life Expectancy from age 65

		31 March 2023	31 March 2022
Retiring today	Males	21.8	21.4
	Females	24.5	24.1
Retiring in 20 years	Males	22.8	22.9
	Females	25.8	26.1

NOTE 19. CURRENT ASSETS

	31 March 2023	31 March 2022
	£000	£000
Debtors		
Contributions due - employers	1,627	1,620
Contributions due - employees	678	704
London Borough of Hammersmith and Fulham	50	96
Sundry Debtors	1,556	2,105
	3,911	4,525

	31 March 2023	31 March 2022
	£000	£000
Analysis of debtors		
Local authorities	50	96
Other entities and individuals	3,393	4,087
Central Government	468	342
	3,911	4,525

NOTE 20. CURRENT LIABILITIES

	31 March 2023	31 March 2022
	£000	£000
Creditors		
Unpaid Benefits	(659)	(562)
Management Expenses	(901)	(843)
Sundry creditors	(419)	(713)
	(1,979)	(2,118)

	31 March 2023	31 March 2022
	£000	£000
Analysis of creditors		
Other entities and individuals	(1,979)	(2,118)
	(1,979)	(2,118)

NOTE 21. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

The Fund's AVC providers are Scottish Widows Workplace Savings and Utmost Life and Pensions. AVCs are invested separately from the Pension Fund and their valuations are shown in the table below.

	31 March 2023*	31 March 2022
	£000	£000
Scottish Widows Workplace Savings		
Market Value at 31st March	917	917
Contributions during the year	11	11
Utmost Life and Pensions		
Market Value at 31st March	176	176

*The AVC Statements for 31 March 2023 were not available at the time of Accounts production, therefore the 31 March 2022 figures have been used as a proxy.

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 22. RELATED PARTIES

London Borough of Hammersmith and Fulham

The Pension Fund is administered by the London Borough of Hammersmith and Fulham. The Council incurred costs of £0.777m in 2022/23 (£0.637m in 2021/22) in relation to the administration of the Fund and were reimbursed by the Fund for the expenses. The Council made £18.7m of contributions in year (£20.9m in 2021/22).

The Pension Fund's accounting and governance management is carried out through a shared service with Westminster City Council. Westminster City Council incurred costs of £0.183m in 2022/23 (£0.174m in 2021/22) in relation to the accounting and governance of the Fund and were reimbursed for the expense.

Key management personnel

The key management personnel of the Fund are the Members of the Pension Fund Committee, the Strategic Director of Finance and Governance (from May 2020, the Director of Finance), the Tri-Borough Director of Treasury and Pensions and the Director of Corporate Services (from May 2020, the Director of Resources). Total remuneration payable to key management personnel in respect of the pension fund is set out below:

	31 March 2023	31 March 2022
	£000	£000
Short-term benefits	30	32
Post-employment Benefits	(179)	(30)
	(149)	2

NOTE 23. EXTERNAL AUDIT COSTS

The external audit fee payable to Fund's external auditors, Grant Thornton LLP, was £36,556 (£33,000 in 2021/22).