



**London Borough of Hammersmith & Fulham
Pension Fund
Annual Report
2012-2013**



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Chairman's report

The Audit, Pensions & Standards Committee is responsible for overseeing the management of the London Borough of Hammersmith & Fulham Pension Fund including investment management and pension administration issues. As Chairman of this Committee, I am pleased to introduce the Pension Fund's annual report for the year 2012-13.

During the year the value of the Fund rose by £84m following positive absolute investment returns over the year. The Fund's investment return beat the target return by 3.2% and placed the Fund in the top 15% of local authority funds in terms of performance, which is a very welcome result.

I reported last year that the Committee had taken a decision in March 2012 to increase the allocation of the Fund's investments with the investment manager Ruffer, to provide greater diversification. This was implemented at the beginning of the financial year and the Committee agreed a change to the Statement of Investment Principles in June to reflect this.

In September the Committee approved the Fund's Statement of Accounts and received the external auditor's Annual Governance Report on the accounts.

The Committee has continued to monitor the Fund closely at every meeting, as the uncertainty in world markets persisted throughout the year. The Committee challenged the investment advisers and investment managers as necessary to ensure the Fund's investments are being managed effectively.

The next actuarial valuation of the Fund is currently being undertaken by the Fund Actuary as at 31st March 2013. The results will be available later in the year. The Committee will be reviewing both the funding strategy as well as the investment strategy to ensure the Fund remains on track to meet the objective of ensuring there are sufficient assets to meet all the liabilities. This, along with the introduction of the new Local Government Pension Scheme from April 2014, will ensure 2013/14 is another busy year for the Committee.

I would like to thank all those involved in the management of the Pension Fund during the year including my fellow Committee members, officers, advisers and investment managers.

Councillor Michael Adam

Chairman of Audit, Pensions & Standards Committee

Management report

The day to day management of the Pension Fund is my responsibility as the section 151 officer for the London Borough of Hammersmith and Fulham.

The management of the Fund's investments and accounting is undertaken on my behalf by the Tri-borough Pensions team. The team provide this service to Hammersmith and Fulham, Royal Borough of Kensington and Chelsea and Westminster City Council ensuring there is resilience for the service not achievable from a single borough team. 2012/13 was the first full financial year for this new arrangement and it is already proving to be valuable.

The Fund's investments returned 15.1% in 2012/13, which was positive both in absolute terms and because it was 3.2% in excess of the target set by the Fund. There were no changes of investment manager during the year and the only change to allocation was a shift of 5% out of equities into the Dynamic Asset Allocation portfolio in April 2012 following a decision by the Committee in March 2012.

The administration of the benefits and membership aspects of the Fund is undertaken through a framework contract with Capita Employee Benefits. The contract is managed and the policy aspects of benefits dealt with by staff in the Human Resources Department at Hammersmith and Fulham. The introduction of the new Local Government Pension Scheme in April 2014 has been a focus of work this year and will continue to be so up to and beyond implementation.

The number of employers in the Fund increased further in the year to 35, as more academy schools opened. The pattern of falling numbers of active members seen in recent years continued in 2012/13, resulting in benefits being paid out of the Fund being higher than contributions coming in. These emerging trends will form part of the considerations of the triennial valuation results due later in 2013.

Jane West

Executive Director of Finance and Corporate Governance

Introduction

The Pension Fund is part of the national Local Government Pension Scheme (LGPS) and is administered locally by Hammersmith and Fulham Council. It is a contributory defined benefit pension scheme established by the Superannuation Act 1972, which provides for the payment of benefits to employees and former employees of Hammersmith and Fulham Council and the admitted and scheduled bodies in the Fund.

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

The benefits payable from the Fund are set out in the Local Government Pension Scheme regulations and in summary are:

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

A new LGPS scheme will be introduced with effect from 1st April 2014. This will continue to be a defined benefit scheme, but instead of final salary, it will be a Career Average Revalued Earnings (CARE) scheme, so that a scheme member's pension will be based on their earnings throughout their career, rather than solely on their final salary. Consultation is on-going on the detailed regulations required to implement the scheme, as well as a consideration of future governance arrangements for the LGPS as a whole.

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

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

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

1. Management and Performance

Governance Arrangements

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

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

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

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

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

Councillor Michael Adam	Chairman
Councillor PJ Murphy	Vice Chairman
Councillor Charlie Dewhirst	
Councillor Robert Iggulden	
Councillor Lucy Ivimy	
Councillor Michael Cartwright	
Eugenie White	Co-Opted member

Governance Compliance Statement

The Local Government Pension Scheme (Administration) Regulations 2008 require Pension Funds to prepare, publish and maintain a governance compliance statement; and to measure its governance arrangements against a set of best practice principles. This measurement should result in a statement of full, partial or non compliance with a further explanation provided for any non or partial compliance.

The key issues covered by the best practice principles are:

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

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

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

Scheme Management and Advisers

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

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

Officers

Executive Director of Finance & Corporate Governance	Jane West
Bi-Borough Director of Finance – London Borough of Hammersmith & Fulham and Royal Borough of Kensington & Chelsea	Hitesh Jolapara
Tri-Borough Pensions Team	Jonathan Hunt Alex Robertson Nicola Webb
Principal Pensions Manager	Les Green

External Advisers

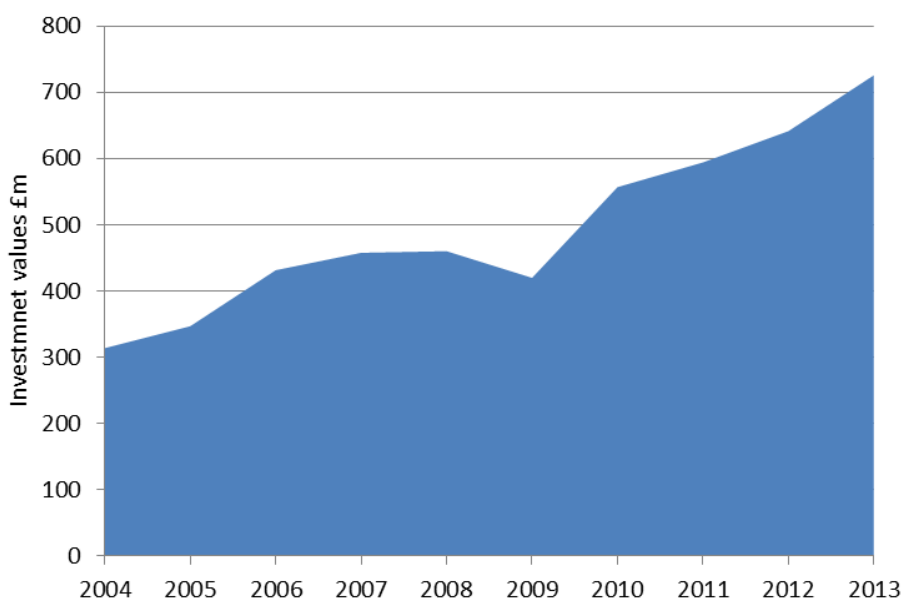
Investment Adviser	PSolve
Investment Managers	Majedie Asset Management MFS International (UK) Limited Baring Asset Management Limited Ruffer LLP Goldman Sachs Asset Management Legal & General Investment Management Invesco Unigestion
Custodian & Bankers	Northern Trust
Actuary	Barnett Waddingham
Auditor	KPMG
Legal Adviser	Eversheds
Scheme Administrators	Capita Employee Benefits
AVC Providers	Zurich Assurance Equitable Life Assurance Society

Financial Summary and performance

The investment return in 2012/13 was positive both in absolute terms and relative to the Fund's target. The return was 15.1%, which was 3.2% above the target set by the Fund. There were no changes of investment manager during the year and the only change to allocation was a shift of 5% out of equities into the Dynamic Asset Allocation portfolio managed by Ruffer LLP in April 2012 following a decision by the Committee in March 2012. The Investment Policy and Performance report in section 2 provides more detail on the Fund's investments and performance.

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

Value of the Fund over the last ten years



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

Risk Management

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

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

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

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

2. Investment Policy and Performance

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

Investment Benchmark and Objective

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

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

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

Statement of Investment Principles

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

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

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

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

[http://www.lbhf.gov.uk/Directory/Council and Democracy/Plans performance and statistics/Performance information/Statement of accounts/68526 Statement of accounts.asp](http://www.lbhf.gov.uk/Directory/Council%20and%20Democracy/Plans%20performance%20and%20statistics/Performance%20information/Statement%20of%20accounts/68526%20Statement%20of%20accounts.asp)

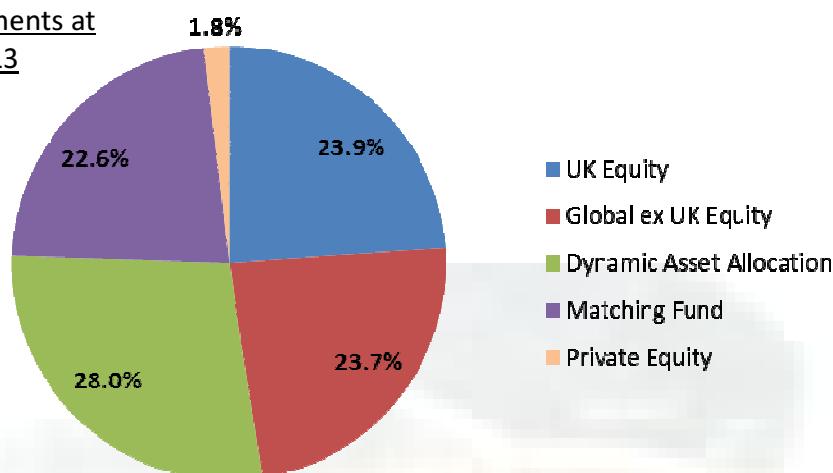
Investment Strategy

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

The table and graph below shows how the Fund was split between the four main portfolios at 31/03/13. The split at 31/03/12 is shown in the table for comparison.

Portfolio	Benchmark at 31/03/2013	Market Value at 31/03/2013 £000s	% of Fund at 31/03/2013	Market Value at 31/03/2012 £000s	% of Fund at 31/03/2012
UK Equity	22.5%	173,322	23.9%	165,450	25.8%
Global ex UK Equity	22.5%	171,675	23.7%	167,753	26.2%
Dynamic Asset Allocation	30.0%	203,026	28.0%	153,953	23.9%
Matching Fund	25.0%	164,316	22.6%	141,442	22.1%
Other	0%	13,336	1.8%	13,142	2.0%
TOTAL	100%	725,675	100.0%	641,380	100.0%

Split of investments at
31st March 2013



The main change to the split of the portfolios in the year 2012/13 was an increase in the proportion allocated to the Dynamic Asset Allocation portfolio. A decision was taken in March 2012 to move assets from the UK and Global Equity portfolios and to allocate them to the Dynamic Asset Allocation portfolio. This was implemented in April 2012. The “Other” category is made up mainly of private equity investments – the Fund has committed to making investments of up to £15m.

Investment Managers

The Fund has appointed external investment managers within the four main portfolios. The investment managers have clear benchmarks and targets, which place maximum accountability for performance on the manager. The detail of these is set out in the Statement of Investment Principles. The table below shows how the Fund’s assets were allocated between the investment managers at 31/03/13, and at 31/03/12 for comparison.

Investment Manager	Market Value at 31/03/2013	% of Fund at 31/03/2013	Market Value at 31/03/2012	% of Fund at 31/03/2012
UK Equity				
Majedie Asset Management	173,322	23.9%	165,450	25.8%
Global ex UK Equity				
MFS International (UK) Ltd	171,675	23.7%	167,753	26.2%
Dynamic Asset Allocation				
Baring Asset Management Ltd	123,116	17.0%	114,060	17.8%
Ruffer LLP	79,910	11.0%	39,533	6.2%
Matching Fund				
Goldman Sachs Asset	62,919	8.6%	59,638	9.3%

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Management				
Legal and General Investment Mngt	101,397	14.0%	81,804	12.8%
Private Equity				
Invesco	7,265	1.0%	7,600	1.2%
Unigestion	6,071	0.8%	5,530	0.8%
Other				
Baring English Growth Fund	0	0.0%	12	0.0%
TOTAL	725,675	100.0%	641,380	100.0%

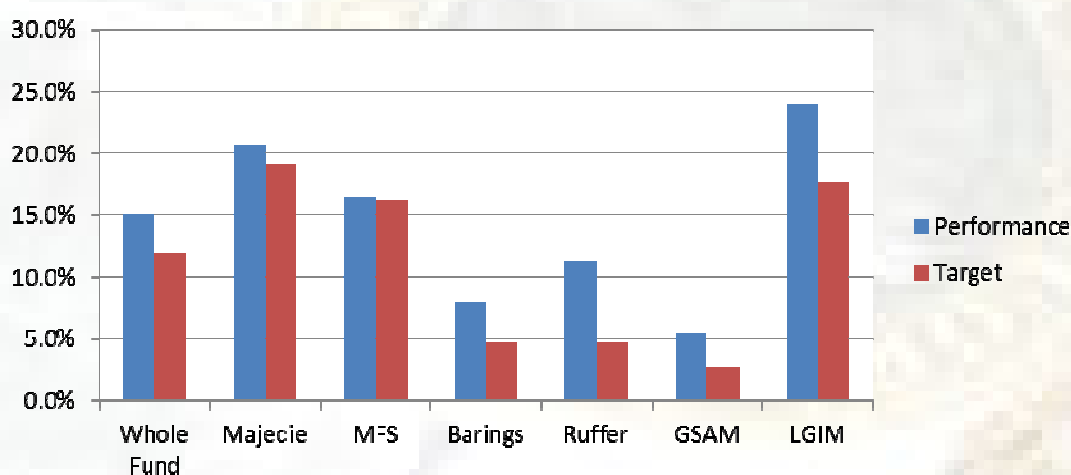
Investment Performance

The table below shows the performance of the Fund against the target in 2012/13, the previous financial year, and the annualised performance over three and five years.

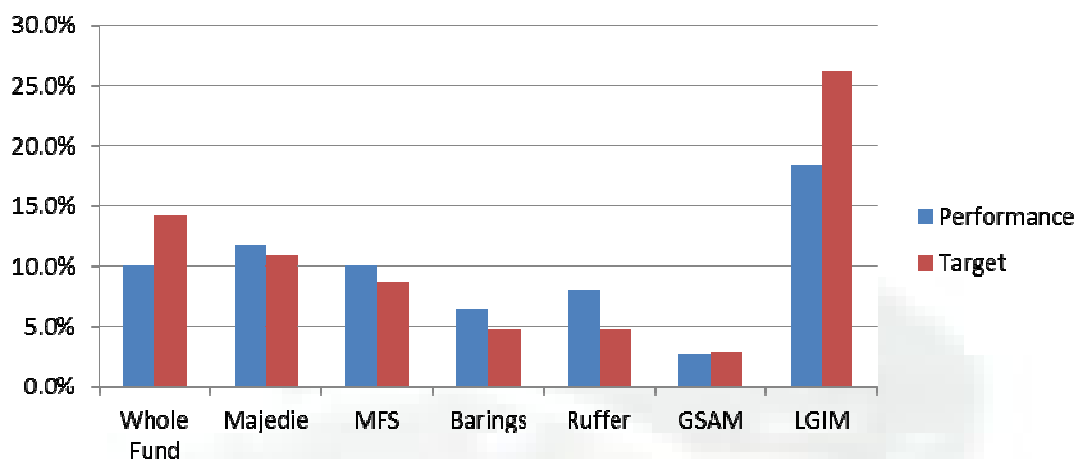
	2012/13	2011/12	3 years	5 years
Performance	15.1%	8.2%	10.0%	10.0%
Target (Liability Benchmark + 2.5%)	11.9%	22.0%	14.2%	8.0%
Out / (under) performance against target	3.2%	(13.8%)	(4.2%)	2.0%

Each of the investment managers has a benchmark and target set within their Investment Management Agreements with the Fund. Performance is measured quarterly and reported to the Committee. The graphs below show the performance of the investment managers against their targets over 2012/13 and annualised over three years.

2012/13 performance against targets



Three Years annualised performance against targets



The graphs show that all the investment managers outperformed their targets in 2012/13, which led to outperformance against target for the Fund as a whole over the year. In the longer term the two investment managers running the matching fund portfolios underperformed their targets over three years and the outperformance of the other portfolios was not enough to offset this at the whole Fund level.

Responsible Investment

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

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

Custody and Banking

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

3. Scheme Administration

The Local Government Pension Scheme (“LGPS”) is a statutory pension scheme whose regulations are made by the government in accordance with the Superannuation Act 1972. It is a defined benefit pension scheme and the benefits are currently based on final salary and length of scheme membership.

Service Delivery

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

Key Service Standards

Capita work to an agreed set of targets based on the number of working days from the date all of the required information is available to them. The following table sets out their performance during 2012/13.

Work area	Total Number	Within Target	% Within Target	Average Days
Starters	229	229	100.0	7.8
Transfer Value In (Quote)	86	84	97.7	6.0
Transfer Value In (Actual)	45	45	100.0	3.7
Transfer Value Out (Quote)	89	86	96.6	4.3
Transfer Value Out (Actual)	52	50	96.2	4.1
Refund	16	16	100.0	5.1
Preserved Benefit	450	435	96.7	13.9
Estimate (Benefit)	798	791	99.1	3.5
Death in Service	17	17	100.0	5.0
Death on Pension	18	14	77.8	3.0
Quote AVCs	18	18	100.0	5.0
Quote ARCs	14	14	100.0	2.7

Membership of the Fund

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

The table below shows that the number of employers has been growing over the last five years. This is in part due to an increase in academies and free schools and partly due to outsourcing of Council services.

	2008/09	2009/10	2010/11	2011/12	2012/13
Employers	20	25	29	30	35

A full list of the Fund's employers is set out at the end of this section.

The table below shows the Fund's membership over the last five years. It demonstrates how the number of active contributing members in the Pension Fund has been falling over the last five years and the number of pensioners and deferred members has been rising. This pattern is common across local government pension schemes and demonstrates the maturity of those schemes.

	31 st March 2009	31 st March 2010	31 st March 2011	31 st March 2012	31 st March 2013
Contributors	4,297	4,176	4,064	3,837	3,782
Deferred	4,714	4,900	5,217	5,409	5,546
Pensioners & Dependents	3,903	4,067	4,174	4,265	4,379
Total Membership	12,914	13,143	13,455	13,511	13,707

Employer List

Scheduled Bodies	Admitted Bodies
London Borough of Hammersmith & Fulham Bentworth Academy Burlington Danes Academy Conway Academy Fulham College Academy Trust Hammersmith Academy Lady Margaret Academy London Oratory School Mortlake Crematorium Board Sacred Heart High School West London Free School	Crime Reduction Initiatives Disabilities Trust E C Harris LLP Eden Food Service ETDE Infrastructure F M Conway Ltd Family Mosaic Family Mosaic Supporting People Fulham Palace Trust Glencross Cleaning Ltd H & F Bridge Partnership H&F Community Law Centre Inspace Partnerships Ltd Irish Cultural Centre Keir Keir - Non HR Contract Medequip Assistive Technology P H Jones Ltd Quadron Serco Tendis Thames Reach Turners Urban Partnership Group

Communication policy statement

The Local Government Pension Scheme (Administration) Regulations 2008 require Pension Funds to prepare, publish and maintain a communication policy statement. This statement sets out the methods used by the Fund to communicate with the various stakeholders, including scheme members, employers and their representatives.

The Fund's Communication policy statement can be found on the following website:

[http://www.lbhf.gov.uk/Directory/Council and Democracy/Plans performance and statistics/Performance information/Statement of accounts/68526 Statement of accounts.asp](http://www.lbhf.gov.uk/Directory/Council%20and%20Democracy/Plans%20performance%20and%20statistics/Performance%20information/Statement%20of%20accounts/68526%20Statement%20of%20accounts.asp)

Sources of information

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

Internal Dispute Resolution Procedure

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

To facilitate this process, an Internal Disputes Resolution Procedure has been established. In the first instance, members are expected to take up matters with Les Green at the following address: pensions@lbhf.gov.uk, telephone number 020 8753 1878. If the matter remains unresolved, a stage 1 appeal may be made to Steve Birks, Director of Pension Operations at Capita Employee Benefits using the email address: lbhf.pensions@capita.co.uk and thereafter, if necessary a further appeal may be made to Debbie Morris, Bi-borough Director of HR for Hammersmith & Fulham and Kensington & Chelsea.

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

11 Belgrave Road
London
SW1V 1RB

Additional Voluntary Contributions

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

4. Actuarial Information

Summary of the last triennial valuation

The Fund is required to arrange for an actuary to conduct an actuarial valuation of the Fund's assets and liabilities once every three years. This enables the employer contribution rates to be set for the coming three years. The last triennial valuation of the Fund was undertaken as at 31st March 2010. The next one will be calculated as at 31st March 2013 and the results will be available later in the 2013 calendar year.

The results of the valuation in 2010 are shown in the table below:

Value of Assets	£532m
Liabilities	(£718m)
Deficit	(£186m)
Funding Level	74%
Future Service Contribution Rate	13.1%
Past Service Recovery Contribution Rate	8.4%
Total Employer Contribution Rate	21.5%

These results show that the Fund had assets sufficient to meet 74% of the liabilities at the time of the last valuation. The actuary set an employer contribution rate of 13.1% of payroll to meet the cost of service built up in the Fund in future. An additional contribution of 8.4% of payroll was set to recover the deficit over a 25 year period. Individual employers pay adjusted rates to reflect the circumstances of their own membership.

Funding Strategy Statement

The Local Government Pension Scheme (Administration) Regulations 2008 require Pension Funds to prepare a funding strategy statement which sets out how the Fund will manage its liabilities and return to full funding. The strategy is considered by the Fund Actuary when undertaking the triennial valuation and setting the employer contribution rates. The statement is reviewed every three years in conjunction with the actuarial valuation.

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

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

Statement of the Fund Actuary

The statement below has been provided by the Fund Actuary, Barnett Waddingham.

Introduction

The latest full triennial valuation of the London Borough of Hammersmith and Fulham Pension Fund was carried out by us as at 31 March 2010 in accordance with the Funding Strategy Statement of the Fund and Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008. The results were published in the triennial valuation report dated March 2011.

2010 Valuation Results

The 2010 valuation certified a common contribution rate of 21.5% of pensionable pay to be paid by each employing body participating in the London Borough of Hammersmith and Fulham Pension Fund. In addition to this each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

Contribution Rates

The contribution rates were calculated using the Projected Unit Method.

The contribution rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- The additional annual accrual of benefits allowing for future pay increases and increases to pension in payment when these fall due, plus;
- an amount to reflect the difference between each participating employer's notional share of value of the Fund's assets and 100% of their liabilities in the Fund in respect of service to the valuation date.

Asset Value and Funding Level

The smoothed market value of the Funds assets as at 31 March 2010 for valuation purposes was £531.7m which represented 74% of the Fund's accrued liabilities at that date allowing for future increases in pay and pensions in payment.

To be consistent with the market related valuation of assets, the liabilities were valued allowing for expected future investment returns and increases to benefits as determined by market levels at the valuation date as follows;

- Rate of return on investments 6.7% per annum
- Rate of increases in pay 5.0% per annum
- Rate of Increases to pensions in payment 3.0% per annum

Developments since 2010 and the 2013 valuation

Since March 2010, investment returns have been better than expected. This will have a positive effect on the financial position of the Fund and we expect that the funding level should be slightly higher than at 31 March 2010, when measured on consistent assumptions.

It is likely that a greater allowance for future mortality improvements will be made at the 2013 valuation which will lower the funding level compared to adopting the mortality assumptions adopted in 2010. However we expect this may be offset by other changes such as allowing for changes made to the inflation indices by the Office for National Statistics.

There may also be other changes to the assumptions and methodology reflecting more recent experience and data that has become available.

The contribution rates resulting from the 2013 valuation will take effect from 1 April 2014 and will allow for any changes to the benefits in the LGPS from that date.



Alison Hamilton FFA

Partner



Anna Short FFA

Associate

10th May 2013

5. Pension Fund Accounts

This section sets out extracts from the full audited financial statements of the London Borough of Hammersmith and Fulham Pension Fund for the year ended 31st March 2013. The full financial statements can be found on the following website:

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

The Council's Responsibilities

The Council is required to:

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

Responsibilities of the Executive Director of Finance and Corporate Governance

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

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

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

Certificate of the Executive Director of Finance and Corporate Governance

I certify that the Accounts present a true and fair view of the financial position of the London Borough of Hammersmith and Fulham and the London Borough of Hammersmith and Fulham Pension Fund as at 31 March 2013 and income and expenditure for the year for the financial year 2012/13.

Jane West, Executive Director of Finance and Corporate Governance

Fund Account 2012/13

	Note	2012/13		2011/12	
		£000	£000	£000	£000
Dealings with members, employers and others directly involved in the scheme					
Contributions					
From Employers	6	23,136		23,234	
From Members	6	6,445	29,581	6,906	30,140
Individual Transfers In from other Pension Funds			1,575		1,906
Other Income			36		20
Benefits					
Pensions	7	(26,525)		(24,284)	
Lump Sum Retirement Benefits	7	(5,353)	(31,878)	(6,852)	(31,136)
Payments to and on account of leavers					
Individual Transfers Out to other Pension Funds			(6,149)		(2,575)
Other Expenditure			(20)		(60)
Administrative Expenses	8		(632)		(867)
Net Additions (Withdrawals) from dealings with members			(7,487)		(2,572)
Returns on Investments					
Investment Income	9		9,930		9,579
Taxes on Income (Irrecoverable Withholding Tax)			(131)		(133)
Profit and losses on disposal of investments and changes in value of					
Realised	12		12,206		37,698
Unrealised	12		73,595		1,572
Investment Expenses	10		(2,667)		(3,222)
Net Returns on Investments			92,933		45,494
Net Increase (Decrease) in the net assets available for benefits during the year			85,446		42,922
Opening Net Assets of the Scheme			638,640		595,718
Closing Net Assets of the Scheme			724,086		638,640

Net Asset Statement as at 31st March 2013

	Note	31 March 2013 £000	31 March 2012 £000
Investment Assets			
Index Linked Securities	13	23,755	13,211
Equities	13	297,086	277,622
Pooled Investment Vehicles	13	374,420	326,655
Private Equity	13&15	12,687	13,142
Commodities	13	3,585	-
Cash Deposits	13	12,909	8,366
Other Investment Balances			
Amounts Outstanding on Sale of Investments	13	1,223	1,041
Investment Income Due	13	760	1,470
Investment Liabilities			
Amounts Outstanding on Purchase of Investments	13	(750)	(127)
Total Investment Assets	13	725,675	641,380
Current Assets	20	199	224
Current Liabilities	21	(1,114)	(1,067)
Cash Balances		(674)	(1,897)
Net assets of the fund available to fund benefits at the period end.		<u>724,086</u>	<u>638,640</u>

The Pension Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end.

Independent auditor's report to the members of London Borough of Hammersmith and Fulham



6. Contacts

Tri Borough Pensions Team

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

Principal Pensions Manager

London Borough of Hammersmith and Fulham
Town Hall
King Street
London
W6 9JU
Email: pensions@lbhf.gov.uk

Capita Employee Benefits

London Borough of Hammersmith and Fulham Team
PO Box 195
Mowden Hall
Darlington
DH1 9FS
Telephone: 01737 366139 or 366037
Email: lbhf.pensions@capita.co.uk

National Local Government Pension Scheme information website

www.lgps.org.uk

The Pensions Advisory Service (TPAS)

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

The Office of the Pensions Ombudsman

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

7. Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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