London Borough of Ealing Pension Fund

Annual Report & Accounts

2018/19

EALING COUNCIL

CONTENTS

CHAIR'S STATEMENT

Cllr Yvonne Johnson, Chair of the Pension Fund Panel (PFP)

I am delighted to once again introduce the London Borough of Ealing's Pension Fund's (the Fund) annual report for the year ending 31 March 2019.

We manage your Local Government Pension Scheme (LGPS), which is a statutory funded defined benefit occupational pension scheme that has assets set aside and invested towards meeting the cost of our future pension promise to you. Scheme member benefits are defined in statute; however, your contributions are fixed nationally therefore any funding shortfall has to be met by the assets growing faster or the Council increasing their contribution. Your benefits are guaranteed by law, although the government can choose to alter the benefit structure or your contribution to meet any funding shortfall. Our Fund's assets grew by 4.76% from £1.20 billion to £1.26 billion and remains in a good financial position despite a volatile year the fund recovered most of the losses sustained in the third quarter of the financial year.

There were four panel meetings over the reporting year and Members who have responsibility for the management and governance of the fund continued to review a broad range of strategic issues in addition to meeting and probing our service providers and some of our fund managers on their rolling three-year performance against which we set them an out-performance target. The last triennial valuation review concluded that the Fund's assets were sufficient to cover 80% of its accrued liabilities as at 31 March 2016, up from 72% in 2013.

Another valuation of the Fund is underway. The triennial valuation involves collating key data on the Scheme's assets and liabilities and helps to inform the Fund's direction of travel and investment strategy. As reported last year, some changes were made to the Fund's asset mix which involved reducing our exposure to equities and making a matching allocation to assets that provide more of their returns from income (e.g. interest earnings) as opposed to capital growth and therefore more certainty. This should improve the Fund's ability to increase its funding level. We have started to fund the new allocations we have made to private debt.

We have invested with and continue to look for new opportunities to pool our assets with the London CIV to achieve savings from economies of scale. We currently have representation within the London CIV and wherever possible we seek to influence the CIV's provision of robust and targeted solutions for the boroughs. When opportunities arise, we collaborate with other Funds to reduce costs to the scheme.

The committee remain committed to investing responsibly looking to promote sustainable investments. The Fund engages with companies in which we invest via the Local Authority Pension Fund Forum (LAPFF). I'm an executive member of the LAPFF which was formed out of a collaboration of Local Authorities Funds specifically to engage with individual companies across a wide range of issues such as climate change, employment standards executive remuneration etc. I have also been Chair of the Environmental Social and Governance (ESG) issues working party of the CIV and have prepared Responsible Investment policy. I sit on the schemes national oversight body, the Scheme Advisory Board (SAB) and ensure that the schemes long term interest is secured. Furthermore, the panel have been looking for other ways in which we can take positive action towards promoting responsible investments and recently introduced more sustainable equity investments.

We review our governance arrangements on an ongoing basis and strive to continually improve the service we offer scheme members. Aside from the quarterly PFP meetings, the Treasury Risk and Investment Board (TRIB), a sub group of officers, meets monthly to actively assist the PFP in monitoring risk, and to generate new ideas on the full range of PFP issues as well as speeding up the implementation of strategic decisions taken by the PFP.

The Pension Board which has now been up and running for three years continue to oversee that the Fund is complying with relevant laws and regulations and ensuring that the Funds governance arrangements are effective and efficient.

We continue to keep abreast of all proposed regulatory changes and will ensure that where possible we engage in industry debate to influence the provision of a sound and sustainable scheme.

We commit to keeping you updated through various communication channels including our website, newsletters and our annual general meeting. This year the Annual General Meeting took the form of one single meeting on the 28 March 2019, with presentations from Ealing Pension and Investment managers as well as industry experts. Feedback from those who attended was very good and next year we will be holding the AGM meeting where members can hear from a range of relevant speakers.

May I take this opportunity to once again thank colleagues on the Panel and officers of the Council for helping the panel to successfully manage the fund over the year.

We will welcome your feedback to assist us in improving the way we communicate with you and the quality of the information you receive. Contact details can be found in the section 'Staff, Advisors and Investment Managers.

Cllr Johnson

Chair of the Pension Fund Panel

PENSION BOARD ANNUAL REPORT 2018-19

Key decisions

Introduction

Welcome to the Annual Report of the Local Pension Board of the London Borough of Ealing Pension Fund.

Constitution, Representation Meetings and Attendance

The Board was constituted under the Public Service Pensions Act 2013 and held its first meeting on the 6 July 2015 before the recommended Scheme Advisory Board (SAB) deadline of 31 July 2015. The board consists of two representatives of the scheme employers, and two representing scheme members.

The Board members are conversant with their statutory duties and responsibilities and with the support of officers and training afforded have made good progress in achieving their objectives.

Membership

Ealing Pension Board Membership 2018 /19

Member Representatives	Designation	Employer Representatives	Designation
Ian Potts (Chair)	*Ealing Pensioner and former elected member and sat on the Pension Fund Panel for several years*	**Cllr. Tariq Mahmood**	*Elected Member Ealing Council*
Mary Lancaster	*Unison Official*	**Richard Lane**	*Director of Finance and Operations (Twyford Academies Trust)*

Chair wishes to thank his fellow Board members for their work over the last year.

The Board met on four occasions during the year ending 31 March 2019 and all meetings were quorate.

- 05 July 2018
- 12 September 2018
- 20 November 2018
- 11 March 2019

Functions and Operation of the Board

The two primary functions of a Local Pension Board are to assist the Administering Authority to:

- Ensure effective and efficient governance and administration of the LGPS
- Ensure compliance with relevant laws and regulation

It therefore has a scrutiny role, rather than being a decision-making body. As such, the general approach of the Board is to seek assurances with evidence from the Fund that it is meeting its objectives set out above.

The Board is effectively responsible for ensuring that the Fund fulfils its obligations to fully comply with legal and regulatory requirements. The Fund and Administering Authority are increasingly under considerable scrutiny by a number of stakeholders as well as the two main oversight bodies the Pensions Regulator and the Department for Communities and Local Government.
The Board is not a Committee of the Council but is established under the Public Service Pensions Act 2013. The Board operates under Terms of Reference which were approved at inception.

The Board recognises the need to prioritise and differentiates in its agenda between items for detailed discussion, and those for awareness or noting, and prioritises its time budget accordingly.

- The Board's governance arrangements comply with the statute and LGPS regulations that apply to it and best practice guidance issued by the national LGPS Advisory Board.

- Members of the board are fully conversant with the Ealing Pension Board (EPB)'s statutory duties and responsibilities such as the requirements of the Pensions Regulator.

- The Ealing fund continues to fulfil its statutory duties.

The Board has made sound progress in fulfilling its terms of reference with the support of officers and advisors

Budget

There is a financial budget for the Board of £15.7k within the overall budget of the Pension Fund. The cost incurred in the operation of the Board is expected to continue to be minimal, having been incorporated within existing officer workloads.

Overview of 2018/19

Board members were provided with the range of scheme policies which were incorporated in the schemes Annual Report. The Board expect to take forward detailed review of these policies going forward. The EPB has carried out a number of reviews and made recommendations to the Pension Fund Panel

The Board:

- reviewed all the decisions taken by the Pension Fund and all recommendations from the Board were fed back to the Panel

- probed the service level agreements between the Council and the Pension Fund

- reviewed and monitored the implementation of the pension fund separate accounting entity

- recommended that additional members be appointed support the work they do and to improve resilience

- recommended that a health check be carried out on the management governance and direction of the pension fund together with a review of our compliance with the Pensions Regulators Code of Practice. This review is scheduled to be carried out in 2019/20

Externalities
The Board may express its concerns should it find that the reputational risk of the Fund is threatened by any shortage of appropriate resources to administer the Fund effectively, be it a temporary challenge such as managing the Guaranteed Minimum Pension reconciliation exercise, or any longer-term issues. In so doing, it will be mindful of pressures on local authority finances.

Pensions Regulator
Whist it is generally felt that the LGPS is comparatively well governed, the Pensions Regulator is examining the Scheme on an ongoing basis and has, for example, highlighted delays by administering authorities in producing Annual Benefit Statements. The board has been kept updated on the progress of production and dispatch of the annual benefit statements which met the statutory deadline of 31 August 2018.

Reporting and Recording Breaches
The Board and its members, as with other players, all have a responsibility to report breaches of law to the Pensions Regulator. Board members are encouraged to attend targeted training. A breach report schedule is reviewed quarterly.

Scheme Advisory Board (SAB)
The SAB is responsible for providing advice to the responsible authority i.e. the (secretary of state), at the authority's request, on the desirability of changes to the scheme. The SAB has a two-way role: giving advice both upwards to the DCLG and down to individual funds. There is expected to be a two-way flow of information between the SAB and individual Funds and it is the aim of the Ealing Pension Board to be seen as an example of good practice.

Training
Each Board member has to be conversant with the details of the Scheme, which translates as having a good working knowledge. The fund has offered a number of training opportunities for Board members where possible.

Assessment of training needs, and how they are met, will be a standing item on the board's agenda going forward. Both formal and informal (cascade) training will be considered.

All members are encouraged to complete self-study and information on the pension regulator's toolkit has been provided to Board members.

Work plan
The agendas for the meetings are the same as the Pension Fund Panel, but the board can request specific reports for their own review. The board requested that a quarterly compliance checklist is provided for review and no breaches have been escalated for the attention of the regulator and have also requested a health check is carried out of the scheme governance

In considering the work of the Board going forward to ensure the continued good governance of the scheme, the following key areas have been highlighted and members will prioritise reviews based on information gleaned from quarterly compliance updates

- Meeting legislative requirement on pooling
- Improving data quality
- Ensuring strength in employer covenants
- Admission and Termination of other employers to the scheme
- Accounts
- Administration
- Audit and Risk Management
- Governance
- Training

- Governance Review
- Appointing more Board Members

There will be a degree of flexibility to allow for any additional reviews by either the Scheme Advisory Board or the Pensions Regulator.

Appreciation

The Chair of the Ealing Pension Board wishes to thank his fellow Board members who have volunteered their time and energies towards this role, and for their on-going support. Thanks are also expressed to the Board Secretary, Chair and Vice Chair of the Pensions Panel, and to the Democratic Services Officer.

Chair of the Pension Board
Mr Ian Potts

SUMMARY 2018-19

- The value of the Fund rose from £1,203m to £1,260m at the end of the financial year; an increase of 4.8%.
- Overall in 2018/19 the scheme again remained cash flow positive (when investment income is included), with income to the scheme (contributions and investment income) at £88.7m, 54.8% more than the outgoings of £57.3m, enabling the Council to invest sensibly for the longer term without worrying about short term market movements.
- Successful review and implementation of the Fund's Investment Strategy.
- Review of the Additional Voluntary Contributions (AVCs) arrangements to ensure that AVC providers are providing value for members
- The Fund successfully delivered the Pension Fund Separate entity project. The entity/client now holds full integrity over postings via controlled access rights and system procedures and also ensures greater control over pension fund monies.

MANAGEMENT STRUCTURE

The London Borough of Ealing Pension Fund is part of the Local Government Pension Scheme (LGPS). The LGPS is governed by statute with the LGPS falling under the remit of the Communities and Local Government Department (CLG) and the Pensions Regulator.

The London Borough of Ealing is the Administering Authority for the London Borough of Ealing Pension Fund. The Pension Fund Panel has delegated responsibility for the management of the Fund and oversees the general framework within which the Fund is managed and sets investment policy on behalf of the Council and other employers in the Fund. The Panel Members operate in a quasi-trustee capacity and are selected to represent the political makeup of the Council. The Chief Finance Officer has delegated authority for the day to day operation of the Fund.

PENSION FUND PANEL

Terms of Reference

- To decide all matters relating to policy, target setting for and performance monitoring of the pension fund;
- To consider and decide all matters regarding the management of the pension fund's investments, including sales and acquisitions of properties to be owned by the Council for statutory pension purposes;
- To consider and make recommendations on policy and staff-related issues which have an impact on the pension fund directly or indirectly.

Members during 2018/19		Political Party
Councillors	Cllr Yvonne Johnson (Chair)	Labour
	Cllr Shital Manro	Labour
	Cllr R Mann (Deputy Chair)	Labour
	Cllr Steven Donnelly	Labour
	Cllr Kamaldeep Sahota	Labour
	Cllr Kaur Nagpal	Labour
	Cllr Anthony Young	Conservative
Non-Voting Members		
	Sukhminder Kalsi	(Unison)

Contact Details for Pension Fund Panel

Committee Services (Perceval House) Mwimanji Chellah - Telephone: 0208 825 6588

Panel Member Training 2018/19

Topic
Fund Performance
Alternative Investments
Infrastructure Investment
Climate change and carbon exposure
Renewable energy strategy in the UK
Introduction to Markets and Investments

Panel Voting Rights:

The voting rights for the panel are as follows:

- Councillors who are members of the Pension Fund Panel have voting rights.

STAFF, ADVISERS AND INVESTMENT MANAGERS

Company Name	Contact	Contact Details
Ealing Officers:		0208 825 5000
Chief Finance Officer	Ross Brown	Perceval House 14-16 Uxbridge Road London W5 2HL
Group Manager, Treasury & Investments	Bridget Uku	Perceval House 14-16 Uxbridge Road London W5 2HL
Consulting Actuaries:		
Mercer	Michelle Doman	No 4, St Paul's Square Old Hall Street, Liverpool L3 9SJ
Auditor:		
Deloitte	Jonathan Gooding	3 Victoria Square St Albans AL1 3TF
Legal Advisers:		
In-House Team	Helen Harris – Director of Legal and Democratic Services	Perceval House 14-16 Uxbridge Road London W5 2HL
Pension Administration Services:		
In-House Team	Jenny Connet – Pensions Manager	Perceval House 14-16 Uxbridge Road London W5 2HL
London Pensions Partnership (LPP)	Ealing Pension Team	Dexter House 2nd Floor, 169 Union Street London, SE1 0LL
Pension Body Membership:		
National Association of Pension Funds - represents the interests of the occupational pensions movement, organises conferences and training programs for members.	n/a	Cheapside House 138 Cheapside London EC2V 6AE

Custodian:		
BNY Mellon	Jeremy Shaw	BNY Mellon Asset Servicing UK Pension Team 3rd Floor, 160 Queen Victoria Street London EC4V 4LA
Investment Managers:		
Lazard – UK Equity Mandate	Steven Bliss	50 Stratton Street London W1J 8LL
Baillie Gifford – Global Equity Mandate	Will McBean	4th Floor Lavington Street London SE1 0NZ
LGIM – Global Equity Mandate	Richard Lubbock	
Janus Henderson - Global Equity Mandate	Will McBean	4th Floor Lavington Street London SE1 0NZ
JP Morgan – Infrastructure Mandate		60 Victoria Embarkment London EC4Y 0JP
Brightwood – Private Debt mandate	Caitlin Mixter	810 Seventh Avenue 26th Floor, New York, NY 10019
Churchill – Private Debt mandate	Liz Perreten	430 Park Avenue, 14th Floor New York, NY 10022
Permira - Private Debt mandate	Rebecca Zimmerman	80 Pall Mall London SW1Y 5ES
RLAM – UK Corporate Bond Mandate	Robert Nicholson	55 Gracechurch Street London EC3V 0UF
Lothbury – UK Property Mandate	Thomas Jansen	155 Bishopsgate, London, EC2M 3TQ
Standard Life – UK Property Mandate	Euan Baird	1 George St, Edinburgh, EH2 2LL
Hermes – UK Property Mandate	Geoffrey Reynolds	1 Portsoken Street, London, E1 8HZ
Performance Measurement Services:		
BNY Mellon	Matthew Flackett	1 Whitehall Riverside, Leeds, LS1 4BN
PIRC LIMITED	Karen Thrumble	PIRC LIMITED, Exchange Tower, London E14 9GE

THE SCHEME

The London Borough of Ealing administers the Ealing Pension Fund for the active members, pensioners and deferreds of the Council and other scheme employers.

The Local Government Pension Scheme is a defined benefit scheme. Benefits are determined by a range of statutory provisions. The main regulations governing the operation of the scheme are the Local Government Pension Scheme (Members, Contributions and Benefits) Regulations 2007, Local Government Pension Scheme (Administration) Regulations 2008, the Local Government Pension Scheme (Transitional Provisions) Regulations 2008, and the Local Government Pension Scheme Regulations 2013.

However, following on from Lord Hutton's report on reform of public sector pension schemes The Local Government Association and trade unions announced changes to the LGPS to take effect from 1st April 2014. Details of these changes are highlighted on the next page.

The Local Government Pension Scheme provides significant benefits for its members. The key benefits of the scheme are outlined below: -

- A guaranteed pension based on salary and length of time in the scheme
- Tax free lump sum on benefit accumulated prior to 1st April 2008 and option to convert some of the pension into tax free lump sum on post 1st April 2008 service
- Life assurance cover 3x member yearly pay from the day of joining scheme
- Pensions for spouses/civil and co-habiting partners and children
- An entitlement to have pension paid early on medical grounds (3 tiers of award)
- Pensions increase annually in line with CPI

The above list is not exhaustive and certain conditions have to be met for an individual to be entitled to the benefits outlined. The cost of membership for employees is in banded contributions ranging from 5.5% to 12.5% for the main section and 2.75% to 6.25% for the 50/50 section, depending on the level of pay that a member receives. Employers also pay contributions towards the cost of providing benefits and these are determined every three years following a review by the Fund's consulting actuary, Mercer.

The pay bands and the rates that applied from April 2018 to March 2019 were:

Full-time Pensionable Pay	**% Contribution Main Scheme**	**% Contribution 50/50**
Up to £14,100	5.50	2.75
£14,101 to £22,000	5.80	2.90
£22,001 to £35,700	6.50	3.25
£35,701 to £45,200	6.80	3.40
£45,201 to £63,100	8.50	4.25
£63,101 to £89,400	9.90	4.95
£89,401 to £105,200	10.50	5.25
£105,201 to £157,800	11.40	5.70
£157,801 or more	12.50	6.25

The pay bands are adjusted each April in line with the cost of living.

The contributions enjoy full tax relief.

LGPS 2014

The new scheme did not change pensions already paid or benefits built up before April 2014, **existing benefits were protected in full**. The main changes were as follows:

1	A Career Average Revalued Earnings (CARE) scheme using CPI as the revaluation factor (prior to 31 March 2014, the scheme was a final salary scheme).
2	The accrual rate is 1/49th (this used to be 1/60th).
3	There is no normal scheme pension age; instead each member's Normal Pension Age (NPA) will be their State Pension Age (the NPA used to be 65).
4	Average member contributions to the scheme are 6.5% (same as before) with the rate determined on actual pay (before the scheme determined part-time contribution rates on full time equivalent pay). While there was no change to average member contributions, the lowest paid pay the same or less and the highest paid pay higher contributions on a more progressive scale after tax relief.
5	Members who have already or are considering opting out of the scheme can instead elect to pay half the contributions for half the pension, while still retaining the full value of other benefits. This is known as the 50/50 option (before, the scheme had no such flexible option).
6	Where scheme members are outsourced they will be able to stay in the scheme on first and subsequent transfers (currently this is a choice for the new employer).

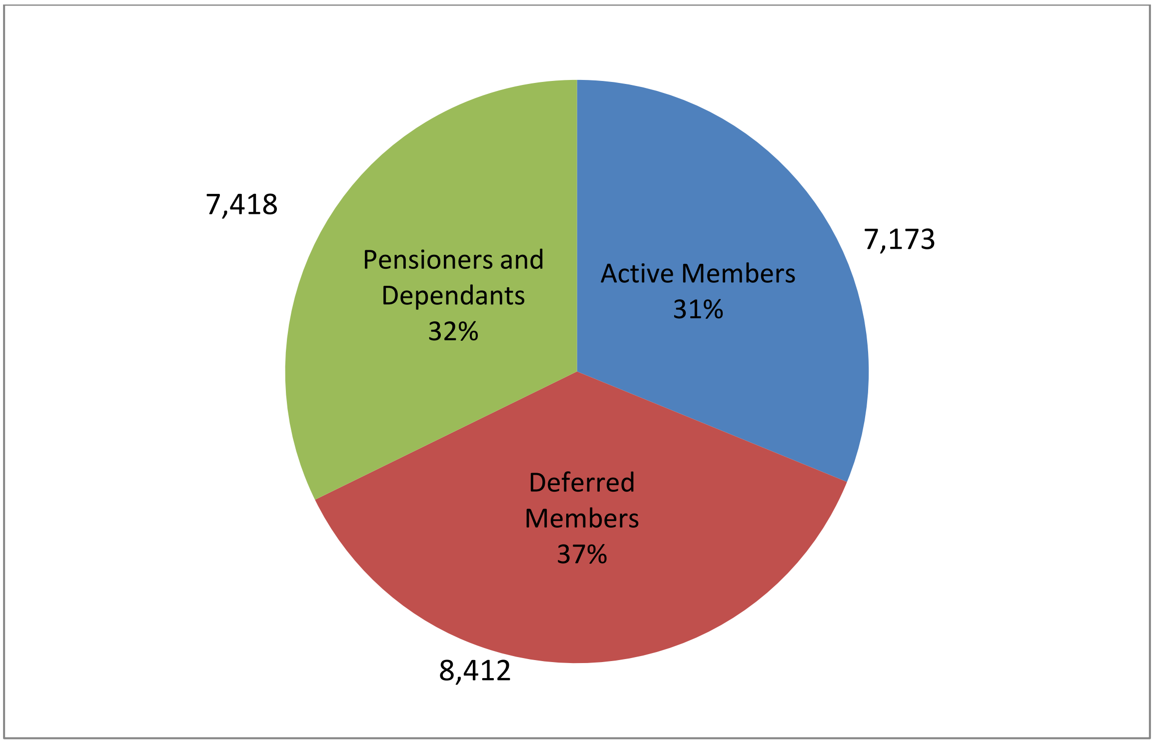
SCHEME EMPLOYERS

The Pension Fund had 38 employers in the Fund during the financial year 2018-19, including the London Borough of Ealing. These employers in the Fund are listed in the section Accounting Policies and Notes to the Accounts.

MEMBERSHIP OF THE FUND

Admission to the Local Government Pension Scheme (LGPS) administered by Ealing is open to all Council and other scheme employers, except for teachers who have separate arrangements for pension benefits, payable through the Teachers Pensions Scheme. Membership into the Council's Scheme is automatic for full and part-time employees (unless they opt out), providing there is a contract of 3 months or more. Admission to the Pension Scheme for employees of scheme employers is dependent on the status of the admission agreement, whether it is open, i.e. admits new members, or closed, i.e. is only available for staff transferring over and does not admit new members.

The membership of the Scheme analysed over the three main categories is outlined below:



Definitions:

- **Active Members**: Those in employment with the Council or one of the other scheme employers and making contributions to the Pension Fund.
- **Deferred Members**: Those who have left the Council or one of the scheme employers but have not yet become entitled to receive their pension from the scheme.
- **Pensioners**: Those who receive a pension from the Scheme (including spouses' and dependants' pension).

BUDGETARY ESTIMATE REVIEW

The Pension Fund Panel reviews the budgetary estimate for the Pension Fund on an annual basis. In the table below income and expenditure for 2017-18 and 2018-19 is shown together with the agreed budget for 2019-20:

	Actual 2017/18 £m	Forecast 2018/19 £m	Actual 2018/19 £m	Variance		Budget 2019/20 £m
Income						
Employer Contributions	37.5	37.5	38.9	4%	1.5	38.2
Employee Contributions	10.2	10.3	10.3	1%	0.1	10.5
Transfers In	3.5	2.2	3.5	60%	1.3	2.2
Total Income	**51.2**	**50.0**	**52.7**	**6%**	**2.8**	**50.9**
Expenditure						
Pensions	37.5	37.4	38.9	4%	1.4	37.4
Lump sum retirement benefits	6.3	8.0	8.7	8%	0.6	8.0
Lump sum death grants	0.4	0.8	0.5	-38%	-0.3	0.8
Transfers out (inc. refunds)	6.1	4.5	4.8	8%	0.3	4.5
Fund Management expenses	3.2	4.8	3.3	-31%	-1.5	3.7
Administration expenses	1.1	1.2	1.1	-3%	0.0	1.2
Total Expenditure	**54.7**	**56.7**	**57.3**	**1%**	**0.6**	**55.7**
Net Income/(Expenditure)	**(3.5)**	**(6.7)**	**(4.6)**	**-32%**	**2.2**	**(4.8)**
Investment Income generated by Fund Managers	33.7	31.4	36.0	15%	4.6	34.9
Total Income (inclusive of income held with Fund Managers)	**30.2**	**24.7**	**31.4**	**27%**	**6.7**	**30.1**

Overall the London Borough of Ealing Pension Fund achieved a net surplus for the year 2018/19 of £31.4m (£30.2m in 2017/18). This excludes the effect of the increase in market value of the Fund's investments which was £25.88m (£26.26m increase in 2017/18).

During 2018/19 non-investment income was not enough to cover pension benefits and expenses. This trend is expected to continue due to the rising cost of pension benefits and stagnating contribution levels. Current cash levels will be sufficient to meet forecast pension obligations in 2019/20, so withdrawal of cash from investments may not be necessary.

A requirement of the LGPS Regulations is that all scheme employers (previously known as admitted and scheduled bodies) must pay to the administering authority all deductions made from employees pay for pensions no later than 19 days after the month in which they relate. Payment dates are monitored monthly to ensure compliance of the regulations, and bodies that pay contributions past the 19th are contacted.

A copy of the budgetary estimate report for 2019-20 can be obtained from the Council's website or using the file path below.

https://ealing.cmis.uk.com/ealing/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/6200/Committee/18/Default.aspx

The Pension Fund Panel approved the 2019-20 budgetary estimate report on 11 March 2019.

RISK MANAGEMENT

Risk management constitutes a major part of Pension Fund Governance and is embedded within the on-going decision-making process of the Panel. Successful risk management leads to improved financial performance, better delivery of services, improved Fund governance and compliance.

There are four general approaches to tackling risk: avoid, reduce, transfer or accept:

- Avoidance of risk – avoid undertaking the activity that is likely to trigger the risk.
- Reducing the risk – take mitigating action to reduce the likelihood of the risk occurring or controlling the impact of the consequences if the risk does occur.
- Transferring the risk – handing the risk on elsewhere, either totally or in part – e.g. through insurance.
- Accepting the risk – acknowledging that the ability to take effective action against some risks may be limited or that the cost of taking action may be prohibitive to the potential benefits gained.

The risks that the Ealing Pension Fund is exposed to falls into the categories outlined below:

- Financial – These relate to insufficient funding to meet liabilities, loss of money, poor financial monitoring with the consequence being the requirement for additional funding from the Council and other employers.
- Strategic – Failure to meet strategic objectives, such as performance targets and Funding Strategy Statement objectives.
- Regulatory – Failure to comply with legislation to meet statutory deadlines.
- Reputational – Poor service damaging the reputation of the Fund and administering authority.
- Operational – Accurate data maintenance and meeting of service delivery targets.
- Contractual – 3rd party providers, failure to deliver, effective management of contracts.
- Communication – Failure to keep all stakeholders notified of changes that affect them, be they employers, scheme members or contractors.

The key risks to the fund are:

- Increasing longevity
- Poor Investment performance
- Reliance on third party operations
- Counterparty risks

Although the above risks relate primarily to external risk, measures are in place to monitor and manage these risks. These include:

- Monitoring longevity triennially and in discussions with the Fund Actuary on how best to manage the impact on the Fund from people living longer.
- Adequate diversification of assets and managers/manager style, quarterly monitoring of investment performance and regular reviews of asset allocation to ensure that it remains appropriate for the Fund taking into account the appropriate investment advice from the Pension Fund adviser.
- Contract monitoring and performance reviews.
- Ensuring counterparties have adequate ratings and internal controls in place, which includes reviewing AAF (Audit and Assurance Faculty) reports.

INVESTMENT REVIEW

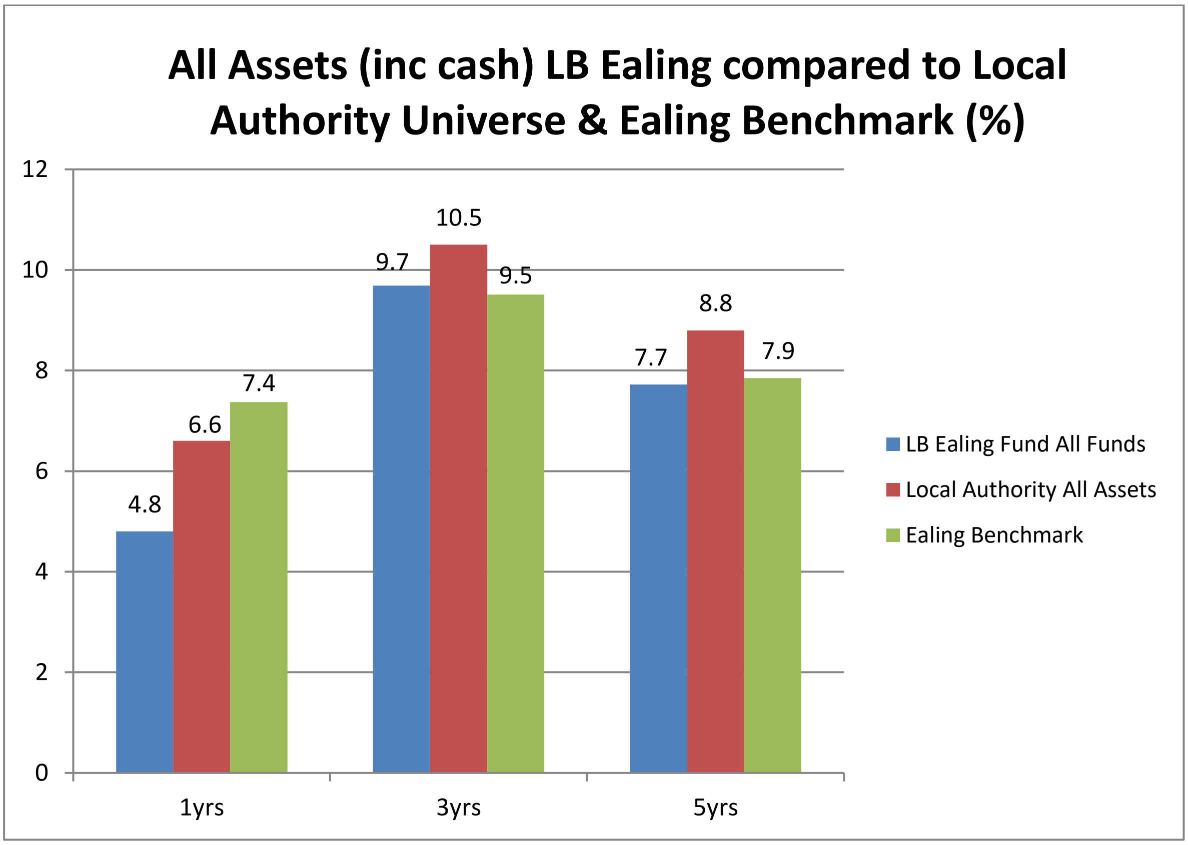
Over the last twelve months, the average Local Authority Pension Fund returned 6.6%. Strategic asset allocation therefore had more impact on performance

*PIRC and Bank of New York Mellon (BNY Mellon) are the independent performance measurement companies for the Fund.

Performance of Fund

The investment strategy and performance of the Fund is reported on a quarterly basis to the Pension Fund Panel with Fund Managers alternating to present to Members. The investment performance of the Fund against a customised benchmark and the Local Authority Universe performance is measured by BNY Mellon and PIRC Limited respectively.

As set out in the graph below, the fund returned 4.8% for 2018-19, and an average of 9.7% and 7.7% for the three years and five years respectively to 31 March 2019.



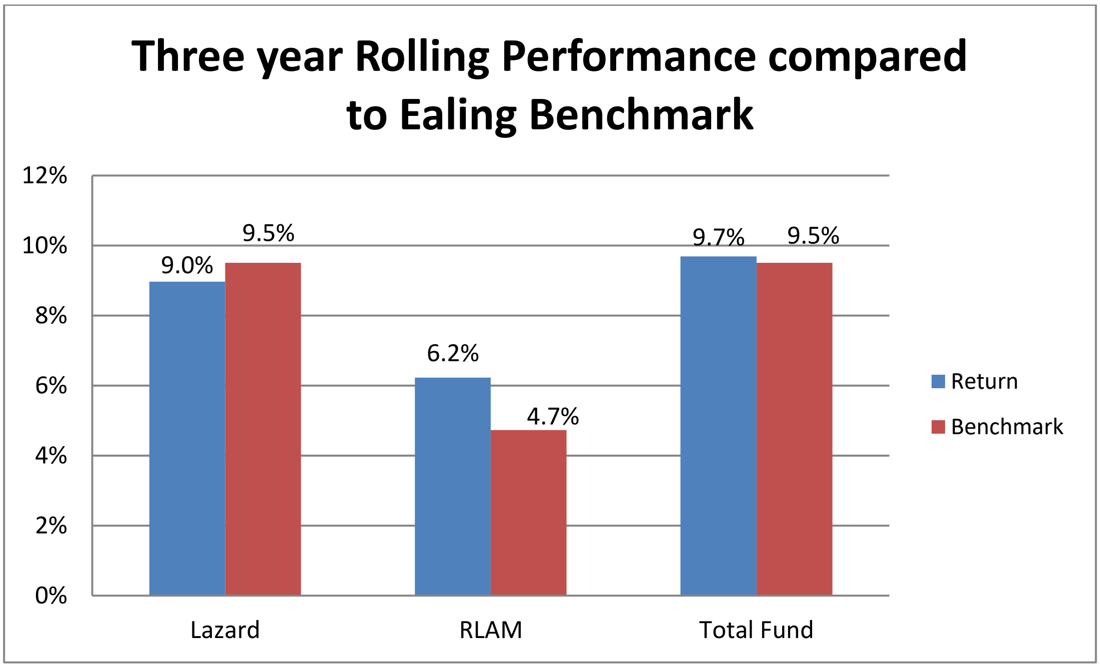
The table below details the performance for the year to March 2019 for each of the fund managers and the combined fund in relation to the Ealing Specific Benchmark.

	Return	LB Ealing Benchmark	Relative Performance*	Relative Performance*
	Year to 31 March 2019	Year to 31 March 2019	2018/19	2017/18
	%	%	%	%
Lazard	3.4	6.4	-2.9	0.5
RLAM	4.2	3.7	0.5	2.1
Cash (In House)	0.6	0.5	0.1	0.2
Total Fund	**4.8**	**7.4**	**-2.5**	**2.9**

*relative performance is a geometric not arithmetic calculation

At the overall portfolio level, the Fund underperformed the composite benchmark return during the year 2018/19 by 2.5%

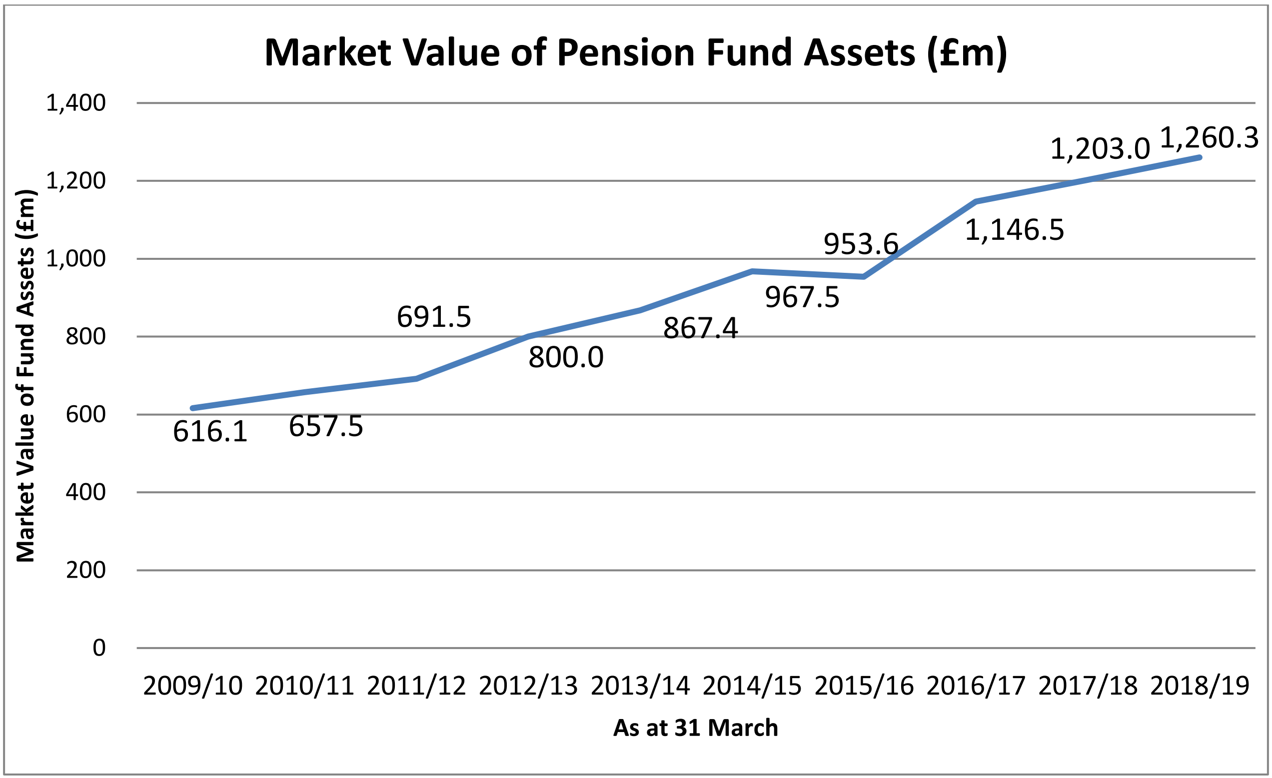
Below is the Long-term 3 year rolling performance analysis of the fund managers together with the Total Fund to 31 March 2019.



**** 3-year data is not available for new managers (Bailie Gifford and Henderson (LCIV) and LGIM)**

Value of the Fund's Assets

At the end of March 2019, the market value of the Pension Fund's total assets was £1,260.3m; an increase of 4.8% from the opening value of £1,203.0m. The graph below illustrates the progress of the Fund's assets over the last 10 years (as at the 31 March in each year).

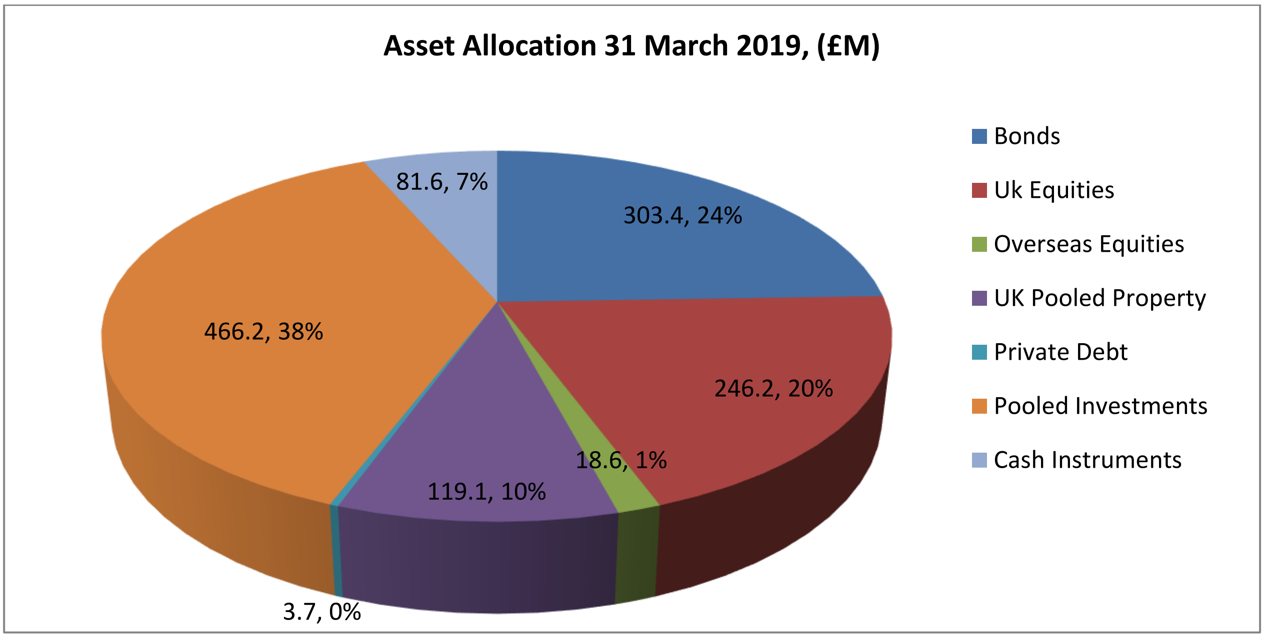


Investment Management

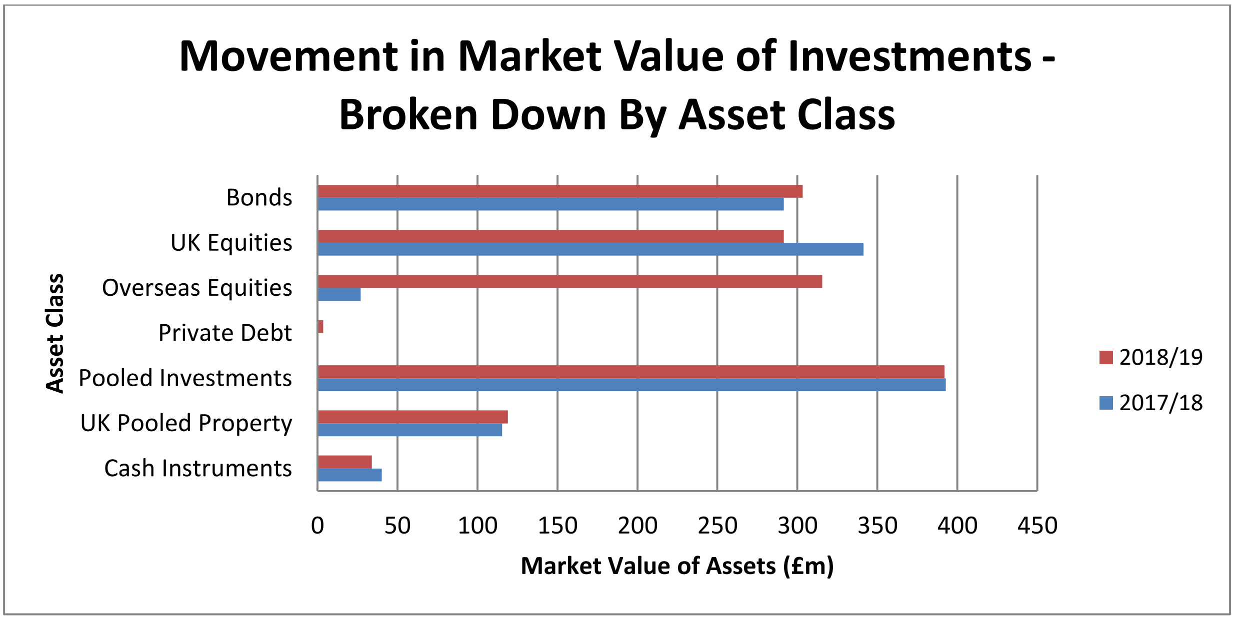
The management of the Fund's assets is determined by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The regulations enable authorities to appoint investment managers to manage and invest Pension Fund assets on their behalf, subject to being satisfied with their experience, competence and risk control, with appropriate arrangements for monitoring performance. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires the Administering Authority to formulate an Investment Strategy Statement (ISS); which outlines the broad investment principles governing the investment policy of the Pension Fund. The ISS covers investment responsibilities, Fund's liabilities, and eligible assets, social, environmental, and ethical considerations. A copy of the current ISS is included as appendix 2 of this report.

The fund's investments are managed on behalf of the Fund by the appointed investment managers. Each investment manager is required to invest the assets managed by them in accordance with the terms of their investment guidelines. A range of investment managers have been appointed to diversify manager risk, with a UK Equity, Global equity, UK Corporate bond, as well as property mandates. The Fund's assets are held for safekeeping by the custodian.

The allocation to the various asset classes as at the end of 2018-19 is as outlined below:



The chart below sets out how the distribution across the various asset classes has moved between the end of the previous financial year, March 2018, and the end of the current financial year, March 2019.



During the year assets under management were maintained under ten specialist managers:

Manager	Mandate	% of Fund Under Management at 31/03/19
Royal London	Bonds	27%
Lazard	Equities	23%
Legal and General	Global Equities	22%
Baillie Gifford	Global Equities	15%
Lothbury	UK Pooled Property	4%
Standard Life	UK Pooled Property	3%
Hermes	UK Pooled Property	3%
Henderson	Global Equities	3%
Brightwood*	Private Debt	0%
Churchill*	Private Debt	0%

*Only £3.7m of private debt has so far been funded and therefore constitutes a small proportion of the total Fund value.

Top fifteen holdings by Market Value as at 31 March 2019

Top 15 Holdings at 31 March 2019	Market Value (£000)
LCIV GLOBAL ALPHA GROW-A IN	177,357
APAZ - FUTURE WORLD FUND	125,897
GPCL - MSCIWORLDLW CARBONTARGETINDOFC	125,706
GS GBP LIQ RES INST	77,793
LOTHBURY PROPERTY FUND	46,230
HERMES PROPERTY UNIT TRUST	37,799
STANDARD LIFE LONG LEASE PPTY FUN	35,021
LCIV HN EMERGING MARKET EQUITY FUND (CLASS A INCOME)	31,270
BP PLC	19,926
ROYAL DUTCH SHELL PLC B SHS	18,315
GLAXOSMITHKLINE PLC	10,789
HSBC HOLDINGS PLC	10,308
UNILEVER PLC	9,845
RIO TINTO PLC	9,823
ASTRAZENECA PLC	9,758

Investment Management Expenses

The investment management expenses for the year to 31 March 2019 were £3.286m, as compared to the previous year figure of £3.227m.

ADMINISTRATION

Administration of the London Borough of Ealing Pension Fund is outsourced to the London Pensions Partnership (LPP). They deal with all aspects of the scheme and should be the first point of contact for all queries.

The contact details for the Ealing Pensions team at the LPP are:

Ealing Pension Team
LPP - Your Pension Service
PO Box 1383
Preston PR2 0WR

Telephone:	0300 323 0260
Email:	AskPensions@localpensionspartnership.org.uk
Website:	www.yourpensionservice.org.uk

Pensioners please note that your pension will continue to be paid by Ealing Council and any enquiries about your payment should be directed there.

Ealing Council
Payroll Department
Perceval House
5th Floor SW
14-16 Uxbridge Road
London
W5 2HL
Telephone: 0208 825 9000

Administration Expenses

The costs of administering the Fund over the financial year 2018/19 amounted to £1,134k (£960k in 2017/18). The administration expenses cover the costs involved in administering the Pension Scheme, including actuarial costs, audit, payroll, and pension administration.

Administration Performance

The performance of LPP is measured against four criteria:

Accuracy – Whether the figures provided have been accurately calculated.

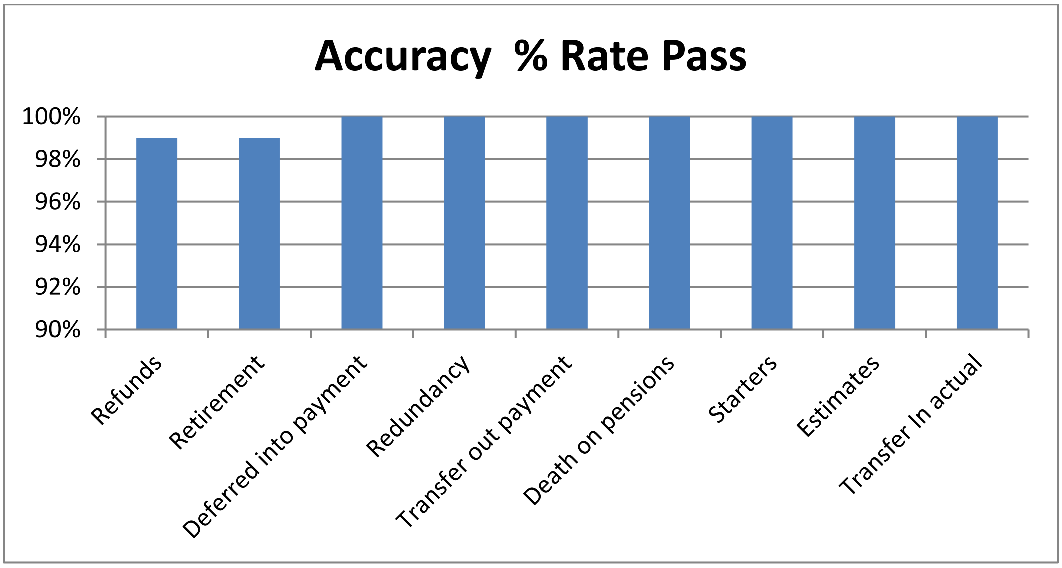
Timeliness – Have cases been processed in a timely manner in accordance with the Service Level Agreement.

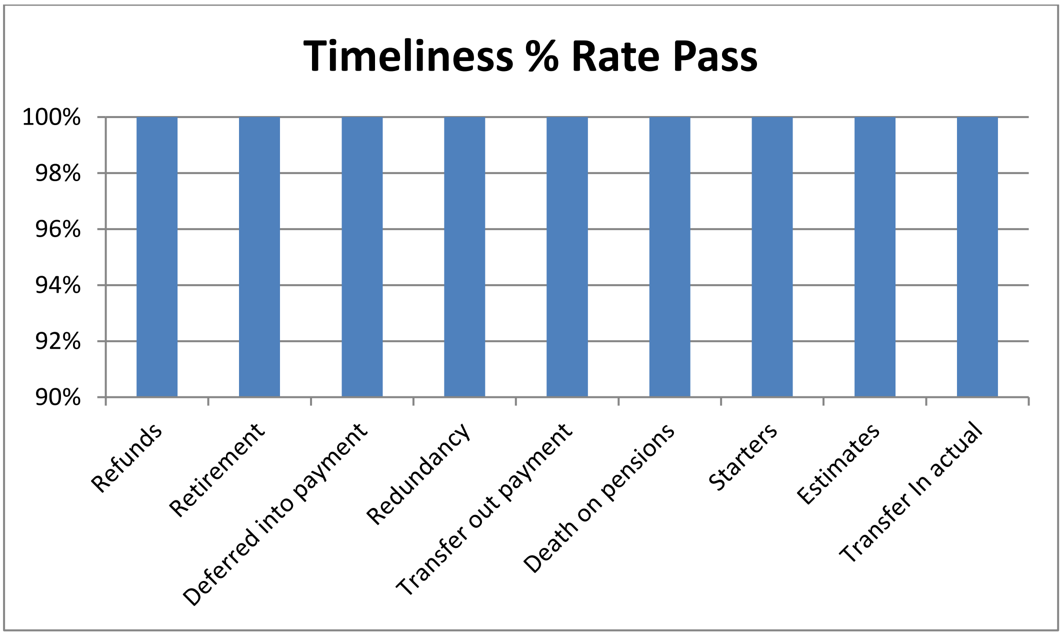
Documentation – Has the correct documentation been attached to members' files.

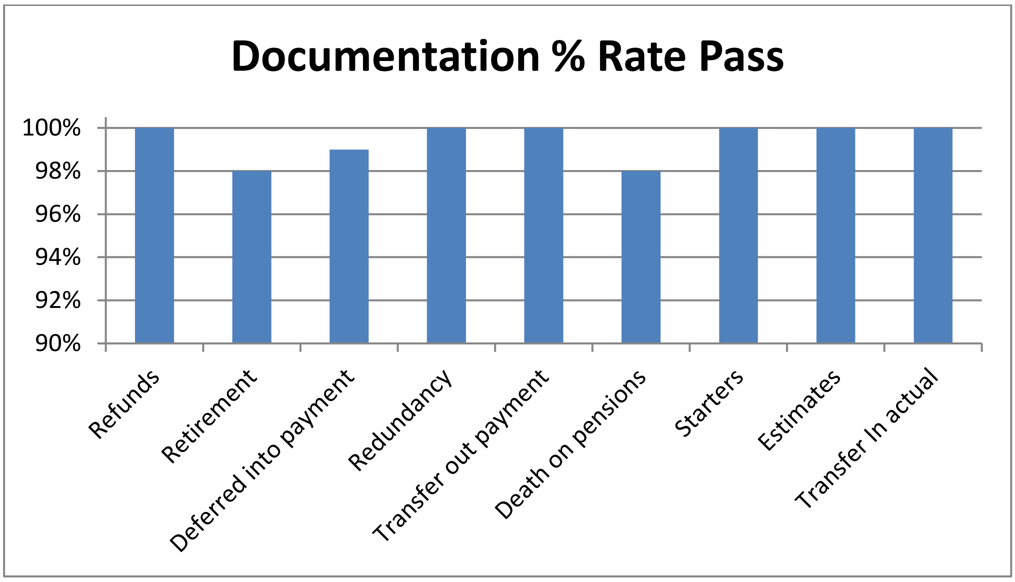
Altair – Does the pension administration system correctly reflect the activity processed.

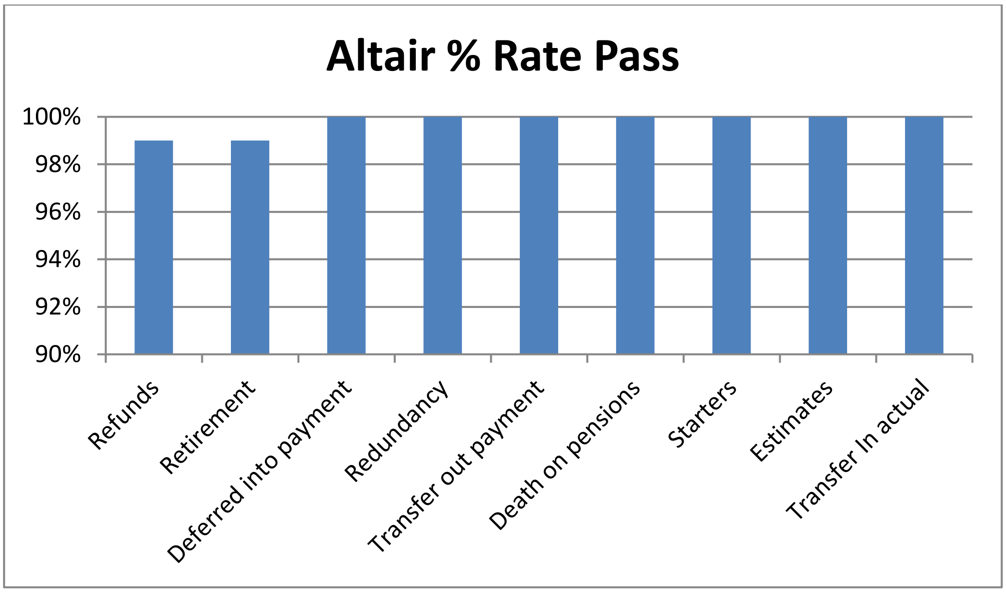
Ealing's in-house pension team take monthly samples of work untaken by LPP and assesses it against these criteria. Any 'fails'. Performance statistics are reported to the Pension Fund Panel on a quarterly basis.

Below are performance graphs showing the pass rate LPP achieved for 2018/19 across some of the most common and active areas within LPP 's remit.









Internal Disputes Resolution Procedure

The LGPS is required by statute to make arrangements for the formal resolution of disagreements between, on the one hand, the managers of the Scheme and on the other, active, deferred and pensioner members or their representatives. There is, therefore, access to a two-stage dispute resolution procedure. This procedure consists of an initial application to the person or persons appointed by the individual's employer as the stage one adjudicator to consider the matter.
If the complainant is still dissatisfied with the decision, they then have the right to refer the matter to the Stage 2 adjudicator to consider the matter under dispute. The Stage 2 adjudicator is Liz Chiles, Assistant Director of HR and OD, Ealing Council.

If after the 2nd stage, the dispute has not been resolved the complainant can contact the Pensions Ombudsman.

In addition to the dispute procedure the Social Security Act 1990 and the Pensions Act 1995 have created a framework of national organisations to control occupational and personal pension schemes, to which LGPS members have access.

Member Self-Service

Members have quick and easy access to a dedicated pensions website www.yourpension.org.uk. Click the 'Ealing' option to view the latest information on the LGPS, Newsletters, Scheme Guides, Fact Sheets, Annual Benefit Statement Forms, and Publications which are also available to download. An online calculator is also available to obtain an estimate of your pension and lump sum.

https://axise.yourpension.org.uk/

New to member self-service? Member self service enables you to view personal and financial information about your pension. You can carry out basic modelling or "what if." calculations. Your service history can be accessed, and this can be done at any time without the need to contact the LPP.

To access the secure system, you will firstly need to complete a simple registration form online. Your request will be emailed to LPP and you will be issued an activation code through the post. We feel this is more secure than emailing the code to you, but it may take up to a week for you to receive this letter. Once you have your activation code you can go online and set up a username and password.

Please note that for security reasons LPP do not hold a record of the username or password you have selected. If you forget your password, you will need to re-register from the Log-in web page.

If you have more than one pension payroll number, you only need to complete the registration process once.

If you require assistance with this system, please contact one of our administration teams on AskPensions@localpensionspartnership.org.uk or call 0300 323 0260

Please note this service is available for active members and members with a frozen pension but not Ealing pensioners.

Notification of Change of Address

As statements are sent out on an annual basis showing the current value of your benefits it is vitally important that you notify the LPP of any change of address.

This becomes especially important when the benefits are due to be paid.

Please send written notification of any change of address you may have to the LPP at the address shown above.

STATEMENT OF RESPONSIBILITIES

The London Borough of Ealing is the Administering Authority of the London Borough of Ealing Pension Fund and 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 Chief Finance Officer;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the Statement of Accounts.

Responsibilities of the Chief Finance Officer

The Chief Finance Officer is responsible for the preparation of the Pension Fund Statement of Accounts in accordance with proper practices as set out in CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom ("the Code of Practice").

In preparing this Statement of Accounts, the Chief Finance Officer has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent; and
- Complied with the Code of Practice, except where otherwise stated.

The Chief Finance Officer has:

- Kept proper accounting records which were up to date; and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Responsible Financial Officer's Certificate:

I certify that the Accounts set out below have been prepared in accordance with proper practices and present fairly the transactions of the London Borough of Ealing Pension Fund for the year ended 31 March 2019 and financial position of the Fund at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the year end.

Ross Brown

Chief Finance Officer

AUDIT OPINION

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF EALING ON THE PENSION FUND FINANCIAL STATEMENTS OF THE LONDON BOROUGH OF EALING PENSION FUND

Opinion

In our opinion the pension fund financial statements of London Borough of Ealing Pension Fund (the 'Pension Fund'):

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2019 and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year; and

- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We have audited the financial statements which comprise:

- the fund account;
- the net assets statement; and
- the related notes 1 to 22.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the London Borough of Ealing and the Pension Fund it administers in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
We are required by ISAs (UK) to report in respect of the following matters where:

- the Chief Financial Officer's use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or

- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Pension Fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

AUDIT OPINION (continued)

Other information
The Chief Financial Officer is responsible for the other information. The other information comprises the information included in the Pension Fund's Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Chief Finance Officer's responsibilities
As explained more fully in the Chief Financial Officer's statement of responsibilities, the Chief Financial Officer is responsible for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting on the assumption that the functions of the pension fund will continue in operational existence for the foreseeable future.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report
This report is made solely to the members of London Borough of Ealing ('the Authority'), as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Jonathan Gooding (Appointed auditor)
For and on behalf of Deloitte LLP
St Albans, United Kingdom
November 2019

POLICY STATEMENTS AND ACCOUNTS

The following appendices contain various policy statements, and the 2018-19 Pension Fund accounts. The pension fund accounts contain the Actuary's statement for the year.

- Appendix A – Pension Fund Accounts
- Appendix B – Funding Strategy Statement
- Appendix C – Investment Strategy Statement

GOVERNANCE POLICY AND COMPLIANCE STATEMENT

Governance Policy Statement

Introduction

This Statement is prepared in compliance with the Local Government Pension Scheme Regulations 2013, regulation 55. It sets out the Policy of London Borough of Ealing, as administering authority, in relation to its Governance responsibilities for the Local Government Pension Scheme (LGPS).

Governance Framework

The Council's constitution sets out how the council should be directed controlled and managed and, in this regard, sets the framework for the administration of the Pension Fund. Elected Members (the full Council) have overall responsibility for the governance of the Scheme.

The governance framework is supported by:

- The Pension Fund Panel (PFP)
- The Pension Board
- Treasury Risk & Investment Board (TRIB)
- Officers of the Council; and
- Professional Advisors

Delegation of Function

The stewardship function is delegated to the Pension Fund Panel (PFP) and the Council ratifies decisions made by the Panel. The PFP consists of seven local councillors and two non-voting employee/trade union representatives. The Chair and Vice-Chair are both elected by the Panel at its first meeting of the municipal year.

Meetings

The Panel meets quarterly to consider issues concerning the Scheme and to review the performance of the pension fund. Other meetings may also be convened to consider urgent/specific matters, such as the selection of service providers. Panel meetings are quorate if a third of the members are present.

The Chief Finance Officer (Section 151 Officer) is responsible for implementing Council policy and PFP decisions. Operating through the Treasury Risk and Investment Board (TRIB) a body that convenes monthly, the Section 151 officer and his deputy together with other officers of the Council ensure the smooth implementation of PFP policies on administration, funding, investment, communication and risk management of the fund. This ensures continuity of review of pensions fund matters in between quarterly PFP meetings. The chair and deputy chair are kept updated and informed of any decisions taken within the remit of the delegations granted by the PFP and Council to the Chief Finance Officer.

The Director of Legal and Democratic Services provides legal advice to the PFP. The Strategic Finance and Human Resources teams provide routine professional support.

The Council employs external professional advisors, including: fund actuary, investment advisers, fund managers, global custodian, independent performance measurers and pensions administrator.

Training

Members of the PFP receive training on a wide range of issues concerning the management of the Pension Fund. Training slots are provided at all quarterly meetings. Additional training is arranged on an ad hoc basis particularly around key times within the pension fund cycle to supplement member knowledge in key areas salient to decisions being made. This ensures that members are able to discharge their duties as quasi trustees of the Pension Fund.

Pension Fund Panel Terms of Reference

The Terms of Reference of the PFP is as follows:

- To decide all matters relating to policy and target setting for, and monitoring the investment performance of, the pension fund;
- To consider and decide all matters regarding the management of the pension fund's investments, including sales and acquisitions of properties to be owned by the Council for statutory pension purposes; and
- To consider and make recommendations on policy and staff related issues, which have an impact on the pension fund directly or indirectly through changes in employer pension contribution rates.

The Pension Board

- The Pension Board was established under regulation 106 of the Local Government Pension Scheme Regulations 2013.
- The purpose of the Board is to assist the Administering Authority in its role as a scheme manager of the Scheme. Such assistance is to:

  (a) secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme and;

  (b) to ensure the effective and efficient governance and administration of the Scheme.

- The Terms of reference for the Local Pensions Board can be found on the link below

  https://www.yourpension.org.uk/Ealing/LGPS-2014/Pensions-Board.aspx

- The Board currently consists of 4 members; 2 Council and 2 Employee representatives, with equal numbers of employer and member representatives. The board will elect one member to be the chair and will meet at least two times per annum.

Review of this Policy Statement

This Statement will be revised, and a new version approved and published by the Panel following any material changes in the Council's policy on any of the matters included in the statement.

London Borough of Ealing's Current Compliance Position

Since 1st April 2006, Administering Authorities have been required to publish and maintain a Pension Fund Governance Compliance Statement setting out the governance arrangements for their Fund including details of membership, how often they meet and the decision-making process. This came into force following an amendment to the 1997 Local Government Pension Scheme Regulations. The London Borough of Ealing's is outlined below.

On 30th June 2007, the 1997 Regulations were further amended to require Pension Funds to report on the level of compliance on their governance arrangements against a set of best practice principles and where they did not comply to state the reason why. The Communities and Local Government Department (CLG) published a draft Governance Compliance Statutory Guidance note on 8th October 2007 for consultation.

The CLG Guidance provides a detailed description of each of the best practice principals against which compliance is to be measured and also an example of how the Compliance statement should be completed. The extent to which Ealing complies with the guidance is shown in the following summary:

REQUIREMENT	COMPLIANCE	COMMENT
Structure		
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Compliant	The Council Constitution clearly sets out that responsibility for the management of the Pension Fund resides with Pension Fund Panel.
That representatives of participating LGPS employers, and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Partly Compliant	The larger scheme employers e.g. University of West London are invited to participate on the Pension Fund Panel and trade union representatives sit on the panel as observers.
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliant	The Council does not have a secondary Committee or Panel, however PFP are supported by the Treasury Risk and Investment Board (TRIB). TRIB ensure the implementation of PFP policies operates smoothly in between quarterly PFP meetings. Good communications flows have been established between this

REQUIREMENT	COMPLIANCE	COMMENT
		board and the PFP and officers from this board also sit on the PFP.
That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Partly Compliant	The Council does not have a secondary Committee or Panel. However, they are supported by the TRIB, and at least two members from this body also attend the PFP meetings.
Representation		
That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: - • employing authorities (e.g. scheme employers), • scheme members (including deferred and pensioner scheme members), • independent professional observers, • expert advisors (on an ad-hoc basis).	Partially Compliant	Representation on the Pension Fund Panel is open to the larger scheme employers and two trade union representatives sit on the panel. The Panel has not appointed an independent professional observer but has appointed expert advisors who can attend Panel meetings when required.
That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Compliant	Committee papers are published prior to the meeting and where issues affect other employers or scheme members information is provided and opportunities for consultation exist within the current framework.
Selection & Role of Lay Members		
That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Compliant	Members are aware of their roles and responsibilities as members of the Pensions Fund Panel, their terms of reference are set out in the constitution.
Voting		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Partially Compliant	The constitution does not provide for non-Councillor members to be given voting rights.

REQUIREMENT	COMPLIANCE	COMMENT
Training/Facility Time/Expenses		
That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Compliant	Training is provided to members of the Pension Fund Panel to assist with the decision making process. All members have the opportunity to attend particular training meetings and there is a training budget to fund these.
That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Compliant	Training sessions are conducted at PFP meetings to enable all Panel members to obtain training on topical issues.
Meetings (Frequency/Quorum)		
That an administering authority's main committee or committees meet at least quarterly.	Compliant	Pension Fund Panel meets at least once a quarter.
That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Partly Compliant	No secondary committee, but the supporting body meet monthly.
That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Compliant	There are two lay representatives on the panel. Consultation with key stakeholders takes place and there is an AGM to which all members are invited.
Access		
That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Compliant	Panel meeting papers have to be sent to Members at least 7 days prior to the meeting. All members invited to the Panel have equal access to papers, documents and advice.
Scope		
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Compliant	The Panel already considers a wider range of Pension Fund issues outside of investment.
Publicity		
That administering authorities have published details of their governance arrangements in such a way that	Partially Compliant	The governance policy statement attached above was consulted upon prior to

REQUIREMENT	COMPLIANCE	COMMENT
stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.		publication and is published on the Council's website. The Chair's introduction to the annual report and contact details for officers and other parties involved in the management of the fund encourage feedback.

FUND ACCOUNT — APPENDIX A

2017/18 £'000		Notes	2018/19 £'000
	Dealings with members, employers and others directly involved in the Fund		
	Contributions		
(37,544)	From Employers	6	(38,829)
(10,241)	From Members	6	(10,347)
(3,493)	Individual Transfers in from Other Pension Funds		(3,547)
(51,278)			**(52,723)**
	Benefits		
37,537	Pensions	7	38,879
6,775	Commutation, Lump Sum Retirement and Death Benefits	7	9,169
	Payments to and on Account of Leavers		
6,064	Individual Transfers Out to Other Pension Funds		4,665
-	Bulk transfers		-
168	Refunds to Members Leaving Service		165
50,544			**52,878**
(734)	**Net (Additions)/Withdrawals from Dealings with Members**		**155**
4,187	**Management Expenses**	8	**4,420**
	Returns on Investments		
(33,623)	Investment Income	9	(36,069)
(138)	Other Income	9	(9)
97	Taxes on Income	9	74
(33,664)			**(36,004)**
(26,258)	**Net profit on disposal of investments and changes in value of investments**	13	**(25,878)**
(59,922)	**Net return on investments**		**(61,882)**
(56,469)	**Net (Increase) in the Net Assets Available for Benefits During the Year**		**(57,307)**
(1,146,488)	**Opening Net Assets of the Fund**		**(1,202,957)**
(1,202,957)	**Closing Net Assets of the Fund**		**(1,260,264)**

NET ASSETS STATEMENT

2017/18 *Restated £'000		Notes	2018/19 £'000
	Investment assets		
291,547	Bonds	12a	303,389
368,313	Equities	12a	264,830
508,092	Pooled Investments*	12a	588,929
40,167	Cash Instruments*	12a	88,510
7,091	Accrued Income and Unsettled sales	12a	8,984
1,215,210			**1,254,642**
	Investment Liabilities		
(769)	Unsettled Purchases	12a	(1,372)
1,214,441	**Net Value of Investment Assets**		**1,253,270**
452	**Current Assets**	15	**10,050**
(11,936)	**Current Liabilities**	16	**(3,056)**
1,202,957	**Net Assets of the Fund Available to Fund Benefits at the Period End**		**1,260,264**

*2018 Pooled Investments, Cash Instruments, and accrued Income and Unsettled sales have been reclassified to be consistent with the current year reporting requirements.

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 Appendix A1.

NOTE 1 – GENERAL DESCRIPTION OF THE PENSION FUND

General
The Fund is part of the Local Government Pension Scheme (LGPS) and is administered by the London Borough of Ealing (the Council). It is a contributory defined benefits scheme established, in accordance with statute, to provide for the payment of benefits to employees and former employees of the Council and other admitted and scheduled bodies in the Fund. Scheduled bodies are automatically entitled to be members of the Fund by law, whereas admitted bodies participate in the Fund under admission agreements and include not for profit organisations or private contractors undertaking local authority functions.

Benefits payable, which are defined and set out in law, include retirement pensions, early payment of benefits on medical grounds and payment of death benefits where death occurs in service.

The Fund was established under section 7 of the Superannuation Act 1972 and is currently 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 (as amended).

Funding
The Fund is financed by contributions from members, the Council, other admitted and scheduled bodies and from interest and dividends on the Fund's investments. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013. Contributions range from 5.5% to 12.5% and 2.75% to 6.25% of pensionable pay for the main scheme and 50/50 section respectively, for the financial year ending 31 March 2018. Employers pay contributions into the Fund based on rates determined by the appointed actuary following triennial funding valuations. The last such valuation was as at 31 March 2016.

Benefits
Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, as summarised in the table below:

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable pay	Each year worked is worth 1/60 x final pensionable pay
Lump sum	Automatic lump sum of 3 x pension. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the Fund became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices Index. Benefits for service prior to 1 April 2014 are protected and continue to be based on the table shown above.

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested and accounted for separately from the Fund. AVCs are used to secure additional benefits on a money purchased basis. The scheme providers are Scottish Widows and Equitable Life.

Governance
The Council has delegated day to day management of the Fund to the Pension Fund Panel (the Panel) who decide on the most suitable investment strategy and set policy and have delegated authority to make investment decisions. The Panel reports to the Council and obtains, as necessary, advice from the Fund's appointed investment advisors, fund managers and actuary.

In line with the provisions of the Public Service Pensions Act 2016 the Council has set up a Local Pension Board to oversee the governance arrangements of the Pension Fund. Board members are independent of the Pension Fund Panel.

Investment Principles
The LGPS (Management and Investment of Funds) Regulations 2009 require administering authorities to prepare and keep up to date a written statement recording the investment policy of the Pension Fund. The Investment Strategy Statement is publicly available via the Council website, see link below:

https://ealing.cmis.uk.com/ealing/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/5880/Committee/18/Default.aspx

Membership
The Council is the administering authority for the Fund and has the major share of contributors and pensioners. Other organisations currently participate in the Fund as detailed below:

Scheduled bodies	Admitted bodies
Alec Reed Academy	City West Services
Ark Acton Academy	Engie Services Ltd
Ark Priory Academy	Equinox
Ark Byron Academy	Gunnersbury Estate
Beaconsfield Primary	Greenwich Leisure
Brentside Primary Academy	Innovate - Northolt High School
Brentside High School	Innovate Services Ltd
Christ the Saviour CofE Primary School	IFS Ltd (International Facilities Services)
Dormers Wells Trust/Day care	Mitie
Dormers Wells Infant (Dormers Wells Learning Trust)	NSL Parking
Dormers Wells Junior Academy (Dormers Wells Learning Trust)	Serco Group
Dormers Wells High Academy (Dormers Wells Learning Trust)	SLM - community leisure
Drayton Manor Academy	Optivo (formerly Viridian)
Ellen Wilkinson High School	
Featherstone Academy (Grand Union Multi Academy Trust)	
Greenford High School	
Northolt High School	
Selborne Primary	
St Anne's School	
St Mary's Church of England Academy	
Twyford Ce Academies Trust	
University of West London	
Wood End Academy	
Wood End Infant School	
Woodlands Academy (Grand Union Multi Academy Trust)	

Membership of the LGPS is voluntary and employees are free to choose whether to join the Fund, remain in the Fund or make their own personal arrangements outside the Fund.

The following table summarises the membership numbers of the scheme:

31 March 2018		31 March 2019
7,042	Active Members	7,173
8,287	Deferred Pensioners	8,412
7,219	Pensioners receiving benefits	7,418
22,548		**23,003**

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Statement of Accounts summarises the Fund's transactions for 2018/19 and its position as at 31 March 2019. The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The Accounts have been prepared on an accruals basis, apart from transfer values which are accounted for on a cash basis as described below.

The Accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year or the actuarial present value of promised retirement benefits. The code gives administering authorities the options to either disclose this information in the Net Asset Statement, Notes to the Accounts, or by appending an Actuarial report prepared for this purpose. The Fund has opted to disclose this information by attaching an Actuarial report as at Appendix A1.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – Revenue Recognition

Contributions
Normal contributions, both from the 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.
Augmentation and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid is classed as a current financial asset.

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. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Investment Income
Dividends from quoted securities are accounted for when the security is declared ex-dividend. Investment income is reported gross of withholding taxes which are accrued in line with the associated investment income. 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.

Accrued interest is excluded from the market value of fixed interest securities but is included in investment income receivable. Income from cash and short-term deposits are also accounted for on an accruals basis.

Fund Account – Expense Items

Benefits Payable
Pensions and lump-sum benefits payable are accounted for on an accruals basis from the date the option is exercised, in accordance with valid member claims. Retirement lump sums are accounted for in the period in which the member becomes a pensioner. Death grants are included from the date of death. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities, providing that payment has been approved.

Taxation
The Fund is an exempt approved fund under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. As the Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities including expenditure on investment expenses. Where tax can be reclaimed, investment income in the accounts is shown gross of UK tax. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

Management Expenses
The Pension Fund management expenses are accounted for in accordance with the CIPFA guidance accounting for Local Government Pension Scheme Management Costs 2016.

Administrative Expenses
All administrative expenses are accounted for on an accruals basis. All staff costs of the pension administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to the fund in accordance with Council policy.

Oversight and Governance costs
All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight is charged direct to the fund. Associated management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy.

Investment management expenses
All investment management expenses are accounted for on an accruals basis. Fees for the fund managers and custodian are agreed in the respective mandates governing their appointments and are based broadly on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. Where an investment management fee 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 Accounts.

Net Assets Statement

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 assets. From this date, any gains/losses are recognised in the Fund Account. The Net Asset Statement shows values of investments have been determined at fair value in accordance with the requirements of the code and IFRS13. For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

Foreign Currency Transactions
Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for in sterling at the spot market exchange rate prevailing on 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.

Cash and Cash Equivalents
Cash and cash equivalents comprise cash in hand, cash held in UK bank accounts and deposits with financial institutions which are repayable on demand without penalty.

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

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 IAS19 and relevant actuarial standards. As permitted under the Code, the financial statements include a note disclosing the actuarial present value of retirement benefits as detailed at Appendix A1.

Additional Voluntary Contributions
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 2009, but their valuation is disclosed in Note 17, for information only.

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 relevant Council costs have been charged to the Fund based on an apportionment of time spent on Pension Fund business. Costs incurred in the administration and the oversight and governance of the Fund are set out in Note 8.

NOTE 4 – CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 3 above, the Fund has had to make certain critical judgements about complex transactions or those involving uncertainty about future events.

Pension Fund Liability
The Pension Fund liability is calculated triennially by the appointed actuary with annual updates in the intervening years. The methodology follows generally agreed guidelines and is in accordance with IAS 19. These assumptions are summarised in **Appendix A1**. The estimates are sensitive to changes in the underlying assumptions underpinning the valuations.

Unquoted private equity investments
It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgments involving many factors. Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March 2019 was £3.681m (2018: £nil).

Adoption of new accounting standards

IFRS 9 'Financial Instruments'
IFRS 9 'Financial Instruments' is the new reporting standard for financial instruments and became effective on 1 January 2018. IFRS 9 has replaced previous financial instrument standards and interpretations covered by IAS 39 Financial Instruments: Recognition and Measurement, bringing together all aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Fund has applied IFRS 9 with effect from 1 April 2018.

Classification and measurement
IFRS 9 requires all financial assets and liabilities to be measured at fair value, except for contributions receivable which do not contain a significant financing component. Contribution receivables are measured at amortised cost. Classification and measurement of financial instruments is driven by the Fund's business model for managing the financial instruments and the contractual cash flow characteristics of the financial instruments.

IFRS 9 has been applied prospectively by the Fund and this did not result in a change to the measurement of financial instruments as outlined in note 12a, but some classifications have been amended to reflect IFRS 9's requirements. The Fund's contribution receivables and other receivables continue to be measured at amortised cost.

There was no material impact on the adoption of IFRS 9.

NOTE 5 – ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF UNCERTAINTY

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

Estimates are made taking into account historical experience, current trends and other relevant factors. However, as balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. This applies particularly to the estimation of the net liability to pay pensions, which depends upon a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The Council's actuaries are engaged to provide the Fund with expert advice about the assumptions to be applied (Appendix A1).

The financial statements contain figures that are based on assumptions made by our Private Equity manager. Estimates are made taking into account historical experience, current trends and other relevant factors. The items in the Net Assets Statement at 31 March 2019 for which there is a risk of material adjustment in the forthcoming financial year is as follows:

Item	Uncertainties	Effect of actual results differ from assumptions
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	There is a risk that this investment may be under or overstated in the accounts.

Events after the Net Asset Statement date

There are no adjusting events that need to be recognised in the financial statements after the Net Asset Statement date.

NOTE 6 – CONTRIBUTIONS RECEIVABLE

Employees contributions are calculated on a sliding scale based on a percentage of their gross pay. The Council's scheduled and admitted bodies are required to make contributions determined by the Fund's actuary to maintain the solvency of the Fund. The table below shows a breakdown of the total amount of employers' and members' contributions:

2017/18 £'000	By Authority	2018/19 £'000
(38,529)	Administering Authority	(39,730)
(8,672)	Scheduled bodies	(9,204)
(583)	Admitted bodies	(242)
(47,784)		**(49,176)**

2017/18 £'000	By Type	2018/19 £'000
(10,241)	Members' normal contributions	(10,347)
	Employer's contributions:	
(23,286)	Normal contributions	(22,585)
(13,589)	Deficit recovery contributions	(14,325)
(668)	Augmentation contributions	(1,919)
(47,784)		**(49,176)**

NOTE 7 – BENEFITS PAYABLE

The table below shows a breakdown of the total amount of benefits payable by category:

2017/18 £'000	By Type	2018/19 £'000
37,537	Pensions	38,879
6,413	Commutation/lump sums	8,671
362	Death benefits	498
44,312		**48,048**

2017/18 £'000	By Authority	2018/19 £,000
40,581	Administering Authority	44,464
3,306	Scheduled Bodies	3,341
425	Admitted Bodies	243
44,312		**48,048**

NOTE 8 – MANAGEMENT EXPENSES

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

2017/18 £'000		2018/19 £'000
630	Administration Expenses	796
330	Oversight and Governance**	338
3,227	Investment Management Expenses	3,286
4,187		**4,420**

**Includes external audit fees of £16,170 (£21,000 in 2017/18)

Investment management expenses are further analysed below in line with the CIPFA Guidance on Accounting for Management Costs.

2017/18 £'000		2018/19 £'000
2,316	Management fees	2,952
70	Performance fees	55
93	Custody fees	121
748	Transaction costs	158
3,227		**3,286**

NOTE 9 - INVESTMENT INCOME

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

2017/18 £'000		2018/19 £'000
12,380	Fixed interest securities	13,315
13,730	Equity dividends	15,738
7,433	Pooled investments	6,515
80	Interest and cash deposits	501
33,623	**Investment income**	**36,069**
138	Other income	9
33,761	**Total before taxes**	**36,078**
(97)	Taxes on income	(74)
33,664	**Total**	**36,004**

NOTE 10a – INVESTMENT MANAGEMENT ARRANGEMENTS

The market value and proportion of investments managed by each fund manager at 31 March 2019 is shown below: The Fund also held directly owned cash investments as at 31 March 2019. The cash is retained within the Custodian Bank account and therefore not included in the analysis below.

31 March 2018 Market Value £'000	%	Fund Manager	Mandate	31 March 2019 Market Value £'000	%
26,976	2%	Lazard	Global equity (Active)	18,604	2%
341,337	29%	Lazard	UK Equity (Active)	246,226	21%
368,313	**32%**	**Lazard**	**Sub-Total**	**264,830**	**23%**
387,022	**33%**	RCM/Allianz	Global Equities (Pooled)	-	-
387,022	**33%**	**RCM/Allianz**	**Sub-Total**	**-**	**-**
291,547	25%	Royal London	UK Corporate (Active)	296,552	26%
-	-		UK Government (Active)	6,837	1%
5,696	-		UK corporate (Pooled)	5,967	1%
297,243	**25%**	**Royal London**	**Sub-Total**	**309,356**	**27%**
-	**-**	Baillie Gifford (LCIV)	**UK Equities (Pooled)**	**177,357**	15%
-	**-**	Henderson (LCIV)	**UK Equities (Pooled)**	**31,270**	3%
-	**-**	Legal & General	**Future World - Global Equities (Pooled)**	**125,897**	11%
-	**-**	Legal & General	**MSCI World - Global Equities (Pooled)**	**125,706**	11%
		Legal & General	**Sub total**	**251,603**	**22%**
-	**-**	Brightwood	Private Debt (Pooled)	1,274	0%
-	**-**	Churchill	Private Debt (Pooled)	2,407	0%
		Total Private Debt	**Sub-Total**	**3,681**	0%
46,097	4%	Lothbury	UK Property	46,231	4%
36,530	3%	Hermes	UK Property	37,799	3%
32,747	3%	Standard Life	UK Property	35,021	3%
115,374	**10%**	**Property**	**Sub-Total**	**119,051**	**10%**
1,167,952	**100%**		**Total**	**1,157,148**	**100%**

The Bank of New York Mellon (BNYM) acts as the Fund's global custodian. They are responsible for safe custody and settlement of all investment transactions and collection of income and complete a monthly reconciliation of its own portfolio valuation to external fund manager reports.

NOTE 10b – INVESTMENTS EXCEEDING 5% OF NET ASSETS

The table below shows the Fund's 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%.

2017/18			2018/19	
Market Value £'000	Holding %		Market Value £'000	Holding %
383,443	32	RCM/Allianz (LCIV Global Equities)	-	-
-	-	Baillie Gifford (LCIV Pooled Equities)	177,356	14
-	-	Legal & General - Future World (Global Pooled Equities	125,897	10
-	-	Legal & General (MSCI World – Global Pooled Equities	125,707	10
383,443	**32**	**Total**	**428,960**	**34**

NOTE 11 – RECONCILIATION IN MOVEMENT IN INVESTMENTS

2018/19	Market value 1 April 2018 Restated*	Purchases during the year	Sales during the year	Change in market value during the year	Market value 31 March 2019
	£'000	£'000	£'000	£'000	£'000
Bonds	291,547	78,539	(65,711)	(986)	303,389
Equities	368,313	187,003	(277,601)	(12,885)	264,830
Pooled Investments	508,092	1,130,673	(1,089,727)	39,891	588,929
Cash Instruments	33,965	97,463	(49,778)	-	81,650
Total	**1,201,917**	**1,493,678**	**(1,482,817)**	**26,020**	**1,238,798**
Investment Cash	6,202			(137)	6,860
Accrued Income	7,091			-	7,118
Unsettled Purchases	(769)			(5)	(1,372)
Unsettled Sales	-			-	1,866
Net investment assets	**1,214,441**			**25,879**	**1,253,270**

2017/18	Market value 1 April 2017	Purchases during the year	Sales during the year	Change in market value during the year	Market value 31 March 2018 *Restated
	£'000	£'000	£'000	£'000	£'000
Bonds	242,782	135,309	(82,842)	(3,702)	291,547
Equities	366,437	152,415	(143,153)	(7,386)	368,313
Pooled Investments	463,543	165,076	(170,882)	50,355	508,092
Cash Instruments	40,921	65,380	(72,336)	-	33,965
Total	**1,113,683**	**518,180**	**(469,213)**	**39,267**	**1,201,917**
Investment Cash	25,278			(13,012)	6,202
Accrued Income	6,968			-	7,091
Unsettled Purchases	(18)			3	(769)
Unsettled Sales	-			-	-
Net investment assets	**1,145,911**			**26,258**	**1,214,441**

*The opening position of cash instruments on the face of the Net Assets Statement has increased by £6,202k as a result of reclassifying investment cash, which was previously disclosed within accrued income and unsettled sales. The Net Assets Statement total cash instruments of £40,167k represents the combination of Cash instruments and Investment Cash balances above. Additionally, pooled investments have been increased by £769k as a result of misclassification of the same amount to accrued income and unsettled sales.

NOTE 12a - CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table shows the classification of the Fund's financial instruments and also shows the split by UK and overseas. All investments are quoted unless stated:

31 March 2018 *Restated				31 March 2019		
Financial Assets held at Fair Value through Profit and Loss	Financial Assets held at Amortised cost	Financial liabilities at amortised cost		Financial Assets held at Fair Value through Profit and Loss	Financial Assets held at Amortised cost	Financial liabilities at amortised cost
£'000	£'000	£'000		£'000	£'000	£'000
			Investment Assets			
			Bonds			
-		-	UK Public sector	6,837	-	-
291,547		-	UK Corporate	296,552	-	-
			Quoted Equities	-	-	-
341,337		-	UK	246,226	-	-
26,976		-	Overseas	18,604	-	-
			Pooled investment vehicles			
115,374	-	-	Property	119,051	-	-
5,696	-	-	Bonds	5,967	-	-
387,022	-	-	Equity - Overseas	460,230	-	-
-	-	-	Private Debt	3,681	-	-
			Cash Instruments			
40,167	-	-	Cash deposits*	88,510	-	-
		-	Unsettled sales	-	1,866	-
	7,091	-	Accrued income	-	7,118	-
1,208,119	**7,091**	**-**	**Total investment assets**	**1,245,658**	**8,984**	**-**
			Investment Liabilities			
-	-	**(769)**	Unsettled Purchases	-	-	(1,372)
1,208,119	**7,091**	**(769)**	**Net Investment assets**	**1,245,658**	**8,984**	**(1,372)**
			Other financial assets			
	448	-	Contributions Due	-	5,392	-
-	4	-	Cash Balances	-	4,414	-
-	-	-	Other debtors	-	245	-
1,208,119	**7,543**	**(769)**		**1,245,658**	**19,035**	**(1,372)**
			Financial Liabilities			
-	-					
-	-	(11,536)	Current Liabilities	-	-	(2,645)
-	**-**	**(11,536)**		**-**	**-**	**(2,645)**
1,208,119	**7,543**	**(12,305)**	**Total**	**1,245,658**	**19,035**	**(4,017)**
	1,203,357		**Grand Total**		**1,260,675**	

Included within those financial instruments held at fair value through profit and loss, are bonds of £303,389k (2018: £291,547k) that were designated as fair value through profit and loss on initial purchase.

*2018 cash deposits balances have been restated for 2018, as the previously disclosed balance of £6,971k as financial assets held at amortised cost included £769k of unsettled purchases, which have been disclosed as such for comparative purposes, and £6,202k of investment cash, which under IFRS 9 is now disclosed at fair value through profit and loss. Additionally, £382,707k of pooled investment vehicles for 2018 that were previously disclosed as "Equity - UK" have been reclassified as "Equity - Overseas" to align with the 2019 classifications. The split of UK and Overseas Quoted Equities have been restated for 2018, to be comparable with the 2019 disclosure. A total of £25,854k has been reclassified from overseas equities to UK equities as a result of this reclassification. The classification of current liabilities excludes the Fund's liability for PAYE of £411k (2018: £400k) as this is not classified as a financial instrument.

NOTE 12b – VALUATION OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

Fair value – basis of valuation

All investments are held at fair value in accordance with the requirements of the Code and IFRS 13. The valuation bases are set out below. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information. There has been no change in the valuation techniques used during the year.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments – equities	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Bonds - corporate bonds and Government gilts	Level 1	Market value based on current yields	Current yields	Not required
Cash deposits and instruments	Level 1	Closing bid value on published exchanges	Not required	Not required
Unquoted pooled investments - unit trusts	Level 2	Average of broker prices	Evaluated price feeds	Not required
Pooled investments – overseas unit trusts and pooled property and infrastructure funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Unquoted equities	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by post balance sheet events, changes to expected cash flows, or by any differences between audited and unaudited accounts

The valuation of financial instruments is classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1 - where fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities (quoted equities, quoted fixed securities, quoted index linked securities and unit trusts). Listed investments are shown at bid prices. The bid value of the investment is based on the market quotation of the relevant stock exchange.

Level 2 - where market prices are not available, for example, where an instrument is traded in a market that is not considered to be active or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3 – where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, the Fund currently invests in Private Equity.

The fund considers that quoted equities and highly liquid bonds have been valued at Level 1. Further, pooled investment vehicles are classified as Level 2 as these instrument's valuation are less frequently traded and prices for underlying assets are derived from independent valuation techniques. During the year, the fund invested in private equity holdings, which, due to their opaque and unobservable valuation technique, have been classified as Level 3. No sensitivity analysis has been disclosed for Level 3 investments on the basis that the value is not material as at 31 March 2019.

The table below provides an analysis of the financial assets and liabilities of the Fund grouped into the level at which fair value has been observed:

31 March 2018 *Restated				31 March 2019		
Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3		Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3
£'000	£'000	£'000		£'000	£'000	£'000
			Financial Assets			
408,480	799,639	-	Designated at fair value through profit and loss	353,340	888,637	3,681
408,480	**799,639**	**-**		**353,340**	**888,637**	**3,681**
	1,208,119		**Grand Total**		**1,245,658**	

*The fair value classifications for level 1 and level 2 as previously stated of £665,556k and £535,592k respectively have been restated for 2018. As required under the transition to IFRS 9, £33,965k of cash deposits held at fair value as level 2 investments have been reclassified as level 1, and £6,203k of cash deposits, previously reported as financial assets held at amortised cost, have been classified as fair value level 1. Further, £5,696k of pooled bond funds that were classified as fair value level 1 investments 2018 have been classified as level 2 in 2019, and therefore the comparative balance of £5,696k has been reclassified. Finally, bonds of £291,547k previously disclosed as level 1 investments in 2018 have been restated as level 2 investments, in line with the allocation for 2019.

13 – NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

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

31 March 2018 £'000		31 March 2019 £'000
	Financial Assets	
26,255	Held at fair value through profit and loss	25,883
26,255		**25,883**
	Financial Liabilities	
3	Held at fair value through profit and loss	(5)
26,258	**Total**	**25,878**

NOTE 14 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and Risk Management

The Fund's primary long-term risk is that its assets will fall short of its liabilities to the extent that it is unable to meet its obligations to members as they fall due. Therefore, the aim of investment management is to minimise the risk of an overall reduction in the value of the Fund whilst at the same time maximising the opportunity for investment income. The Fund achieves this through:

- engaging multiple investment management firms with different strategies, philosophies and expertise to manage the various asset in the Fund;
- setting each investment manager clear performance benchmarks and incentivising outperformance against those benchmarks once agreed;
- reporting investment performance to the Pension Fund Panel on a quarterly basis so that Panel Members can review performance, question investment managers and seek explanations as necessary; and
- monitoring investment performance against independent benchmarks and actual performance achieved by a peer group of other local authorities.

Responsibility for the Fund's risk-management strategy rests with the Pension Fund Panel. Risk management policies are established as part of the Funding Strategy Statement and the Investment Strategy Statement which aim to identify and analyse the investment risks faced by the Fund. These are regularly reviewed in the light of changing market and other conditions.

Market Risk

Market risk is the risk of loss emanating from general market fluctuations in equity and commodity prices or interest and foreign exchange rates. The Fund is exposed to market risk across all of its investment activities. In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of asset class, geographical and industry sectors and by limiting the maximum value of investments in individual securities. Equity fund managers are appointed on an active mandate which helps to manage risk by focussing on the performance of specific investments rather than broad sector movements. The Panel and its investment advisors undertake regular monitoring of market conditions and benchmark analysis in order to mitigate market risk.

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 by factors affecting all similar instruments in the market.

The Fund is exposed to direct share price risk because all of its investments other than cash holdings are traded on open markets where the future price is uncertain. The Fund is also exposed to direct price risk arising from unquoted equities held as part of its equity pooled holdings. All such securities represent a potential risk of loss of capital, with the maximum risk determined by the fair value of each financial instrument. The Fund's investment managers aim to mitigate this price risk through diversification in the selection of securities and other financial instruments.

The following table demonstrates the change in the net assets available to pay benefits if the market price had increased or decreased by 10%. The Fund believes that 10% is consistent with the level of sensitivity that should be applied. The analysis excludes cash, debtors, creditors, and non-equity investment balances as these financial instruments are not subject to price risk:

Assets exposed to price risk	Value	Value on 10% price increase	Value on 10% price decrease
	£'000	£'000	£'000
As at 31 March 2019	844,111	928,522	759,700
As at 31 March 2018*	870,709	957,780	783,638

Interest Rate Risk
The Fund invests in financial assets for the primary purpose of obtaining a return in terms of both investment income and increased capital value. Cash based deposits and investments in fixed interest are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instruments will fluctuate because of changes in market interest rates. The Pension Fund Panel and its investment advisors regularly monitor the Fund's interest rate risk exposure during the year.

The table below demonstrates the change in value of these assets had the interest rate increased or decreased by 1%.

Assets exposed to interest rate risk	Value	Value on 1% price increase	Value on 1% price decrease
	£'000	£'000	£'000
As at 31 March 2019	397,866	401,845	393,887
As at 31 March 2018*	337,410	340,784	334,036

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 Sterling but diversifies this risk by investing in securities in multiple currencies. The Pension Fund Panel recognises that a strengthening or weakening of the pound against the various currencies in which the Fund holds investments would increase or decrease the net assets available to pay benefits accordingly.

The Fund does not hedge against currency risk on a long-term basis, as the movements in foreign exchange rates can lead to losses as well as gains. Overseas equities, fixed interest securities, cash in foreign currencies, and some elements of the pooled investment vehicles are exposed to currency risk.

The following table demonstrates the change in value of these assets had there been a 10% strengthening/weakening of the pound against foreign currencies:

Assets exposed to currency risk	Value	Value on 10% foreign exchange rate increase	Value on 10% foreign exchange rate decrease
	£'000	£'000	£'000
As at 31 March 2019	482,515	530,767	434,264
As at 31 March 2018*	413,998	455,398	372,598

*the 2018 figure restated to be consistent with the new reporting standards

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. 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. The Fund sets both maximum investment limits and minimum credit rating limits

There is a risk that some admitted bodies may not honour their pension obligations with the result that any ensuing deficit might fall upon the Fund. To mitigate this risk, the Fund regularly monitors the state of its admitted bodies and bond agreements are in place for scheme employers to ensure liabilities would be met in the event of an employer being dissolved, wound up, liquidated or otherwise ceasing to exist.

The Fund has no financial assets past their due date as at 31 March 2019 and has not identified any events or conditions to date that would suggest that any impairment or provision in respect of credit risk is required.

The Fund has also set limits as to the maximum sum placed on deposit with individual financial institutions. In addition, the pension fund invests an agreed percentage of its funds in the money markets to provide diversification. The Money market fund chosen has an AAA rating from a leading ratings agency, as shown below:

Summary	Rating	Balances as at 31 March 2019	Balances as at 31 March 2018
		£'000	£'000
Bank Current Accounts			
Lloyds Bank	A+	4,414	4
Money Market Funds			
BNY Mellon Goldman Sachs MMF	AAA	81,650	33,965
Total		**86,064**	**33,969**

Liquidity Risk
Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Pension Fund Panel monitors cash flows and takes steps to ensure that there are adequate cash resources to meet its commitments. The Fund has immediate access to its cash holdings, and all of its investments can be liquidated within a matter of days.

NOTE 15 – CURRENT ASSETS

31 March 2018 £'000		31 March 2019 £'000
	Debtors:	
334	Contributions due - Employers	5,140
114	Contributions due - Members	251
0	Sundry debtors	245
448		**5,636**
4	**Cash balances - Lloyds Bank**	4,414
452	**Total**	**10,050**

31 March 2018 £'000		31 March 2019 £'000
	Analysis of Debtors	
143	Central government bodies	315
4	Local authorities	5,088
305	Other entities and individuals	4,647
452	**Total**	**10,050**

NOTE 16 – CURRENT LIABILITIES

31 March 2018 £'000		31 March 2019 £'000
(597)	Unpaid benefits	-
(11,339)	Sundry creditors and accrued expenses	(3,056)
(11,936)	**Total**	**(3,056)**

31 March 2018 £'000	**Analysis of Current Liabilities**	31 March 2019 £'000
(10,888)	Local authorities	(2,247)
(1,048)	Other entities and individuals	(809)
(11,936)	**Total**	**(3,056)**

NOTE 17 – ADDITIONAL VOLUNTARY CONTRIBUTIONS

The Pension Fund's Additional Voluntary Contributions (AVC) providers are Scottish Widows and Equitable Life Assurance Society. The table below shows information about these separately invested AVCs. 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.

Contributions 2017/18 £'000	Market Value 2017/18 £'000		Contributions 2018/19 £'000	Market Value 2018/19 £'000
58	518	Scottish Widows (as at 31 March 2019)	122	594
2	260	Equitable Life (as at 31 October 2018)	2	263
60	**778**	**Total**	**124**	**857**

NOTE 18 – RELATED PARTY TRANSACTIONS

The Fund is administered by the London Borough of Ealing (the Council). In 2018/19 the Council charged the pension fund £1.0m for expenses incurred in administering the Fund (£0.9m in 2017/18).

The cash balance due to the Council by Pension Fund was £2.2m at 31 March 2019 (£10.9m 31 March 2018).

NOTE 19 – CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

The total capital commitments as at 31 March 2019 were £100.3m (2018: £nil). These commitments relate to outstanding call payments due on the Private Debt and Infrastructure portfolios. The amounts called by these funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment. The Fund has no material contingent assets or liabilities as at 31 March 2019.

NOTE 20 – KEY MANAGEMENT PERSONNEL REMUNERATION

The key management personnel of the Pension Fund are the Members of the Pension Fund Panel and Pension Board, as detailed in the Pensions Fund annual report for 2018/19. No remuneration is paid to these Members in relation to their duties.

NOTE 21 – BREXIT

The Council has reviewed contracts with investment managers and third-party suppliers to ensure that it can continue to manage the Fund's assets and liabilities in the event of legal changes as a result of Brexit. As a matter of ongoing policy, the Fund's assets are globally diversified, and currency hedged. The Board will continue to monitor the situation as it evolves.

NOTE 22 – McCLOUD JUDGEMENT

On 27 June 2019, the Supreme Court refused the Government permission to appeal the McCloud case. The McCloud court case relates to possible age discrimination within the New Judicial Pension Scheme. At this point in time, it is unclear as to how this judgement, or any future judgement, may affect LGPS members' past or future service benefits, and the actuary is awaiting guidance from the governing bodies of the LGPS. The actuary has therefore estimated the impact using analysis from the Government Actuary's Department as a starting point. The estimated impact would be an increase of 0.8% of liabilities on total liabilities at 31 March 2019, which equates to approximately £15m.

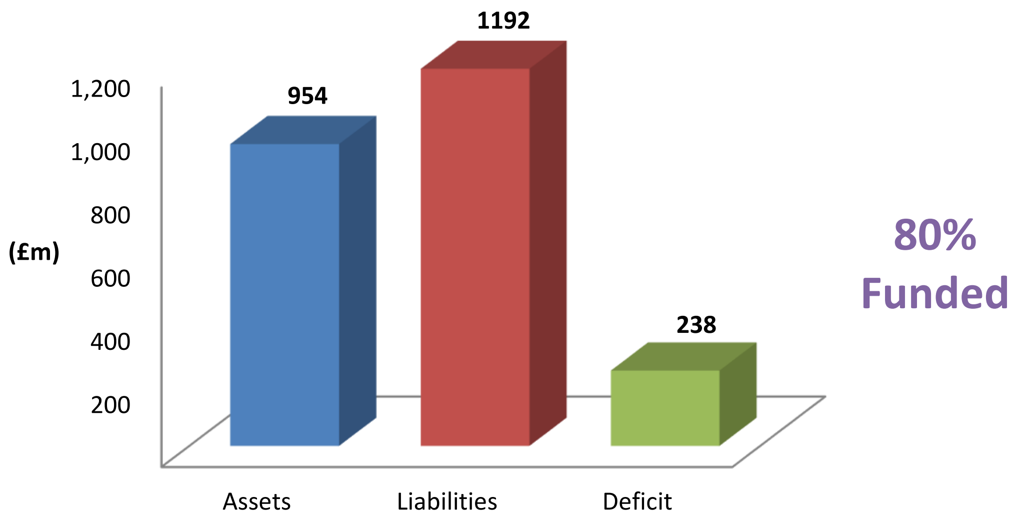
LONDON BOROUGH OF EALING PENSION FUND

ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 - STATEMENT BY THE CONSULTING ACTUARY

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the London Borough of Ealing Pension Fund was carried out as at 31 March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020.

On the basis of the assumptions adopted, the Fund's assets of £954 million represented 80% of the Fund's past service liabilities of £1,192 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £238 million.



The valuation also showed that a Primary rate of contribution of 14.8% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and then maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall (or contribution reductions to refund any surplus).

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average deficit recovery period is 17 years, and the total initial recovery payment (the "Secondary rate") for 2019/20 is approximately £13 million. For all employers, the Secondary rate will increase at 3.45% per annum. With the agreement of the Administering Authority employers may also opt to pay some of their employer contributions early (after suitably agreed reductions), with either all three years being paid in April 2017 or payment being made in the April of the year in question.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2017.

In practice, each individual employer's position is assessed separately, and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the Primary rate of contribution were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	4.4% per annum	4.95% per annum
Rate of pay increases (long term) *	3.45% per annum	3.45% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.2% per annum	2.2% per annum

* allowance was also made for short-term public sector pay restraint over a 4 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2019. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2020.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2019 (the 31 March 2018 assumptions are included for comparison)

	31 March 2018	31 March 2019
Rate of return on investments (discount rate)	2.6% per annum	2.4% per annum
Rate of pay increases*	3.35% per annum	3.45% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.2% per annum	2.3% per annum

	31 March 2018	31 March 2019
Rate of CPI Inflation/CARE benefits revaluation	2.1% per annum	2.2% per annum

* includes a corresponding allowance to that made in the latest formal actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2017.

During the year, corporate bond yields decreased slightly, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.4% p.a. versus 2.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.2% p.a. Both of these factors combined served to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2018 was estimated as £1,784 million. Interest over the year increased the liabilities by c£46 million and allowing for net benefits accrued/paid over the period also increased the liabilities by c£12 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then an increase in liabilities of £97 million made up of "actuarial losses" (given the changes in the actuarial assumptions used, referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2019 is therefore £1,939 million.

The McCloud Case

In December 2018 the Court of Appeal ruled against the Government in the two linked cases of Sargeant and McCloud (which for the purposes of the LGPS has generally been shortened to "McCloud"), relating to the Firefighter unfunded pension schemes and the Judicial pension arrangements. In essence, the Court held that the transitional protections, which were afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful age discrimination. The Government attempted to appeal the cases, but it was announced on 27 June 2019 that the appeal had been refused by the Supreme Court. Remedial action in the form of increases in benefits for some members of the Firefighter and Judicial arrangements will almost certainly be required. There may well also be knock-on effects for the other public service schemes, and the LGPS might therefore also be required to take some action. At this stage it is unclear what the extent of any potential remedial action might be.

Following a request from the LGPS Scheme Advisory Board, the Government Actuary's Department (GAD) has carried out some costings of the potential effect of McCloud on the LGPS as a whole, which are set out in their paper dated 10 June 2019. GAD's calculations indicate a potential balance sheet effect of additional liabilities of about 3.2% of active member liabilities (around 1% of overall liabilities), when measured on IAS26 actuarial assumptions as at 31 March 2019 assuming real pay growth of 1.5% p.a. above CPI. For the London Borough of Ealing Pension Fund, the default real pay growth assumption at the last valuation was 1.25% p.a. above CPI. We have adjusted GAD's calculation to allow for this, resulting in an adjustment of around 2.7% of active liabilities (or 0.8% of total liabilities). Applying the same 0.8% of overall liabilities to the London Borough of Ealing Pension Fund, the increase in the estimated total value of the Fund's promised retirement benefits at 31 March 2019 would be approximately £15m.

GMP Equalisation

UK and European law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the “Barber” judgment) and this includes providing equal benefits accrued from that date to reflect the differences in GMPs. Previously, there was no consensus or legislative guidance as to how this might be achieved in practice for ongoing schemes, but the 26 October 2018 Lloyds Bank court judgement has now provided further clarity in this area. However, in response to this judgement HM Treasury stated that “public sector schemes already have a method to equalise guaranteed minimum pension benefits, which is why we will not have to change our method as a result of this judgment", clearly implying that the Government (who have the overall power to determine benefits provision) believe the judgement itself will not affect the benefits. Therefore, the natural conclusion for the main public service pension schemes including the Local Government Pension Scheme is that it is not appropriate for any provision to be included for the effect of the Lloyds Bank judgment, at least at the present time, and so we have not made any allowance for any additional liabilities within the above figures at this stage. However, in due course there may be a further cost to the LGPS in connection with equalisation/indexation, when the Government confirms the overall approach which it wishes to adopt in this area following its consultation.

Michelle Doman
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
9 May 2019

FUNDING STRATEGY STATEMENT (FSS)

This Funding Strategy Statement has been prepared by London Borough of Ealing (the Administering Authority) to set out the funding strategy for the London Borough of Ealing Pension Fund (the "Fund"), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

1. INTRODUCTION

The Local Government Pension Scheme Regulations 2013 (as amended) ("the 2013 Regulations") and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the 2014 Transitional Regulations") (collectively; "the Regulations") provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the London Borough of Ealing Pension Fund (the "Fund"), the Administering Authority will prepare and publish their funding strategy;

In preparing the FSS, the Administering Authority must have regard to:

- the guidance issued by CIPFA for this purpose; and
- the Investment Strategy Statement (ISS) for the Fund published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the ISS.

BENEFITS

The benefits provided by the Fund are specified in the governing legislation contained in the Regulations referred to above. Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure for members. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also a "50:50 Scheme Option", where members can elect to accrue 50% of the full Fund benefits in relation to the member only and pay 50% of the normal member contribution.

EMPLOYER CONTRIBUTIONS

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations (which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate specifying the "primary" and "secondary" rate of the employer's contribution).

PRIMARY RATE
The “Primary rate” for an employer is the contribution rate required to meet the cost of the future accrual of benefits, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer’s covenant. The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers’ Primary rates.

SECONDARY RATE
The “Secondary rate” is an adjustment to the Primary rate to arrive at the total rate of contribution each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following the actuarial valuation. Secondary rates for the whole fund in each of the three years shall also be disclosed. These will be the calculated weighted average based on the whole fund payroll in respect of percentage rates and the total amount in respect of cash adjustments.

2. PURPOSE OF THE FSS IN POLICY TERMS

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The Administering Authority’s long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. The purpose of this Funding Strategy Statement is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers’ pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;
- to establish contributions at a level to “secure the solvency” of the pension fund and the “long term cost efficiency”,
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

3. AIMS AND PURPOSE OF THE FUND

The aims of the Fund are to:

- manage employers’ liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

THE PURPOSE OF THE FUND IS TO:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of Fund benefits, transfer values, costs, charges and expenses as defined in the 2013 Regulations, the 2014 Transitional Regulations and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

4. RESPONSIBILITIES OF THE KEY PARTIES

The efficient and effective management of the Fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (and, in particular the Pensions Committee, the individual employers and the Fund Actuary and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

The Administering Authority should:

- operate the pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations
- pay from the pension fund the relevant entitlements as stipulated in the Regulations
- invest surplus monies in accordance the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the Regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the Fund's actuary
- prepare and maintain a FSS and an ISS, both after proper consultation with interested parties, and
- monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a Fund employer, and
- establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.

The Individual Employer should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date

- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework

- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits, early retirement strain, and

- have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context, and

- notify the Administering Authority promptly of any changes to membership which may affect future funding.

The Fund actuary should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to their FSS and the Regulations
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs etc
- provide advice and valuations on the termination of admission agreements
- provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

5. SOLVENCY ISSUES AND TARGET FUNDING LEVELS

Securing the "solvency" and "long term cost efficiency" is a regulatory requirement. To meet these requirements the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "funding target") assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, an employer's total contribution rate would ultimately revert to its Primary rate of contribution.

SOLVENCY AND LONG TERM EFFICIENCY

Each employer's contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

When formulating the funding strategy, the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the “solvency” of the pension fund and “long term cost efficiency" of the LGPS so far as relating to the Fund.

DETERMINATION OF THE SOLVENCY FUNDING TARGET AND DEFICIT RECOVERY PLAN

The principal method and assumptions to be used in the calculation of the funding target are set out in **Appendix B1**. The Employer Deficit Recovery Plans are set out in **Appendix B2**.

Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.
In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2017 at the latest.

As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers and employer groups in the Fund.
The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2016 actuarial valuation:

- Where deficits remain, the Fund does not believe it appropriate for contribution reductions to apply compared to the existing funding plan (allowing for indexation where applicable) unless there is specific reason to do so.

- Subject to consideration of affordability, as a general rule the deficit recovery period will be a continuation of the recovery period adopted at the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan in **Appendix B2**). These principles have resulted in a maximum recovery period of 17 years being adopted for most Fund employers.

- Individual employer contributions will be expressed and certified as two separate elements:
- the **Primary rate**: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits
- the **Secondary rate**: a schedule of lump sum monetary amounts over 2017/20 in respect of an employer’s surplus or deficit

For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to further review from April 2020 based on the results of the 2019 actuarial valuation.
 Where increases (or decreases) in employer contributions are required from 1 April 2017, following completion of the 2016 actuarial valuation, at the sole discretion of the Administering Authority the increase (or decrease) from the rates of contribution payable in the year 2017/18 may be implemented in steps, over a maximum period of 3 years.

- On the cessation of an employer’s participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer. The termination policy is set out in **Appendix B3**.

- In all cases the Administering Authority reserves the right to apply a different approach at its sole discretion, taking into account the risk associated with an employer in proportion to the Fund as a whole. Any employer affected will be notified separately.

FUNDING FOR NON-ILL HEALTH EARLY RETIREMENT COSTS

Unless allowance is built into the Employers contribution rate, Employers are required to meet all costs of early retirement strain by immediate capital payments into the Fund, or in certain circumstances by agreement with the Fund, through instalments over a period not exceeding 3 years or if less the remaining period of the body's membership of the Fund.

6. LINK TO INVESTMENT POLICY SET OUT IN THE STATEMENT OF INVESTMENT PRINCIPLES

The results of the 2016 valuation show the liabilities to be [80%] covered by the current assets, with the funding deficit of [20%] being covered by future deficit contributions.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the ISS.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which represents the "minimum risk" investment position which would deliver a very high certainty of real returns above assumed CPI inflation. Such a portfolio would consist of a mixture of long-term index-linked, fixed interest gilts and possible swaps.

Investment of the Fund's assets in line with this portfolio would minimise fluctuations in the Fund's funding position between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in a real return versus CPI inflation of nil per annum at the valuation date. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of [TBC]%.

Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and reduce the contribution requirements. The target solvency position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

	Benchmark %
UK Equities	37
Global Equities	28
Total Equities	65
UK Corporate Bonds	25
Total Bonds	25
Property	10
Total Alternatives	10
Cash	0
Total	100%

The investment strategy set out above and individual return expectations on those asset classes equate to an overall best estimate average expected return of 3.3% per annum in excess of CPI inflation as at 31 March 2016. For the purposes of setting funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations.

7. IDENTIFICATION OF RISKS AND COUNTER MEASURES

The funding of defined benefits is by its nature uncertain. Funding of the Fund is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the Fund Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term.

FINANCIAL

The financial risks are as follows: -

- Investment markets fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Future underperformance arising as a result of participating in the larger asset pooling vehicle.

Any increase in employer contribution rates (as a result of these risks) may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund’s asset allocation is kept under constant review and the performance of the investment managers is regularly monitored.

DEMOGRAPHIC

The demographic risks are as follows: -

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations
- The level of take-up of the 50:50 option at a higher or lower level than built into the actuarial assumptions.

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Whilst regulatory procedures are in place to ensure that ill-health retirements are properly controlled, employing bodies also need to recognise that unforeseen costs for them will arise in the event that the number of ill-health retirements were to exceed the assumptions made. Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.

With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Administering Authority regularly monitors the Fund's cashflow requirements and considers the impact on the investment strategy.

INSURANCE OF CERTAIN BENEFITS

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund.

REGULATORY

The key regulatory risks are as follows: -

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to Fund,
- Changes to national pension requirements and/or HMRC Rules

Membership of the LGPS is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

GOVERNANCE

The Fund has done as much as it believes it reasonably can to enable employing bodies and Fund members (via their representatives on the Local Pension Board) to make their views known to the Fund and to participate in the decision-making process.

Governance risks are as follows: -

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond
- Changes in the Committee membership.

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored, but in most cases the employer, rather than the Fund as a whole, bears the risk.

8. MONITORING AND REVIEW

The Administering Authority has taken advice from the actuary in preparing this Statement and has consulted with the employers participating in the Fund.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example, if there:

- has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- have been significant changes to the Fund membership, or LGPS benefits
- have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- have been any significant special contributions paid into the Fund.

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employing authorities will be contacted. In the case of admitted bodies, there is statutory provision for rates to be amended between valuations, but it is unlikely that this power will be invoked other than in exceptional circumstances.

ACTUARIAL METHOD AND ASSUMPTIONS

METHOD

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the Fund on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, alternative methods are adopted, which make advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate.

FINANCIAL ASSUMPTIONS – SOLVENCY FUNDING TARGET

Investment return (discount rate)

The discount rate has been derived based on the expected return on the Fund assets based on the long term strategy set out in the Investment Strategy Statement (ISS). It includes appropriate margins for prudence. When assessing the appropriate discount rate consideration has been given to the returns in excess of CPI inflation (as derived below). The discount rate at the valuation has been derived based on an assumed return of 2.2% per annum above CPI inflation, i.e. a total discount rate of 4.4% per annum. This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Fund's accrued liabilities, but subject to the following two adjustments:

- an allowance for supply/demand distortions in the bond market is incorporated, and
- an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index

The overall reduction to RPI inflation at the valuation date is 1.0% per annum.

Salary increases

In relation to benefits earned prior to 1 April 2014, the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.25% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long term salary increase assumption allowance has been made for expected short term pay restraint for some employers as budgeted in their financial plan. For example, for public sector employers this results in a total salary increase of 1.0% per annum to 2019/20 in line with Government policy.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. some Guaranteed Minimum Pensions where the LGPS is not currently required to provide full indexation).

DEMOGRAPHIC ASSUMPTIONS

Mortality/Life Expectancy
The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity. The mortality tables used are set out below, with a loading reflecting LGPS experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. Current members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 4 years older whereas for existing ill health retirees we assume this is at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity ‘improvement’ year on year in the future in line with the CMI projections subject to a minimum rate of improvement of 1.5% per annum.

The mortality before retirement has also been adjusted based on LGPS wide experience.

Commutation
It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics
Following an analysis of Fund experience carried out by the Actuary, the proportions married/civil partnership assumption has been modified from the last valuation. No allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

Expenses
Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.7% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits
The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation

METHOD AND ASSUMPTIONS USED IN CALCULATING THE COST OF FUTURE ACCRUAL (OR PRIMARY RATE)

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the “Primary Rate” (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.
As future service contributions are paid in respect of benefits built up in the future, the Primary Rate should take account of the market conditions applying at future dates, not just the date of the valuation and a slightly higher expected return from the investment strategy has been assumed. In addition, the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only. The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself and are based on an overall assumed real discount rate of 2.75% per annum above the long term average assumption for consumer price inflation of 2.2% per annum.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension Fund that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Fund as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

SUMMARY OF KEY WHOLE FUND ASSUMPTIONS USED FOR CALCULATING FUNDING TARGET AND COST OF FUTURE ACCRUAL (THE “PRIMARY RATE”) FOR THE 2016 ACTUARIAL VALUATION

Long-term yields	
Market implied RPI inflation	3.2% p.a.
Solvency Funding Target financial assumptions	
Investment return/Discount Rate	4.4% p.a.
CPI price inflation	2.2% p.a.
Long Term Salary increases*	3.45% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.
Future service accrual financial assumptions	
Investment return/Discount Rate	4.95% p.a.
CPI price inflation	2.2% p.a.
Long Term Salary increases	3.45% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.

***alongside an allowance for short-term pay restraint of 1% p.a. for 4 years where applicable**

Life expectancy assumptions

The post retirement mortality tables adopted for this valuation, along with sample life expectancies, are set out below:

Current Status	Retirement Type	2016 study
Annuitant	Normal Health	94% S2PMA_CMI_2015[1.5%] / 85% S2PFA_CMI_2015[1.5%]
	Dependant	115% S2PMA_CMI_2015[1.5%] / 100% S2DFA_CMI_2015[1.5%]
	Ill Health	94% S2PMA_CMI_2015[1.5%] + 3 yrs / 85% S2PFA_CMI_2015[1.5%] + 3 yrs
Active	Normal Health	94% S2PMA_CMI_2015[1.5%] / 85% S2PFA_CMI_2015[1.5%]
	Ill Health	94% S2PMA_CMI_2015[1.5%] + 4 yrs / 85% S2PFA_CMI_2015[1.5%] + 4 yrs
Deferred	All	94% S2PMA_CMI_2015[1.5%] / 85% S2PFA_CMI_2015[1.5%]

-Life expectancies at age 65

	Male Life Expectancy at 65	Female Life Expectancy at 65
Membership Category	**Proposed Assumption**	**Proposed Assumption**
Pensioners	23.0	25.9
Actives aged 45 now	25.1	28.2
Deferreds aged 45 now	25.1	28.2

Other demographic assumptions are set out in the Actuary’s formal report.

EMPLOYER DEFICIT RECOVERY PLANS

As the assets of the Fund are less than the liabilities at the effective date, a deficit recovery plan needs to be adopted such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts increasing at 3.7% per annum and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit contributions in one lump sum either on annual basis or a one-off payment. This will be reflected in the monetary amount requested via a reduction in overall £ deficit contributions payable.

The determination of the recovery periods is summarised in the table below:

Category	Default Deficit Recovery Period	Derivation
Fund Employers	14 years	Determined by maintaining the period from the preceding valuation and to ensure, where appropriate, contributions do not reduce versus those expected from the existing recovery plan. For certain employers, subject to the agreement of the administering authority, depending on affordability and other considerations, a maximum recovery period of up 17 years may be applied.
Open Admitted Bodies	14 years	Determined by maintaining the period from the preceding valuation and to ensure, where appropriate, contributions do not reduce versus those expected from the existing recovery plan.
Closed Employers	Lower of 14 years and the future working lifetime of the membership	Determined by maintaining the period from the preceding valuation and to ensure, where appropriate, contributions do not reduce versus those expected from the existing recovery plan.
Employers with a limited participation in the Fund	Determined on a case by case basis	Length of expected period of participation in the Fund

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- The size of the funding shortfall;
- The business plans of the employer;
- The assessment of the financial covenant of the Employer, and security of future income streams;
- Any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain the deficit contributions at the expected monetary levels from the preceding valuation (allowing for any indexation in these monetary payments over the recovery period).
For those employers assessed to be in surplus at the valuation date, the surplus will be removed over a maximum recovery period of 17 years, unless agreed otherwise with the Administering Authority.

Other factors affecting the Employer Deficit Recovery Plans
As part of the process of agreeing funding plans with individual employers, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things equal this could result in a longer recovery period being acceptable to the Administering Authority, although employers will still be expected to at least cover expected interest costs on the deficit.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore may in some cases be willing to use its discretion to accept an evidence-based affordable level of contributions for such organisations for the three years 2017/2020. Any application of this option is at the ultimate discretion of the Fund officers and Section 151 officer in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

For those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Notwithstanding the above, the Administering Authority, in consultation with the actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.

ADMISSION AND TERMINATION POLICY

This document details the London Borough of Ealing Pension Fund's (LBEPF) policy on the methodology for assessment of ongoing contribution requirements and termination payments in the event of the cessation of an employer's participation in the Fund. This document also covers LBEPF's policy on admissions into the Fund and sets out the considerations for current and former admission bodies. It supplements the general policy of the Fund as set out in the Funding Strategy Statement (FSS).

- Admission bodies are required to have an "admission agreement" with the Fund. In conjunction with the Regulations, the admission agreement sets out the conditions of participation of the admission body including which employees (or categories of employees) are eligible to be members of the Fund.

- Scheme Employers have a statutory right to participate in the LGPS and their staff therefore can become members of the LGPS at any time, although some organisations (Part 2 Scheme Employers) do need to designate eligibility for its staff.

A list of all current employing bodies participating in the LBEPF is kept as a live document and will be updated by the Administering Authority as bodies are admitted to or leave the LBEPF. Please see the glossary for an explanation of the terms used throughout this Appendix.

ENTRY TO THE FUND

Prior to admission to the Fund, an Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. If the risk assessment and/or bond amount is not to the satisfaction of the Administering Authority (as required under the LGPS Regulations) it will consider and determine whether the admission body must pre-fund for termination with contribution requirements assessed using the minimum risk methodology and assumptions.

Some aspects that the Administering Authority may consider when deciding whether to apply a minimum risk methodology are:

- Uncertainty over the security of the organisation's funding sources e.g. the body relies on voluntary or charitable sources of income or has no external funding guarantee/reserves;
- If the admitted body has an expected limited lifespan of participation in the Fund;
- The average age of employees to be admitted and whether the admission is closed to new joiners.

In order to protect other Fund employers, where it has been considered undesirable to provide a bond, a guarantee must be sought in line with the LGPS Regulations.

ADMITTED BODIES PROVIDING A SERVICE

Generally Admitted Bodies providing a service will have a guarantor within the Fund that will stand behind the liabilities. Accordingly, in general, the minimum risk approach to funding and termination will not apply for these bodies.

As above, the Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. This assessment would normally be based on advice in the form of a “risk assessment report” provided by the actuary to the LBEPF. As the Scheme Employer is effectively the ultimate guarantor for these admissions to the LBEPF it must also be satisfied (along with the Administering Authority) over the level (if any) of any bond requirement. Where bond agreements are to the satisfaction of the Administering Authority, the level of the bond amount will be subject to review on a regular basis.

In the absence of any other specific agreement between the parties, deficit recovery periods for Admitted Bodies will be set in line with the Fund’s general policy as set out in the FSS.
Any risk sharing arrangements agreed between the Scheme Employer and the Admitted Body will be documented in the commercial agreement between the two parties and not the admission agreement.

In the event of termination of the Admitted Body, any orphan liabilities in the Fund will be subsumed by the relevant Scheme Employer.

An exception to the above policy applies if the guarantor is not a participating employer within the LBEPF, including if the guarantor is a participating employer within another LGPS Fund. In order to protect other employers within the LBEPF the Administering Authority may in this case treat the admission body as pre-funding for termination, with contribution requirements assessed using the minimum risk methodology and assumptions

PRE-FUNDING FOR TERMINATION

An employing body may choose to pre-fund for termination i.e. to amend their funding approach to a minimum risk methodology and assumptions. This will substantially reduce the risk of an uncertain and potentially large debt being due to the Fund at termination. However, it is also likely to give rise to a substantial increase in contribution requirements, when assessed on the minimum risk basis.

For any employing bodies funding on such a minimum risk strategy a notional investment strategy will be assumed as a match to the liabilities. In particular the employing body’s notional asset share of the Fund will be credited with an investment return in line with the minimum risk funding assumptions adopted rather than the actual investment return generated by the actual asset portfolio of the entire Fund. The Fund reserves the right to modify this approach in any case where it might materially affect the finances of the Scheme or depending on any case specific circumstances.

EXITING THE FUND

TERMINATION OF AN EMPLOYER’S PARTICIPATION

When an employing body terminates for any reason, employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.

In addition to any liabilities for current employees the Fund will also retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members except where there is a complete transfer of responsibility to another Fund with a different Administering Authority.

In the event that unfunded liabilities arise that cannot be recovered from the employing body, these will normally fall to be met by the Fund as a whole (i.e. all employers) unless there is a guarantor or successor body within the Fund.

The LBEPF's policy is that a termination assessment will be made based on a minimum risk funding basis, unless the employing body has a guarantor within the Fund or a successor body exists to take over the employing body's liabilities (including those for former employees). This is to protect the other employers in the Fund as, at termination, the employing body's liabilities will become orphan liabilities within the Fund, and there will be no recourse to it if a shortfall emerges in the future (after participation has terminated).

If, instead, the employing body has a guarantor within the Fund or a successor body exists to take over the employing body's liabilities, the LBEPF's policy is that the valuation funding basis will be used for the termination assessment unless the guarantor informs the LBEPF otherwise. The guarantor or successor body will then, following any termination payment made, subsume the assets and liabilities of the employing body within the Fund. (For Admission Bodies, this process is sometimes known as the "novation" of the admission agreement.) This may, if agreed by the successor body, constitute a complete amalgamation of assets and liabilities to the successor body, including any funding deficit on closure. In these circumstances no termination payment will be required from the outgoing employing body itself, as the deficit would be recovered via the successor body's own deficit recovery plan.

It is possible under certain circumstances that an employer can apply to transfer all assets and current and former members' benefits to another LGPS Fund in England and Wales. In these cases, no termination assessment is required as there will no longer be any orphan liabilities in the LBEPF. Therefore, a separate assessment of the assets to be transferred will be required.

FUTURE TERMINATIONS

In many cases, termination of an employer's participation is an event that can be foreseen, for example, because the organisation's operations may be planned to be discontinued and/or the admission agreement is due to cease. Under the Regulations, in the event of the Administering Authority becoming aware of such circumstances, it can amend an employer's minimum contributions such that the value of the assets of the employing body is neither materially more nor materially less than its anticipated liabilities at the date it appears to the Administering Authority that it will cease to be a participating employer. In this case, employing bodies are encouraged to open a dialogue with the Fund to commence planning for the termination as early as possible. Where termination is disclosed in advance the Fund will operate procedures to reduce the sizeable volatility risks to the debt amount in the run up to actual termination of participation. The Fund will modify the employing body's approach in any case, where it might materially affect the finances of the Scheme or depending on any case specific circumstances.

The Fund's standard policy is to recover termination deficits (including interest and expenses) as a one off payment. However, at the discretion of the Administering Authority, the deficit can be recovered over an agreed period as certified by the Actuary. This period will depend on the Administering Authority's view on the covenant of the outgoing employer.

MINIMUM RISK TERMINATION BASIS

The minimum risk financial assumptions that applied at the actuarial valuation date (31 March 2016) are set out below in relation to any liability remaining in the Fund. These will be updated on a case-by-case basis, with reference to prevailing market conditions at the relevant employing body's cessation date.

Least risk assumptions	**31 March 2016**
Discount Rate	2.2% p.a.
CPI price inflation	2.2% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.

All demographic assumptions will be the same as those adopted for the 2016 actuarial valuation, except in relation to the life expectancy assumption. Given the minimum risk financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption.

The termination basis for an outgoing employer will include an adjustment to the assumption for longevity improvements over time by increasing the rate of improvement in mortality rates to 1.75% p.a. from 1.5% used in the 2016 valuation for ongoing funding and contribution purposes.

ACADEMIES POLICY

Policy on Pension Funding for new Academies ("Academies Funding Policy")

Introduction

Previously, the Local Government Pension Scheme (LGPS) Miscellaneous Regulations 2010 made an amendment to the LGPS (Administration) Regulations 2008 to allow an Academy established under the Academies Act 2010, to become a Scheme Employer within the LGPS. Prior to converting to Academy status, schools were pooled together with the Local Education Authority (LEA) and the other LEA schools for the purpose of meeting their obligations for LGPS pension provision, in particular for contribution rate purposes. This document details the London Borough of Ealing Pension Fund's ("the Fund") policy on the pension funding options available to newly formed Academies.

By becoming an Academy, a transfer of deficit from the LEA to the new Academy would take place at the point of conversion to Academy status i.e. as part of a notional transfer of assets within the Fund alongside the liabilities of current active members. The level of assets to be transferred, and hence initial deficit, would be assessed by the Fund Actuary at the point of conversion. Any liabilities associated with former employees (i.e. deferred and pensioner members of the Fund) would remain with the LEA.

Options

The Fund will offer Academies two choices with regard to how their contributions to the Fund will be assessed following conversion.

- The first option will be to remain pooled with the LEA (Ealing Council)
- The second option available will be for the Academies to opt to be treated as a standalone employer within the Fund.

The contribution rates payable by all employers in the Fund include a contribution towards the cost of pension benefits to be accrued in the future (the Primary Rate), and a contribution towards the cost of meeting any funding deficit in respect of benefits accrued to date (the Secondary Rate). Under a pooled arrangement, the membership profile, and level of past service deficit, will be assessed across all of the pooled employers and a share of the pooled deficit (and resulting contribution outcomes) will be assessed by the Fund actuary at each triennial valuation assessment. Each employer within the pool will pay the same Primary Rate. At the discretion of the Council, as administering authority, should any increases in contributions emerge for a pooled academy following a triennial valuation assessment, such increases may be phased in over an agreed period (should such phasing be permissible in the Funding Strategy Statement).

Under a stand-alone arrangement, the profile of the single employer will determine the contribution requirements. There is also no guarantee that the contribution rate payable under one option would be lower, or less volatile, than that under the other. Further details on the two options are set out below.

In addition, once a decision is made by an Academy, this cannot be reversed by the Academy. There may be circumstances however where there may be a Regulatory requirement for a reversal to take place. The Council, as Administering Authority, also reserves the right to reconsider the funding treatment of the Academies (alongside other admitted bodies).

Pooling
By pooling with the LEA, any cross subsidy of cost between the LEA and the Academy would remain in place in relation to the contributions payable to the Fund. Under a pooled arrangement the Academy would be exposed to the experience of the LEA in terms of the risks associated with pension funding and vice-versa e.g. pay growth, ill-health retirement, death etc.

Stand-alone
As a stand-alone employer, any cross-subsidy of cost with the LEA is removed. The Academy will also be subject to the funding parameters set out in the Fund's Funding Strategy Statement, which governs how contribution rate are determined at each formal actuarial valuation.

Implementation
From 31 March 2012 the Fund has offered new academies the choice of how they wish to be treated for the purpose of their pension fund contribution requirements. Those academies who converted prior to 1 April 2012 (and were previously treated as stand-alone employers for contribution purposes) were given a one-off option of being able to be pooled going forwards. As at the 31 March 2016 actuarial valuation, there are currently 3 academies who are pooled with the Council.

Actuarial Assessment
The contribution rates for all participating employers in the Fund are formally reassessed by the Fund Actuary every three years as part of an actuarial valuation exercise. As denoted above, once a decision is made by an Academy as to how its contribution requirements should be assessed on conversion, the Academy cannot choose to reverse this at subsequent actuarial valuation exercises.

Should an Academy opt to pool with the Council, at the point of conversion, the Academy will continue to pay the same Primary Rate as the Council (and other pooled academies) together with a Secondary Rate contribution which will be assessed by the Actuary as part of the assessment of any initial deficit allocated to the Academy from the Council. At the actuarial valuation exercise following conversion, the contribution rates for the academy will be set as part of the wider assessment of the pooled group.

Accounting for Pension Costs
Even if pooled with the LEA, it should be noted that the Academy may still be required to report under Financial Reporting Standard (FRS) 101 / 102 (depending on Department for Education guidelines). FRS101 / 102 reporting however would not impact on the pooled contribution rates payable by the Academy. Therefore, the Actuary will continue to assess the individual funding positions of each Academy (pooled and non-pooled) as these will form the basis for any accounting assessments undertaken.

Statement of Acceptance
All new academies will be required to sign a formal statement of acceptance to their funding treatment (alongside Ealing Council, as administering authority of the Fund). This statement is included below.

ACADEMIES POOLING – STATEMENT OF ACCEPTANCE BY NEW ACADEMY REGARDING HOW PENSION FUND CONTRIBUTIONS ARE TO BE ASSESSED

Name of School: ……………………………………

Date of conversion to Academy status: ……………………………………

Following conversion to Academy status, we understand that there are two options available with regard to how the Academy will be treated for the purpose of how the Fund's Actuary assesses the contributions the Academy will be required to pay into the London Borough of Ealing Pension Fund. These options are:

A. treated as a stand-alone employer

B. treated as pooled employer alongside Ealing Council

We acknowledge the funding risks associated with each treatment and the treatment that we wish to apply to the Academy, post conversion is:

A / B (please circle the preferred choice)

We understand that we cannot opt to reverse this decision at subsequent assessments of the contribution rate by the Fund's Actuary although Ealing Council, as administering authority of the Fund, reserves the right to consider the funding treatment of academies (alongside other admitted bodies). There may also be Regulatory requirements for the position to be reconsidered.

Signed, on behalf of …………………………………………………………………….. **(name of school)**

……………………………	……………………………	……………………………
NAME	**POSITION**	**DATE**

On behalf of Ealing Council, as administering authority of the London Borough of Ealing Pension Fund, we acknowledge the decision of the above named school with regard to how its contribution requirements to the Fund will be assessed.

Signature……………………………………

……………………………	……………………………	……………………………
NAME	**POSITION**	**DATE**

GLOSSARY

Actuarial Valuation: an investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date.

Administering Authority: the council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

Admission bodies: A specific type of employer under the Local Government Pension Scheme (the “LGPS”) who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

Benchmark: a measure against which fund performance is to be judged.

Best Estimate Assumption: an assumption where the outcome has a 50/50 chance of being achieved.

Bonds: loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

Career Average Revalued Earnings Scheme (CARE): with effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

CPI: acronym standing for “Consumer Prices Index”. CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

Covenant: the assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

Deficit: the extent to which the value of the Fund’s past service liabilities exceeds the value of the Fund’s assets. This relates to assets and liabilities built up to date and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

Deficit recovery period: the target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

Discount Rate: the rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value.

Employer's Future Service Contribution Rate: the contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

Employing bodies: any organisation that participates in the LGPS, including admission bodies and Fund employers.

Equities: shares in a company which are bought and sold on a stock exchange.

Fund / Scheme Employers: employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Fund Employers.

Funding or solvency Level: the ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

Funding Strategy Statement: this is a key governance document that outlines how the administering authority will manage employer's contributions and risks to the Fund.

Government Actuary's Department (GAD): the GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

Guarantee / guarantor: a formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

Investment Strategy: the long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

Letting employer: an employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

Liabilities: the actuarially calculated present value of all benefit entitlements i.e. Fund cashflows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

LGPS: the Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements.

Maturity: a general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

Members: The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Minimum risk basis: an approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This is usually adopted when an employer is exiting the Fund.

Orphan liabilities: liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

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Percentiles: relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

Phasing/stepping of contributions: when there is an increase/decrease in an employer's long term contribution requirements, the increase in contributions can be gradually stepped or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

Pooling: employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

Prepayment: the payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

Present Value: the value of projected benefit payments, discounted back to the valuation date.

Profile: the profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

Rates and Adjustments Certificate: a formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.

Real Return or Real Discount Rate: a rate of return or discount rate net of (CPI) inflation.

Recovery Plan: a strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period"), as set out in the Funding Strategy Statement.

Scheduled bodies: types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Section 13 Valuation: in accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2016 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

Solvency Funding Target: an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

Valuation funding basis: the financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund's investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.

50/50 Scheme: in the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

INVESTMENT STRATEGY STATEMENT

1. Introduction and background

1.1 This is the Investment Strategy Statement (ISS) of the London Borough of Ealing Pension Fund (the Fund), which is administered by Ealing Council (the Administering Authority or Scheme Manager). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the Regulations").

1.2 The ISS has been prepared by Officers in consultation with Pension Fund Panel ("the PFP") having taken advice from the Fund's strategic investment adviser, currently Hymans Robertson LLP. The PFP acts on the delegated authority of the Administering Authority.

1.3 This ISS, which was approved by the PFP on 12 September 2018, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The PFP has consulted with the Treasury Risk & Investment Board and Trade Union representatives on the contents of the Fund's investment strategy.

Pension Fund Panel

1.4 The PFP comprises seven Councillors, two non-voting Trade Union representatives and one non-voting scheme employer representative and is advised by an Investment Consultant and the Treasury Risk & Investment Board (TRIB), whose membership includes the Chief Finance Officer and the Chief Finance Officer. The Panel which meets quarterly is responsible for setting investment policy, appointing persons to implement that policy and carrying out regular reviews and monitoring of investment performance. This decision is taken whilst remaining cognisant of the need to meet the Fund's liabilities.

1.5 This ISS outlines the broad investment principles governing the investment policy of the pension fund and covers investment responsibilities; scheme liabilities; eligible assets; social, environmental and corporate governance considerations.

Investment Responsibilities

1.6 Investment Managers have responsibility for the day-to-day management of the assets and full investment discretion subject to the investment guidelines and restrictions agreed with the PFP.

1.7 The custodians have responsibility for the recording and safekeeping of the assets, the settlement of transactions as directed by the relevant investment manager and some administrative matters.

1.8 The investment consultant provides advice to the PFP on strategic investment issues such as the long-term investment strategy (in conjunction with the Fund Actuary) and the appointment of the investment managers for the Fund. The Actuary provides advice on the financial position of the Fund and the nature and extent of its liabilities.

Liabilities

1.9 The Fund is a defined benefit scheme, which provided benefits related to final salary prior to 1st April 2014 and career averaged earnings from 1st April 2014 onwards. Each member's main benefits are specified in terms of a formula based on salary and service and are unaffected by the investment return achieved on the assets. There are some discretionary benefits, which can be agreed by the Council, but these additional benefits will be considered in the light of the overall level of funding in the Fund. Full Fund benefit details are set out in the LGPS regulations.

1.10 Ealing Council and the other contributing authorities are responsible for meeting the balance of costs necessary to finance the benefits payable from the Fund. This is funded from the Council's revenue budget. Employers' contribution rates are determined every three years based on the advice of the Fund's actuary following the triennial valuation and are subject to inter-valuation monitoring. The last actuarial review was on 31 March 2016.

1.11 The investment objective is to maximise investment returns over the long term within specified risk tolerances. Investment returns are defined as overall rates of return on assets (capital growth and income).

1.12 The PFP seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund's Funding Strategy Statement which was approved on the 16 March 2017.

2. The suitability of particular investments and types of investments

2.1 The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. The Fund's funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

2.2 The PFP aims to fund the scheme in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases.

2.3 The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the PFP's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility, risk and the nature of the Fund's liabilities. The PFP has decided that, given the financial circumstances of the Fund, it can afford to take on some risk in the pursuit of incremental return. However, the PFP has decided that the risk level should be such that the possibility of the funding level falling by 25% from the current level, over the next five years, is small.

Investment Strategy

2.4 The approach that the Fund has taken to setting an appropriate investment strategy is as follows:

- Commissioning an Investment Adviser to assist
- Determine whether a full or partial asset liability study is required
- The Fund's Investment beliefs are reviewed
- Establish the Fund's constraints, e.g. cash flow constraints for a mature pension fund, balance between complexity/resources availability

- Establish how returns will be generated (e.g. mix between growth and income seeking, use of derivatives, Liability Driven Investments, asset class mix)
- Strategy review
- Manager selection
- Monitoring performance of the overall strategy and the investment managers on a regular basis
- Rebalancing as necessary

2.5 The PFP review the suitability of the investment strategy on a regular basis, typically around the triennial Actuarial Valuation. The PFP formally reviewed the strategy, with the assistance of the Fund's investment consultants, in July 2017.

2.6 The individual managers' activity transactions plus quarterly and longer-term rolling performance are reported quarterly to the PFP who question and seek explanations from the investment consultant and investment managers (when asked to attend Panel meetings) on their activities and performance. The investment performance of the managers is calculated independently by the Fund's custodian BNY Mellon.

2.7 This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

2.8 In addition, the PFP monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund's level of funding and liability profile
- The level of expected risk
- Outlook for asset returns

2.9 The PFP also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation.

2.10 The Fund's actual asset allocation can stray from the strategic benchmark due to a number of reasons e.g.:

- Market movements
- Fund manager under/outperformance relative to benchmark
- Distribution and drawdowns by the Fund

2.11 The Fund believes that a rebalancing programme can lead to better returns over time. This may require the Fund to sell assets that have performed very well and buy assets which are deemed to be undervalued. Furthermore, rebalancing enables the Fund to invest in line with the agreed risk budget.

2.12 Officers will review and compare actual asset allocations to target allocation and in consultation with the advisers, and the PFP, recommend rebalancing. Where rebalancing needs to be carried out quickly in between meetings then the chair and deputy chair of the PFP will be consulted.

Investment Beliefs

2.13 In September 2015, the Fund's Investment adviser carried out an exercise through a questionnaire and interactive session to establish the investment beliefs of the PFP and this is summarised below. The PFP then undertook a further questionnaire concentrating on ESG factors in March 2018.

Objectives and strategy matters The PFP believe that having a set of well-defined objectives and a robust investment strategy will have the most influence over the Fund's future direction, hence they prioritise discussions on these topics.
Affordability a key area of focus The PFP believe in striking a balance between an affordable, but stable, contribution and taking investment risk. It is appreciated that this balance may change over time. The aim is to not take any more investment risk than is necessary.
Investment horizon The PFP appreciates that long-term investing tends to improve returns and reduce costs.
Diversification The PFP believe that diversification is important but are also conscious of the risks associated with over-diversification (e.g. excessive governance demands and higher fees).
Efficient Markets The PFP believes that, at times, market inefficiencies can exist and that these can create opportunities that the Fund may be able to exploit, due to regular dislocations from value and price.
Market Timing The PFP does not feel that they are best placed to capture these opportunities. Instead they take the view that managers, that are closer to the market, will be better positioned to make such tactical calls.
Liquidity The PFP is willing to accept a degree of illiquidity to enhance returns (net of fees), but not an excessive amount that it would impact the Fund's ability to pay benefits.
Equity investment The PFP believes that global equity markets will generate positive real returns over the long-term and therefore the Fund is expected to have a notable exposure to this asset class. However, the PFP has no strong belief that any one equity market will do better than another when it goes to generating long-term risk adjusted returns.
Responsible Investments The PFP believe that environmental, social and governance matters are important. However, they see it as being one, of a number of factors, which must be taken into account when making decisions considering suitable investments for the Fund. The PFP also believe in collective engagement and have signed up to the LAPFF.
Manager Selection The PFP believes that active management can add value to pension funds. However, it can be difficult to identify, with confidence, a manager that will outperform over the long-term, so any manager appointments require considerable due diligence and expected to be made for the long-term.
Fees Investment management fees are a drag on returns and should be managed. However, they are not the only factor when it comes to selecting a good active manager.

3. Diversification

3.1 The PFP seeks to diversify risk through investing in a range of assets, investment managers, strategies and investment styles. The investment policy is to appoint expert investment managers with clear performance benchmarks and to place maximum accountability for performance against those benchmarks on the investment manager. Ealing has adopted an active specialist approach to investment management. The managers are paid on the basis of a standard fee i.e. not performance related.

3.2 The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities, fixed interest, index linked bonds, cash, property, infrastructure and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

3.3 The PFP reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The PFP seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the PFP is proposed, appropriate advice and training is sought and considered to ensure its suitability and diversification.

3.4 The Fund's current target investment strategy is set out below.

Name of Investment Manager	Mandate Type	Target Allocation of Fund	Benchmark Index	Tracking Error band	Target Gross outperformance %p.a. (rolling 3 years)
Lazard Asset Management	UK Equities	20%	FTSE All Share (TR)	2% to 5.5%	2.0%p.a.
Baillie Gifford Global Alpha Fund	Global Equities	14%	MSCI All Country World Index	4% to 6%pa	3.0%p.a. over the market cycle
LGIM Future World Fund	Global Equities	9.1%	FTSE Developed Index Fund	0.5% pa	Track the FTSE Developed index within +/- 0.5% p.a. for two years out of three
LGIM MSCI World Low Carbon Target Index	Global Equities	9.1%	FTSE Developed Index Fund	0.5% pa	Track the FTSE Developed index within +/- 0.5% p.a. for two years out of three
Janus Henderson Emerging Market Opportunities Fund	Global Equities	2.8%	MSCI Emerging Markets Index	4% to 6%pa	To outperform wider market
Royal London Asset Management	UK Corporate Bonds	25%	ML Sterling Non-Gilts (TR)	Up to 3%	1.0%p.a.
Standard Life Hermes Lothbury	UK Commercial Property	10%	IPD All Balanced Fund	N/A	0.5%p.a.
JP Morgan	Infrastructure	5%	N/A	Target total return 8-12% p.a.	N/A
Private Debt	Enhanced Yield	5%	TBC	TBC	TBC
Total		**100%**			

3.5 In line with the Regulations, the Fund's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007".

3.6 It is estimated that the maximum that the Fund will invest in each asset will be around 50% higher than the target allocation, albeit this is unlikely to be the case in reality, given the regular rebalancing at the Fund

4. Restrictions on investment

4.1 The Regulations have been amended to remove the previous restrictions that applied under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The Fund has agreed a number of its own restrictions as set out in the table below. Some other investment restrictions have been negotiated with individual fund managers and the CIV Pool.

4.2 Type of investment Maximum investment by the Fund % of assets

Table 2: Investment Restrictions

Types of Investment	Max %
*Contributions invested in any single partnership	5%
*Contributions invested in partnerships	30%
Cash deposits	10%
Investment with any single manager strategy either directly or via the XYZ pool X% (excluding investments in passive index tracking strategies)	15%
Total investment in illiquid assets [1]	30%

*Are usually classified as illiquid investments.

4 Managers

4.1 The PFP has appointed investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

4.2 The PFP, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund.

4.3 The PFP have appointed investment managers which invest passively, who have the aim of replicating the performance of a market index, and active investment managers looking to outperformance a particular benchmark index. Active investment managers will hold a mix of investments which reflects their views relative to their respective benchmark.

5 Risk Management

5.1 The PFP is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken. One of the PFP's overarching beliefs is to only take as much investment risk as is necessary.

The principal risks affecting the Fund are set out below, we also discuss the Fund's approach to managing these risks and the contingency plans that are in place: A full risk register, covering a full range of risks, is maintained and reported to the Panel annually.

5.2 Funding risks

Headline Risk	Specifics	Mitigating Actions
Financial mismatch	The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities	• As indicated above, the PFP has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk. • The PFP assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The PFP also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.
Changing demographics	The risk that longevity improves, and other demographic factors change, increasing the cost of Fund benefits	• The PFP seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions can be challenged • This risk is captured within the Funding Strategy which is monitored by the Panel.
Systemic risk	The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities	• The PFP seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

5.3 Asset Risks

Headline Risk	Specifics	Mitigating Actions
Concentration	The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.	• The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The PFP has put in place rebalancing arrangements to ensure the Fund's "actual allocation" does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk.

Liquidity Risk	The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.	• By investing across a range of assets, including liquid quoted equities and bonds, the PFP has recognised the need for access to liquidity in the short term. • The Fund actively manages its cash flows over the short and longer term to ensure liquidity.
Exchange Rate Risk	The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).	• The Fund is a longer-term investor and can withstand short term currency fluctuations. • The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the PFP also assess the Fund's currency risk during their risk analysis. • Any decision to hedge currency is delegated to the Fund's managers.
Environmental, social and governance ("ESG")	The risk that ESG related factors reduces the Fund's ability to generate long-term expected returns.	• Details of the Fund's approach to managing ESG risks are set out later in this document. • The Fund expects its external investment managers to undertake appropriate monitoring of current investments with regards to their policies and practices on all issues which could present a material financial risk to the long-term performance of their funds such as corporate governance and environmental factors. • The Fund expects its investment managers to integrate material ESG factors within its investment analysis and decision making.
Manager underperformance	The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.	• The PFP has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing more than one manager and having a proportion of the Fund's assets managed on a passive basis. The PFP assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.
Investment Advice Risk	Risk that the Fund is negatively impacted by investment advice received.	• The PFP regularly considers and reviews effectiveness of advice given.
Regulatory and Political Risks	Adverse regulatory or political change	• Risk is mitigated by diversifying across markets and monitored by reviewing the investment strategy and specific investment mandates.

5.4 Other provider risks

Headline Risk	Specifics	Mitigating Actions
Transition risk	The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the PFP seeks suitable professional advice.	• The PFP monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The PFP has the power to replace a provider should serious concerns exist. • The risk of incurring additional costs in relation to transitioning assets is managed through the use of professional advisers and experienced in house staff.
Custody risk	The risk of losing economic rights to Fund assets, when held in custody or when being traded.	• The Fund maintains beneficial ownership of assets when held in Custody.
Credit default	The possibility of default of counterparty in meeting its obligations.	• Counterparty risk is managed through robust procurement and contracting processes.
Stock-lending	The possibility of default and loss of economic rights to Fund assets.	• The Fund does not currently permit BNY Mellon to lend stock. • Any stocklending within pooled investments is delegated to the managers. The success of this lending programme is assessed as part of the monitoring of the overall manager.

5.5 A separate schedule of risks that the Fund monitors is set out in the Fund's Funding Strategy Statement.

5 Funds approach to Pooling, Collective Investment vehicles (CIV) and Shared Services.

7.1 The Fund is a participating scheme in the London CIV Pool as part of the Government's pooling agenda. The proposed structure and basis on which the London CIV Pool will operate was set out in the July 2016 submission to Government. The London CIV has been operational for some time and is in the process of opening a range of sub-funds covering liquid asset classes, with less liquid asset classes to follow.

Assets to be invested in the Pool

7.2 The Fund previously transitioned assets into the London CIV Allianz Global Equity Fund with a value of £339m and the intention remains to invest assets through the London CIV Pool as and when suitable

Pool investment solutions become available. An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government. The key criteria for assessment of Pool solutions will be as follows:

- That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund; and
- That there is a clear financial benefit to the Fund in investing in the solution offered by the Pool, should a change of provider be necessary.

7.3 The PFP agreed in July 2017 to transition funds held in the London CIV Allianz Global Equity Fund to new managers within the London CIV. The new portfolio comprises of three managers, all of which are among the CIVs preferred managers. Two managers, Baillie Gifford and Janus Henderson, are within the CIV's Authorised Contractual Scheme (ACS) structure, while LGIM operate outside the CIV but under the auspices of the CIV. LGIM investment solutions could not be brought into the CIV because they use life funds which are not compatible with the vehicle operated by the CIV. Authorities however benefit from CIV negotiated fees and the CIV takes a small proportion in view of the fact that they have negotiated attractive fees.

7.4 Global equities held within the CIV amount to 30% of the Fund and are allocated as follows:

Asset class Manager	% of Fund assets	Benchmark and performance objective
Baillie Gifford Global Alpha Fund	50%	Benchmark Index: MSCI All County World -The objective of the Sub-fund is to exceed the rate of return of the MSCI All Country World Index (the "Index") -The fund aims to achieve capital growth by outperforming the MSCI All County World Index by 3% p.a. over the market cycle
LGIM World Developed Equity Index Fund	40%	Benchmark Index: FTSE Developed Index -The objective of the fund is to track the FTSE Developed Index within +/-0.5% p.a. for two years out of three
Janus Henderson Emerging Market Opportunities Fund	10%	Benchmark Index: MSCI Emerging Markets -The objective of the fund is to outperform the wider market across an economic cycle

7.5 At the time of preparing this statement the Fund has elected not to invest the following assets via the London CIV Pool:

Assets to reside outside of the Pool

7.6 The Fund holds £117m with a target of 10% of the Fund within direct property funds and these will remain outside of the London CIV pool. The cost of exiting these strategies would have a negative financial impact on the Fund. These will be held as legacy assets until such time as they mature and proceeds re-invest through the pool assuming it has appropriate strategies available or until the Fund changes asset allocation and makes a decision to disinvest. In addition, the holdings shown below will sit outside the pool.

Asset class Manager	% of Fund assets	Benchmark	Rational for initially withholding Investment outside of the London CIV Pool
RLAM - UK Corporate Bonds	25%	ML Sterling Non-Gilts (TR)	This is being held outside of the pool and the Fund will await the outcome of the ongoing strategic asset allocation review
Lazard – UK Equity	20%	FTSE All Share	This is being held outside of the pool as the fees charged at more competitive than available on the CIV and the Fund is awaiting the outcome of the ongoing strategic asset allocation review
JP Morgan Asset Management - Infrastructure	5%		Infrastructure investments are not currently available within the CIV
Private Debt	5%	TBC	Private Debt investments are not currently available within the CIV

7.7 Any assets not currently invested in the Pool will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money. The next such review will take place no later than April 2020.

Structure and governance of the London CIV Pool

7.8 The July 2016 submission to Government of the London CIV Pool provided a statement addressing the structure and governance of the Pool, the mechanisms by which the Fund can hold the Pool to account and the services that will be shared or jointly procured.

Holding the London CIV to account

7.9 The Boroughs interact with the London CIV through the Pensions Sectoral Joint Committee (PSJC) and through the CIV Investment Advisory Committee (IAC).

7.10 London CIV has formal agreements and arrangement in place and is already in the process of pooling investments for the London Local Authorities.

7.11 There are three levels of interaction between investing authorities and London CIV as the operating company; the Pension Sectoral Joint Committee (PSJC), the Investment Advisory Committee (IAC) and regular contact through formal and informal interaction at borough level. At the time of setting up the London CIV it was understood that all activities of the CIV are carried out 'for and on behalf of' the investing authorities and, while London CIV has to ultimately take decisions independently of investors (for regulatory reasons) those decisions will be taken with appropriate levels of collaboration and the best interest of the investing authorities at heart. Formal agreements and documentation include:

- The Shareholders Agreement which sets out the terms and conditions of the joint venture and regulates their relationship with each other and certain aspects of the affairs of and dealings with the Company. The Company has agreed with the Shareholders that it will comply with the terms and conditions of the Agreement insofar as it relates to the company and provided it is legal to do so.

7.12 The PSJC is established under London Councils' governance arrangements. The PSJC has specific Terms of Reference which include the following:

- "....to receive and consider reports and information from the ACS Operator particularly performance information and to provide comment and guidance in response (in so far as required and permitted by Companies Act 2006 requirements and FCA regulations).

7.13 In addition, members of the Pensions CIV Joint Committee will meet at least once each year at an Annual General Meeting of the ACS Operator to take decisions on behalf of the participating London local authorities in their capacity as shareholders exercising the shareholder rights in relation to the Pensions CIV Authorised Contractual Scheme operator (as provided in the Companies Act 2006 and the Articles of Association of the ACS Operator company) and to communicate the decisions to the Board of the ACS Operator company. These include:

- the appointment of directors to the ACS Operator board of directors;
- the appointment and removal of auditors of the company;
- agreeing the Articles of Association of the company and consenting to any amendments to these;
- receiving the Accounts and Annual Report of the company;
- exercising rights to require the directors of the ACS Operator company to call a general meeting of the company;"

7.14 As an FCA authorised contractual scheme, the CIV is required to publish a prospectus which details how the CIV will operate including the valuation, pricing and administration of the Scheme.

7.15 A service level agreement is also currently being drafted which will set out in more detail agreed service levels between the CIV and the Authorities which will help to further enable the CIV to be held to account for ensuring that borough investment strategies are being implemented and the timescales.

8 Environmental Social & Corporate Governance considerations of the Fund

8.1 Regulation 7(2)(e) requires the ISS to state how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.

8.2 The PFP recognise that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. The PFP consider the Fund's approach to responsible investment in two key areas:

1. Sustainable investment/ESG factors – considering the financial impact of environmental, social and governance (ESG) factors on its investments.
2. Stewardship and governance – acting as responsible and active investors/owner, through considering voting of shares, and engaging with investee company management as part of the investment process.

8.3 To date, the Fund's approach to Social investments has largely been to delegate this to their underlying investment managers as part of their overall ESG duties. The Fund's managers report on this matter as part of the Fund's quarterly review.

8.4 The PFP require the Fund's Investment Managers to have a formal policy on how they take governance, social and environmental issues into account when investing on behalf of the Fund. The PFP will review these policies from time to time and will, where it is deemed necessary, engage the Investment Manager in discussion on these policies. It will, however, be made clear to the Investment Managers that any decisions by the Investment Managers should be in the best long-term financial interest of the Fund and its stakeholders.

8.5 The PFP expects its fund managers to integrate material ESG factors within their investment analysis and decision making.

8.6 The PFP receives ESG training on a regular basis, recent training has included looking at ESG focused benchmark indices. These are constructed by screening off or tilting away from companies that fail to meet minimum ESG criteria and towards those who meet higher standards, rather than automatically investing in line with market capitalisation. The belief is that companies with good ESG standards will generate great risk adjusted returns over the long-term.

8.7 The PFP expects its external investment managers (and specifically the London Collective Investment Vehicle through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors.

8.8 In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly

8.9 Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

8.10 The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

8.11 The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which invests.

Corporate Governance/Voting

8.12 The PFP wishes to be an active shareholder and exercise its voting rights to promote and support good corporate governance principles in particular with regard to management and reporting. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

8.13 In practice, investment managers have delegated authority to exercise the Funds' voting rights in this respect, subject to the PFP's prerogative to give specific instructions to the investment managers to vote in accordance with the Fund's voting policies. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2) (f). The PFP monitor the voting decisions made by all its investment managers on a regular basis.

8.14 The Fund's voting policies reflect these main concerns:

- To protect its rights as a shareholder.
- To ensure that corporate governance standards are consistent with protecting shareholder value.
- To promote good corporate governance standards in order to enhance longer term value.

Stewardship

8.15 The Fund is committed to being a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills. In addition, the PFP undertakes training on a regular basis and this will include training and information sessions on matters of social, environmental and corporate governance

8.16 The PFP has formally agreed to adhere to the Stewardship Code as published by the Financial Reporting Council. The PFP expects both the London CIV Pool and any directly appointed fund managers to also comply with the Stewardship Code and this is monitored on an annual basis. A copy of the Fund's statement of compliance with the Stewardship code can be found on the Fund's website. At the FRC's most recent review, the fund was rated as a tier B.

8.17 However, the PFP believes in the benefit of dialogue and engagement with companies within which they invest as a means of enhancing shareholder value. To this end the Fund joined the Local Authority Pension Fund Forum (LAPFF) a collaboration of over 70 Local Authority Pension Schemes which exists to promote the interest of the group and engage with companies to ensure that their views are taken into account in the management of the affairs of the companies in which they collectively invest.

8.18 The Fund is also a member of the Pension and Lifetime Savings Association (PLSA) and in this way joins with other investors to magnify its voice and maximise the influence of investors as asset owners.

8.19 The Fund also gives support to shareholder resolutions where these reflect concerns which are shared and represent the Fund interest and finally the Fund joins wider lobbying activities where appropriate opportunities arise.

COMMUNICATIONS POLICY STATEMENT

London Borough of Ealing Pension Fund

Introduction

This Statement is prepared in compliance with the Local Government Pension Scheme Regulations 2013 (Regulation 61). It sets out the Policy of London Borough of Ealing, as administering authority, in relation to its Communications responsibilities for the Local Government Pension Scheme (LGPS).

Communications Objectives

The purpose of this Statement is to promote accurate, effective and regular communication with all stakeholders of the Ealing pension fund. The communications strategy will seek to meet all regulatory requirements to provide information and to promote the Local Government Pension Scheme (LGPS) to employees of participating employers.

Stakeholders

This Policy is aimed at the following principal stakeholders of the Ealing pension fund:

- Elected Members
- Scheme members (active, retired and deferred)
- Scheme employers
- Employee/Trade union representatives
- Prospective Scheme members
- Other interest groups (e.g. government, CIPFA)

Policy

Provision of information and publicity about the Scheme to members, representatives of members and employers:

Elected members are communicated with through the Pension Fund Panel (PFP), which meets on a quarterly basis. The PFP is updated on administration, regulatory, financial, and investment issues. Also, information is provided in response to direct requests received from Councillors who are members or non-members of the Panel.

Scheme members:

- Active Scheme members are communicated with through newsletters, intranet, monthly employee's forum and Annual Benefits Statements as well as the Annual General meeting
- Retired Scheme members are communicated with via newsletters, the annual pensions increase advice. Also, individual queries are processed by LPP, the 3rd party administrators and well as the Annual General Meeting.
- Deferred members are communicated with through Annual Benefits Statements. Also, individual queries are processed by LPP, the 3rd party administrators. Deferred members are also invited to the Annual General Meeting.
- In addition, the PFP reports and minutes, and the pension fund annual report and accounts are available on the Council's website www.ealing.gov.uk

Scheme employers (previously known as admitted and scheduled bodies) are communicated with through newsletters and regular employers' forum. Also, they are invited to the Pension Fund Annual General Meeting.

Employee/Trade union representatives are communicated with through newsletters, employees' forum, intranet. Also, this stakeholder group is represented on the PFP and receive information circulated to Panel members.

Prospective Scheme members, such as new employees, are issued with the LGPS member's Handbook and Application Form. Also, the Scheme is promoted to new employees at induction programmes.

Other interest groups (e.g. government, CIPFA) receive information in response to periodic returns or ad hoc information requests.

Review of this Communications Statement

The Treasury and Investments Manager, in consultation with HR, will review this Statement and approved by the Chief Finance Officer no less frequently than annually, or sooner, if there are any material changes in the Council's communications policy.

GLOSSARY

Active management
A style of investment management which seeks to provide outperformance of a relevant benchmark through asset allocation, market timing or stock selection (or a combination of these). Directly contrasted with indexation or passive management.

Actuarial assumptions
The assumptions that an actuary must make in order to arrive at a valuation for a pension fund. These include life expectancy, rates of inflation, expected earnings and the income that will be received from pension scheme investments.

Actuarial valuation
A review of the pension fund, which takes place every three years, to ensure that employers' contributions are sufficient to maintain the solvency of the fund.

Actuarial value of assets
The value placed on the assets of the fund by the actuary. This may be the market value or some other measure as deemed appropriate by the actuary.

Actuary
An independent consultant who carries out the actuarial valuation and may also advise on changes in benefit structure and on investment strategies. The actuary will perform calculations based on information about prevailing circumstances and analysis of statistics.

Additional voluntary contributions (AVCs)
An extra pension contribution, which can be made by a member of an occupational pension scheme.

Administering authority
A local authority required to maintain a pension fund under the local government pension scheme regulations.

Advisory boards
A private equity board of external advisers, which provides advice and is a focus for sharing information, provided by a private equity company.

Alternative assets
These are investments such as high yield bonds, hedge funds and private equity. They are introduced into a portfolio to diversify risk and enhance returns.

Asset allocation
The apportionment of a fund's assets between asset classes and/or markets (also see Bet). Asset allocation may be either strategic i.e. long-term, or tactical i.e. short-term, aiming to take advantage of relative market movements.

Asset classes
A specific category of assets or investments, such as stocks, bonds, cash, international securities and real estate. Assets within the same class generally exhibit similar characteristics, behave similarly in the marketplace and are subject to the same laws and regulations.

Benchmark
A 'notional' fund or model portfolio which is developed to provide a standard against which a manager's performance is measured, e.g. for a global equity fund the benchmark against which it will be measured could be made up of 70% UK equities and 30% overseas equities. A target return is generally expressed as some margin over the benchmark.

Bond
A security issued by a corporate or government body borrowing in the capital markets. Bonds promise to pay interest (coupons) during the life of the bond plus the main amount borrowed. Corporate bonds may be secured over the assets of the firm or they can be unsecured.

Corporate bond
A term used for all bonds other than government bonds.

Corporate governance
Governance for local authorities is defined as how they ensure that they do the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. It comprises the systems processes, culture and values, by which local government bodies are directed and controlled, and through which they account to, engage with and where appropriate lead their communities.

Custody/custodian
Safe-keeping of securities by a financial institution. The custodian keeps a register of holdings and will collect income and distribute monies according to client instructions.

Defined benefit scheme
A scheme where the benefits are defined and paid, irrespective of contributions or investment performance.

Diversification
The spreading of a fund's investments among different asset classes, markets and geographical areas in order to reduce risk. Diversification is a basic principle of multi-asset management.

Dividend
A payment distributed by a company to equity shareholders

Duration
A measure of a bond's sensitivity to a change in yield. It can be measured in years.

Ethical investment
Where investment is restricted to companies undertaking business in accord with an ethical definition. This could cover companies not engaging in arms manufacture.

Equities
The general term for ordinary shares issued in UK and overseas companies.

Bonds
An investment that provides a return in the form of fixed periodic payments and eventual return of principal at maturity. Unlike a variable-income security where payments change based on some underlying measure such as short-term interest rates, fixed-income security payments are known in advance.

FTSE
A company that specialises in index calculation. Although not part of a stock exchange, co-owners include the London Stock Exchange and the Financial Times. They are best known for the FTSE 100, an index of the top 100 UK companies (ranked by size).

Fund managers
Firms of investment professionals appointed by an investments or pensions committee to make day-to-day investment decisions for the fund within the terms of an investment management agreement (IMA).

Gilts
Fixed or index linked securities issues by the UK government (bonds).

Hedge fund
A fund, which aims to make money on both rising and falling markets by taking both long and short positions.

Index-linked securities
UK government issued stocks on which the interest and eventual repayment of the loan are based on movements in the retail price index.

Investment adviser
A professionally qualified individual or company whose main livelihood is derived from providing objective, impartial investment advice to companies, pension funds or individuals, for a stated fee.

Mandate
Instructions given to the manager by the client on the performance target, restrictions on stocks etc.

Objectives
Objectives for a pension fund may be expressed in several ways, in terms of performance against the 'average', against a specified benchmark or as a target real rate of return. For example, a reasonable objective for a UK equity fund might be to outperform the WM/median return for UK equities by 1% per annum over rolling three year periods.

Option
An agreement giving the holder the right to buy or sell a specific security at a specified price within a specified period of time.

Outperformance/Underperformance
The difference in returns generated by a particular fund against an average fund or index over a specified time period.

Passive management
Where performance is sought that seeks to attain market or index returns.

Investments or pensions committee
The body to which the administering authority has delegated responsibility for deciding upon the best approach to investing the pension fund's assets.

Performance
A measure, usually expressed in percentage terms, of the change in value of an investment, fund or part of a fund over a period.

Pooled fund
A fund managed by a fund manager in which investors hold units. Stocks, bonds, properties etc are not held directly by each client, but as part of a 'pool'. This contrasts with a segregated fund.

Private equity
Investments in new or existing companies and enterprises which are not publicly traded on a recognised stock exchange.

Projected unit method
A method used by actuaries in which the actuarial liability makes allowance for projected earnings.

Risk
Generally taken to mean the variability of returns. Investments with a greater perceived risk must usually promise a higher return than a more stable investment before rational investors will consider buying them. Generally the higher the potential return the higher the associated risk.

Scheme Employers
This means a body listed in Schedule 2 of the LGPS Regulations 2013 employing an employee who is eligible to be a member and includes an admission body. These were previously referred to as admitted and scheduled bodies.

Securities
Investments in company shares, bonds or index-linked stocks.

Sector
Companies from the same sector are grouped in this way on stock markets.

Solvency
Usually defined as the ratio of the market value of assets, to the current value placed by the actuary on pension promises made at a given valuation date. This is expressed as a percentage, i.e. 100% equates to a fund that in the opinion of the actuary has sufficient assets to meet all the benefits earned by its members at the date of valuation.

Sovereign debt
Bonds issued by a government.

Stock lending
Stock lending involves the loan of shares or bonds to a third party in return for a fee and some form of security (collateral) for the period the stock is on loan. Typical borrowers include market makers seeking liquidity in shares and short sellers (including hedge funds) delivering stock to their buyers. Although described as a loan, the transaction is more accurately described as a short-term sale and transfer of ownership with a binding agreement to buy the asset back at the same price.

Strategic asset allocation
Long-term allocation between the main asset classes with the aim of meeting the investors risk and return objectives.

Target funding rate
This is the target level of solvency for the fund. This measure is expressed as a percentage e.g. 100%.

Tracking error
A measure of the variability of investment returns relative to a benchmark or index.

Transaction costs
Costs resulting from managing a portfolio.

Underwriting
Where an institutional investor undertakes to acquire for a fee or commission shares unsold in a public offering or a rights issue.

Weighting
Proportion of an index or portfolio made up of an individual or group of items.

Yield
A measure of the return earned on an investment.