London Borough of Ealing Pension Fund

Annual Report & Accounts

2019/20

EALING COUNCIL

CONTENTS

CHAIR'S STATEMENT

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

I am pleased to introduce the London Borough of Ealing's Pension Fund annual report for the year ended 31 March 2020. At the time of writing, one of the greatest challenges had emerged as the world responded to the COVID-19 pandemic. We are no doubt entering a new era in the way we live, the shape of which is evolving. We are adapting and have introduced new ways of working to accommodate social distancing requirements.

Following the outbreak of COVID-19 during February and March 2020, the market value of investments fell by £68m to £1.192bn as at 31 March 2020 from £1.260bn on 31 March 2019. However, the Fund still returned a better, all be it negative performance of -5.69% gross of fees in the year to 31 March 2020, 0.07% above the Fund's Benchmark of -5.76%. The Fund was slightly impacted at the tail end of the financial year by the market and economic disruption brought on by Covid19, however we have seen significant recovery in equity markets which constitutes the bulk of our investments (55%).

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 must 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 reduced by 0.05% from £1.26 billion to £1.19 billion and remains in a good financial position despite impact the market disruption in March 2020 brought on by the pandemic. The fund has recovered most of the losses sustained by June 2020.

Members of this Committee as well as the Pension Board each had four meetings over the reporting year. Panel Members who have responsibility for the management and governance of the fund reviewed 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. A triennial valuation review was carried out and concluded over the course of the year. 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. The valuation results show that the Fund's assets were sufficient to cover 91% of its accrued liabilities as at 31 March 2019, an improvement from 80% in 2016.

Officers have continued to implement some changes made to the Fund's asset mix which involved reducing our allocation to equities and making a corresponding 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 has contributed to the improvement in the funding level from 80% to 91%. The bulk of the allocation to private debt has been deployed and 100% of the commitment to infrastructure has been drawn down by the manager.

We continue to look for more opportunities to pool our assets with the London CIV to achieve savings from economies of scale. We 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 the London CIV and other Funds to reduce costs to the Fund.

The committee is committed to investing responsibly looking to promote sustainable investments and even make a positive impact on sustainability through investment, whilst making a return for the Fund.

The Fund engages with companies in which we invest via the Local Authority Pension Fund Forum (LAPFF). I am an executive member of the LAPFF an organisation 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 which has prepared Responsible Investment policy. I sit on the schemes national oversight body, the Scheme Advisory Board (SAB) and continue to ensure that the schemes long term interest is secured.

Our governance arrangements have been speedily adjusted to respond to the new ways of working following the pandemic. We are carrying ongoing review as the government guidance is updated and strive to continually improve the service, we offer scheme members. In addition to 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 monitor all proposed regulatory changes especially in the current climate and will ensure that where possible we participate in industry debate to influence the provision of a sound and sustainable scheme.

We have undertaken 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 to one meeting on the 18 February 2020 and we received excellent feedback from those who attended. Officers met with 138 of scheme members. Next year should be a single meeting with presentations from officers of the Ealing Pension Fund and Investment managers as well as industry experts.

May I take this opportunity to once again thank colleagues on the Panel, members of the Pension Board and officers of the Council for successfully managing the fund over another reporting 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”.

PENSION BOARD ANNUAL REPORT 2019-20

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. During the year, the Board approved to expand the membership from the current 4 to 6 members in order to improve resilience. The current membership is as shown below:

Membership

Ealing Pension Board Membership 2019/20

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 ended 31 March 2020 and all meetings were quorate.

- 03 July 2019
- 10 September 2019
- 21 November 2019
- 11 March 2020

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.

(a) 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;

(b) 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;

(c) 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 £13.5k 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 2019/20

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:

(d) reviewed all the decisions taken by the Pension Fund and all recommendations from the Board were fed back to the Panel;

(e) probed the service level agreements between the Council and the Pension Fund;

(f) reviewed and monitored the implementation of the pension fund separate accounting entity;

(g) recommended that additional members be appointed support the work they do and to improve resilience.

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 2020.

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. The Chair attended Pensions Expert's DB Week to gain knowledge of upcoming changes such as the new Pensions Act (2nd Reading in the Commons next week) and the revised Draft Code of Conduct from the regulator in 2021.

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

MANAGEMENT STRUCTURE

The London Borough of Ealing Pension Fund is part of the Local Government Pension Scheme . 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 Pension Fund is administered by the London Borough of Ealing Council (the administering authority). 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 2019/20		Political Party
Councillors	Cllr Yvonne Johnson (Chair)	Labour
	Cllr Rajinder Mann (Vice Chair)	Labour
	Cllr Shital Manro	Labour
	Cllr Stephen Donnelly	Labour
	Cllr Kamaldeep Sahota	Labour
	Cllr Kaur Nagpal	Labour
	Cllr Anthony Young (opposition spokesman)	Conservative
Non-Voting Members		
	Sukhminder Kalsi	(Unison)

Contact Details for Pension Fund Panel

Committee Services (Perceval House)
Linda Zimmerman - Telephone: 0208 825 6253

Panel Member Training 2019/20

Topic
Fund Performance
Triennial Valuation process and Funding
Competition Market Authority changes
Impact Investing
LGPS Topical updates – New Fair Deal, Cost cap and McCloud, and exit payment caps
Changes in valuation cycle and Management of Employer risk
Pooling Investments Guidance

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
Investment Advisors:		
Hymans Robertson	William Marshall	One London Wall, London, EC2Y 5EA
Auditors:		
Deloitte LLP	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 Connett – Pensions Manager	Perceval House 14-16 Uxbridge Road London W5 2HL
London Pensions Partnership (LPP)	Ealing Pension Team	PO Box 1383 Preston PR2 0WR

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	Allan Gaskin	BNY Mellon Asset Servicing UK 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	One Coleman Street, London, EC2R 5AA
JP Morgan – Infrastructure Mandate	Monique Stephens	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	Angela Moses	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 LGPS 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 2019 to March 2020 were:

Band	Actual Pensionable Pay	% Contribution Main Scheme	% Contribution 50/50
1	Up to £14,400	5.50	2.75
2	£14,401 to £22,500	5.80	2.90
3	£22,501 to £36,500	6.50	3.25
4	£36,501 to £46,200	6.80	3.40
5	£46,201 to £64,600	8.50	4.25
6	£64,601 to £91,500	9.90	4.95
7	£91,501 to £107,700	10.50	5.25
8	£107,701 to £161,500	11.40	5.70
9	£161,501 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.

GPS 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 31st 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).

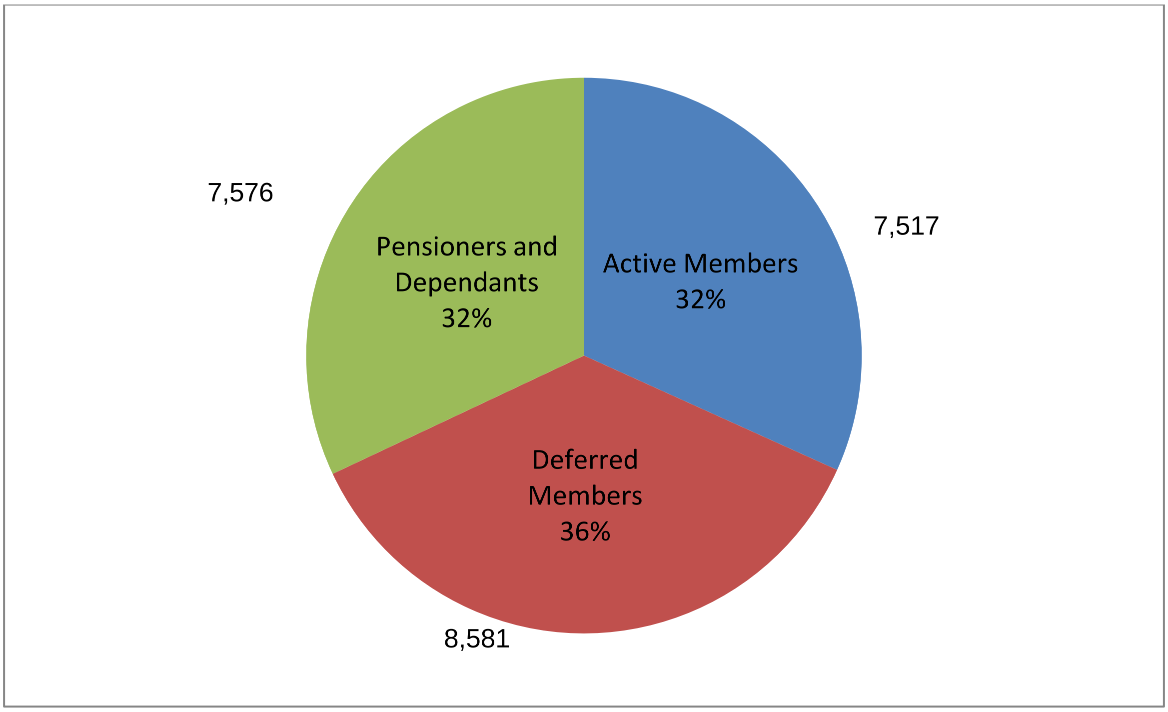
SCHEME EMPLOYERS

The Pension Fund had 37 employers in the Fund during the financial year 2019/20, 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 Fund.
- **Pensioners**: Those who receive a pension from the Fund (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 2018/19 and 2019/20 is shown together with the agreed budget for 2020/21:

	Actual 2018/19 £m	Forecast 2019/20 £m	Actual 2019/20 £m	Variance		Budget 2020/21 £m
Income						
Employer Contributions	38.8	38.5	40.1	4%	1.6	39.2
Employee Contributions	10.3	11.0	11.0	0%	0.0	11.3
Transfers In	3.6	3.9	6.4	64%	2.5	3.9
Total Income	**52.7**	**53.4**	**57.5**	**8%**	**4.1**	**54.4**
Expenditure						
Pensions	38.9	41.6	41.3	-1%	-0.3	42.3
Lump sum retirement benefits	8.7	6.8	7.0	4%	0.3	6.8
Lump sum death grants	0.5	0.8	0.9	12%	0.1	0.8
Transfers out (inc. refunds)	4.8	2.3	3.6	57%	1.3	2.3
Fund Management expenses	3.3	3.8	3.4	-10%	-0.4	4.2
Administration expenses	1.1	1.3	1.5	23%	0.3	1.4
Total Expenditure	**57.3**	**56.6**	**57.7**	**2%**	**1.1**	**57.8**
Net Income/(Expenditure)	**(4.6)**	**(3.2)**	**(0.2)**	**-94%**	**3.0**	**(3.4)**
Investment Income generated by Fund Managers	36.0	33.2	29.6	-11%	-3.6	34.9
Total Income (inclusive of income held with Fund Managers)	**31.4**	**30.0**	**29.4**	**-2%**	**-0.7**	**31.5**

Overall, the London Borough of Ealing Pension Fund achieved a net income for the year 2019/20 of £29.4m (£31.4m in 2018/19). This excludes the effect of the decrease in the market value of the Fund's investments which was £97.5m (£25.9m increase in 2018/19).

During 2019-20 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 not be sufficient to meet forecast pension obligations in 2020/21, so withdrawal of cash from investments may 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. Payments are monitored on monthly basis to ensure compliance of the regulations, and bodies that pay contributions past the 19th are contacted.

A copy of the budgetary estimate report for 2020/21 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/6211/Committee/18/Default.aspx

The Pension Fund Panel approved the 2020/21 budgetary estimate report on 11 March 2020.

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.

A risk register that covers a various range of issues across investments and benefits operation is maintained and reviewed on a regular basis.

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 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

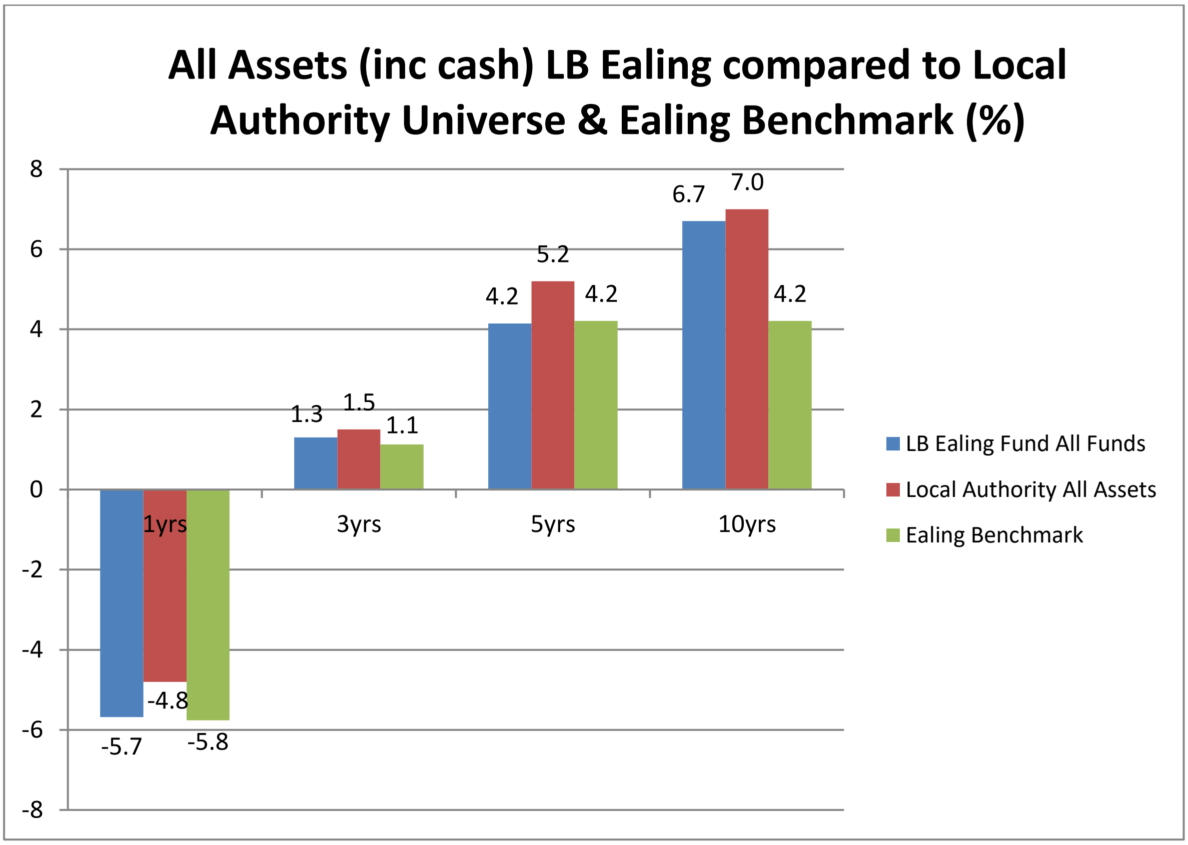
Over the last twelve months, the average Local Authority Pension Fund returned -4.8%. Equities fared the worst – funds with higher exposure to more defensive assets performed relatively well.

*Pensions & Investment Research Consultants LTD (PIRC) and Bank of New York Mellon (BNY Mellon) are the independent performance measurement companies for the Fund.

Performance of the Fund

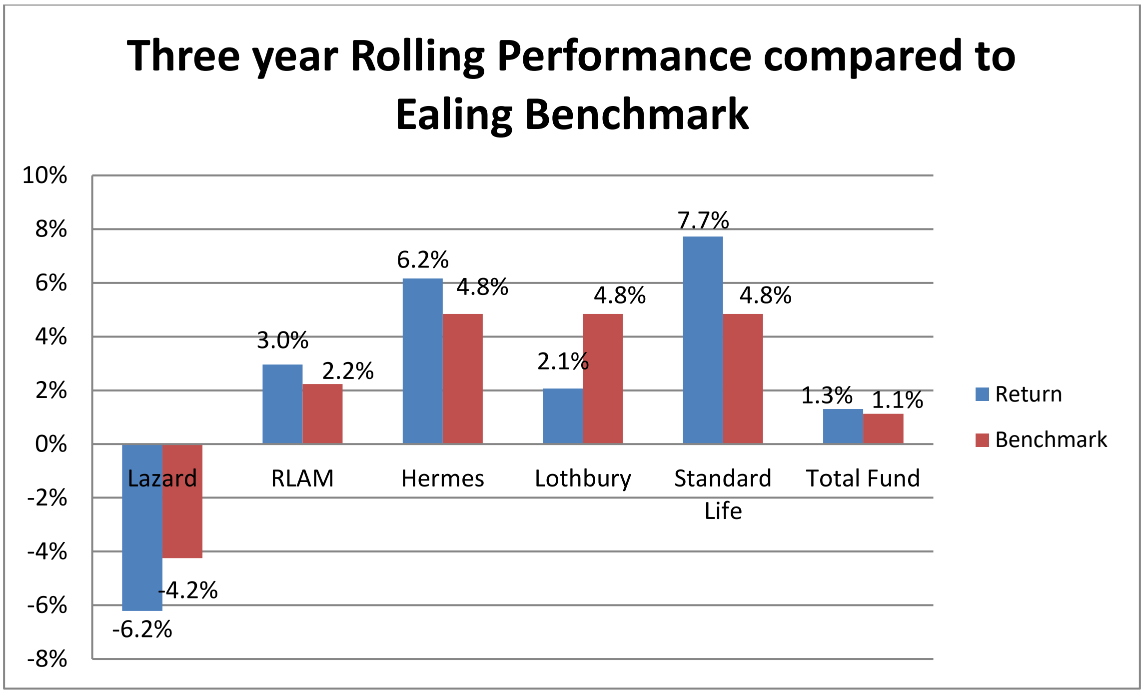
The investment strategy and performance of the Fund is reported on a quarterly basis to the Pension Fund Panel with Fund Managers alternating to present to Members. The investment performance of the Fund against a customised benchmark and the Local Authority Universe performance is measured by BNY Mellon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

As set out in the graph below, the fund returned -5.7% for 2019/20, and an average of 1.3%, 4.2 and 6.7% for the three years, five years and 10 years respectively to 31 March 2020.



At the overall portfolio level, the Fund outperformed the composite benchmark return during the year 2019/20 by 0.17%

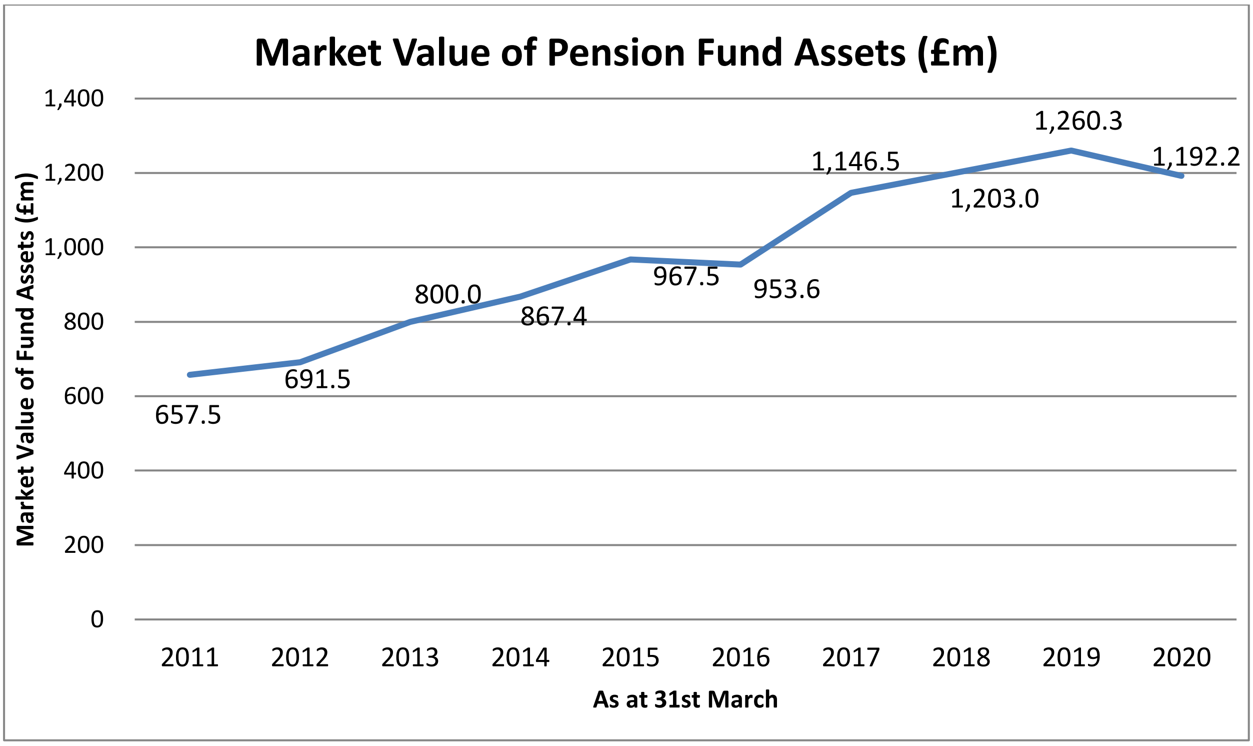
Below is the Long-term 3 year rolling performance analysis of the fund managers together with the Total Fund to 31 March 2020.



** 3-year data is not available for new managers (Bailie Gifford (LCIV), LGIM, Brightwood, Churchill, Permira, and JP Morgan)

Value of the Fund's Assets

At the end of March 2020, the market value of the Pension Fund's total assets was £1,192.2m; a decrease of 5.4% from the opening value of £1,260.3m. The graph below illustrates the progress of the Fund's assets over the last 10 years (as at the 31 March in each year).

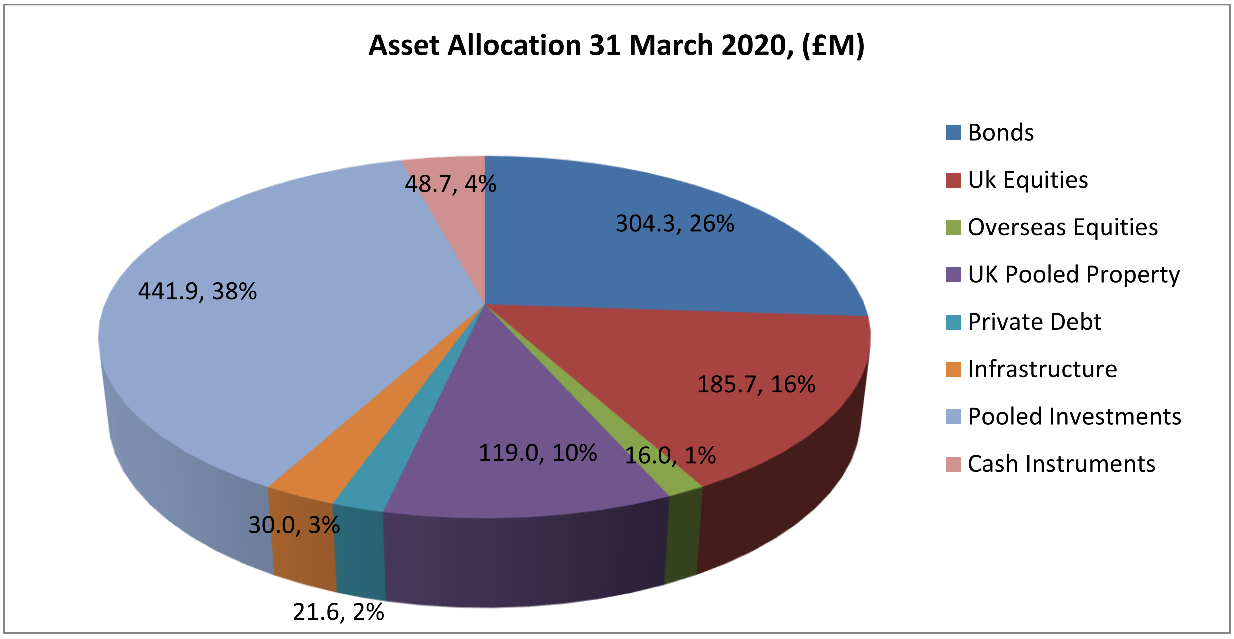


Investment Management

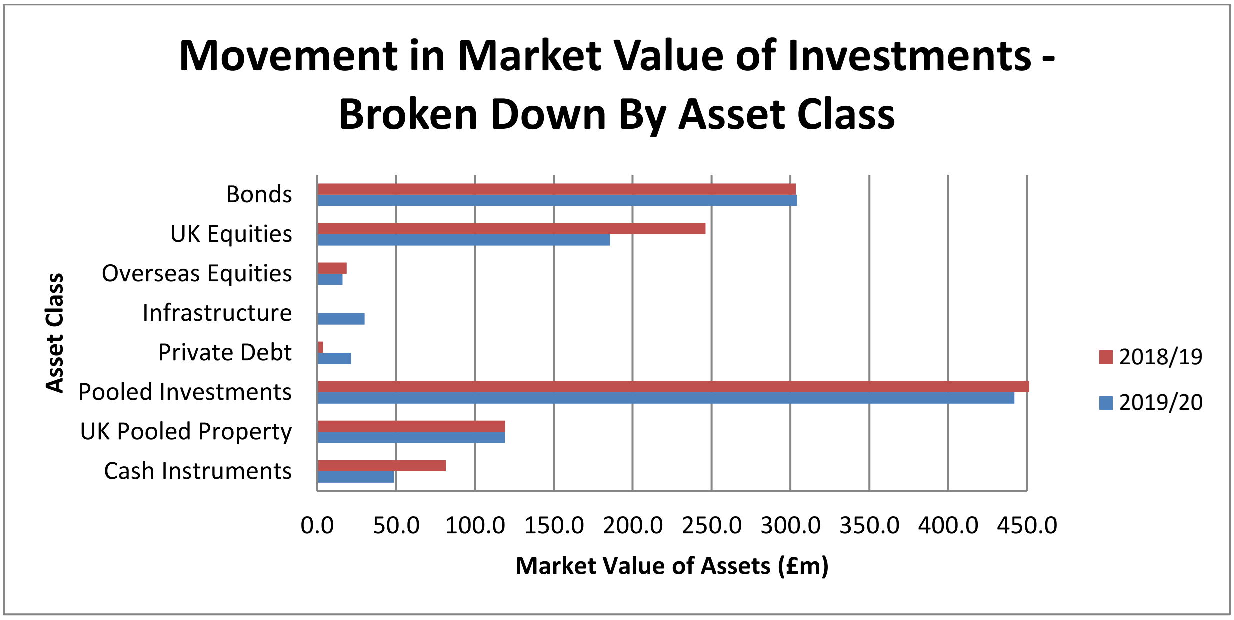
The management of the Fund's assets is determined by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The regulations enable authorities to appoint investment managers to manage and invest Pension Fund assets on their behalf, subject to being satisfied with their 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 D 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, property mandates, private debt, as well as infrastructure. The Fund's assets are held for safekeeping by the custodian.

The allocation to the various asset classes as at the end of 2019/20 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 2019, and the end of the current financial year, March 2020.



During the year, assets under management were maintained under eleven specialist managers:

Manager	Mandate	% of Fund Under Management at 31/03/20
RLAM	UK Corporate Bonds	28%
Lazard	UK Equities	18%
LGIM	Global Equities	23%
Baillie Gifford	Global Equities	16%
Lothbury	UK Pooled Property	4%
Standard Life	UK Pooled Property	3%
Hermes	UK Pooled Property	3%
Brightwood	Private Debt	0%
Churchill	Private Debt	1%
Permira	Private Debt	1%
JP Morgan	Infrastructure	3%

Top fifteen holdings by Market Value as at 31st March 2020

Top 15 Holdings at 31st March 2020	Market Value (£000)
LCIV GLOBAL ALPHA GROW-A IN	175,094
GPCL - MSCIWORLDLW CARBONTARGETINDOFC	133,653
APAZ - FUTURE WORLD FUND	127,804
LOTHBURY PROPERTY FUND	44,665
GS GBP LIQ RES INST	41,614
HERMES PROPERTY UNIT TRUST	37,256
STANDARD LIFE LONG LEASE PPTY FUN	37,102
DESCRIPTION: IIF UK 1LP	30,047
ASTRAZENECA PLC	12,804
BP PLC	11,854
CHURCHILL MIDDLE MARKET SENIOR LOAN FUND II	11,175
GLAXOSMITHKLINE PLC	9,672
DIAGEO PLC	9,295
UNILEVER PLC	7,596
ROYAL DUTCH SHELL PLC B SHS	7,392

Investment Management Expenses

The investment management expenses for the year to 31 March 2020 were £3,407m, (2018-19: £3,286m).

ADMINISTRATION

The administration of the Fund is monitored by London Borough of Ealing and outsourced to the London Pensions Partnership (LPP) under a shared service agreement with Lancashire County Council. 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 2019/20 amounted to £1,541k (£1,134k in 2019/20). The year on year increase in cost arose as a result of a one off GMP reconciliation project cost and following a comprehensive service review and fee negotiation the outcome of which was approved by PFP Members. Officers continue to benchmark this service and Ealing costs remain largely comparable to LGPS peers. The administration expenses cover the costs involved in administering the Pension Scheme, including actuarial costs, audit, payroll, pension administration, as well as pension related payments to other Local Authorities.

Performance Indicators

The administration contract with LPP includes a number of performance indicators to ensure that service to members of the pension fund is effective. these include;

- Processing refunds
- Estimates of retirement benefits
- Transfers in/out quotes
- Death on pension letters
- Deferred benefits letters
- Starters

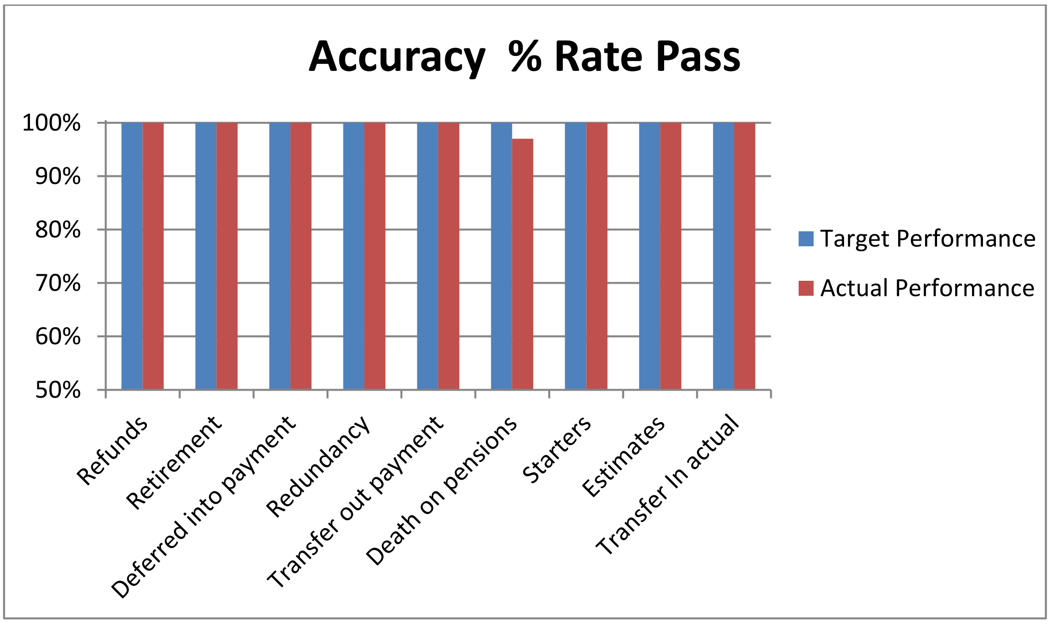
The targets are set out below, along with actual performance.

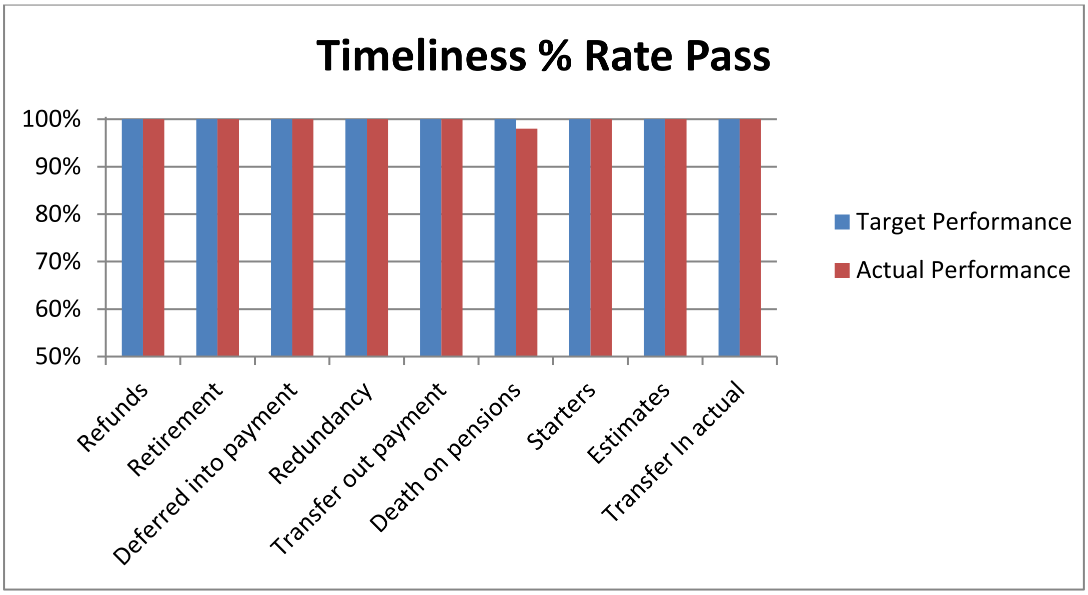
The performance of LPP is measured against four criteria:

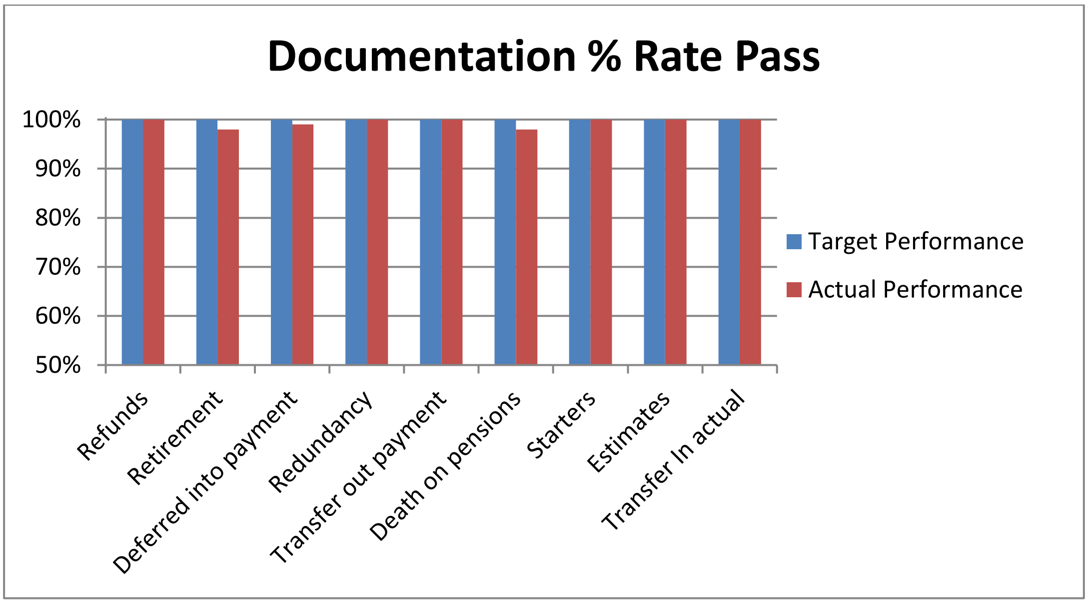
1. Accuracy – Whether the figures provided have been accurately calculated.
2. Timeliness – Have cases been processed in a timely manner in accordance with the Service Level Agreement.
3. Documentation – Has the correct documentation been attached to members' files.
4. Altair – Does the pension administration system correctly reflect the activity processed.

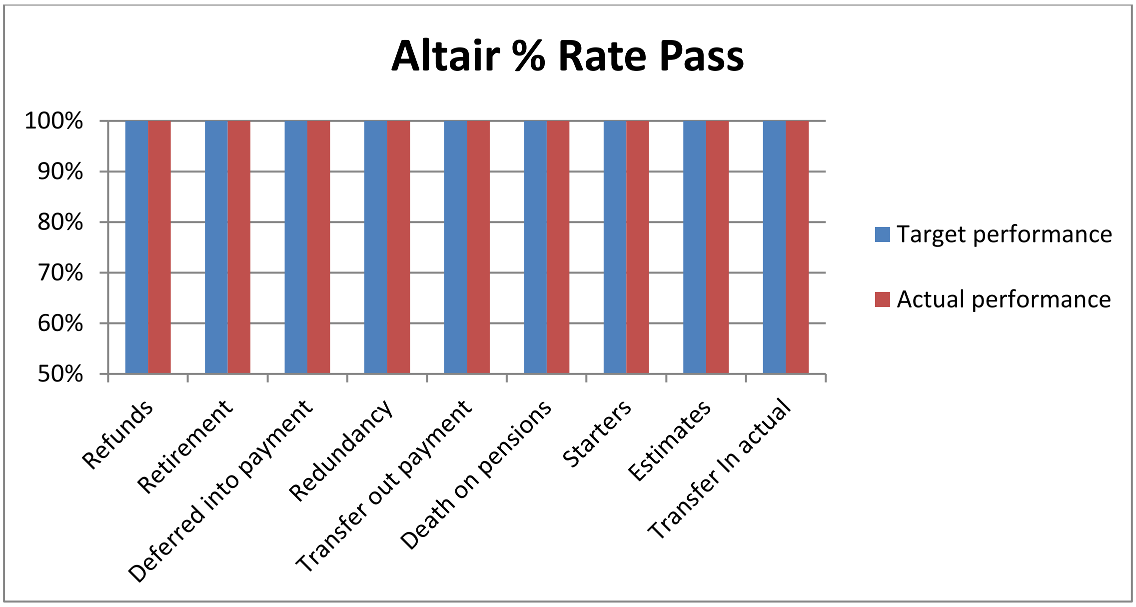
Ealing's in-house pension team take monthly samples of work untaken by LPP and assesses it against these criteria. Any 'fails' in performance statistics are reported to the Pension Fund Panel on a quarterly basis.

Below are performance graphs showing the pass rate LPP achieved for 2019/20 across some of the most common and active areas within their remit.




Timeliness % Rate Pass
100%
90%
80%
70%
60%
50%
Refunds
Retirement
Deferred into payment
Redundancy
Transfer out payment
Death on pensions
Starters
Estimates
Transfer In actual
Target Performance
Actual Performance


Documentation % Rate Pass
100%
90%
80%
70%
60%
50%
Refunds
Retirement
Deferred into payment
Redundancy
Transfer out payment
Death on pensions
Starters
Estimates
Transfer In actual
Target Performance
Actual Performance



Internal Disputes Resolution Procedure

The LGPS is required by statute to make arrangements for the formal resolution of disagreements between the Scheme manager and , 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, 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.

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 31st March 2020 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.

R. Brown.

Ross Brown

Chief Finance Officer (Section 151 Officer)
03 March 2021

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

OPINON

We have examined the Pension Fund financial statements for the year ended 31 March 2020, which comprise the Fund Account, the Net Assets Statement and the related notes 1 to 21.

Respective responsibilities of the Chief Financial Officer and the auditor

As explained more fully in the Statement of Responsibilities, the Chief Financial Officer is responsible for the preparation of the Pension Fund’s financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you my opinion on the consistency of the Pension Fund financial statements within the Pension Fund annual report with the Pension Fund financial statements in the statement of accounts of London Borough of Ealing, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We also read the other information contained in the Pension Fund annual report and consider the implications for my report if we become aware of any apparent misstatements or material inconsistencies with the Pension Fund financial statements. The other information comprises the information included in the Pension Fund’s annual report, other than the financial statements and our auditor’s opinion thereon.

We conducted my work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the administering authority’s full annual statement of accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the Pension Fund financial statements are consistent with the full annual statement of accounts of London Borough of Ealing for the year ended 31 March 2020 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Jonathan Gooding

Jonathan Gooding (Appointed auditor)
For and on behalf of Deloitte LLP
St. Albans, United Kingdom
03 March 2021

POLICY STATEMENTS AND ACCOUNTS

The following appendices contain various policy statements, and the 2019/20 pension fund accounts. The pension fund accounts contain the Actuary's statement for the year.

- Appendix A – Pension Fund Accounts
- Appendix B – Actuary Statement
- Appendix C - Funding Strategy Statement
- Appendix D – 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 Pension Fund 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 pension 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.

Powers delegated to the s151 officer for Pensions Investments and Administration include:

- making payments in respect of scheme benefits
- collecting and making pension transfer payments as elected by scheme members
- To update and maintain the Fund's website www.dyfedpensionfund.org.uk
- Maintenance and update of membership records

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;
- 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; and
- To review and determine on all Pension Fund Valuation matters of the fund

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:
    - 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;
    - 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.

REQUIREMENT	COMPLIANCE	COMMENT
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 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	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.

REQUIREMENT	COMPLIANCE	COMMENT
making process, with or without voting rights.		
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.
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.

REQUIREMENT	COMPLIANCE	COMMENT
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 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.	Partially Compliant	The governance policy statement attached above was consulted upon prior to 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.

PENSION FUND ACCOUNTS

APPENDIX A

FUND ACCOUNT			
2018/19 £'000		Notes	2019/20 £'000
	Dealings with members, employers and others directly involved in the fund		
	Contributions		
(38,829)	From Employers	6	(40,091)
(10,347)	From Members	6	(11,042)
(3,547)	Individual Transfers in from Other Pension Funds		(6,438)
(52,723)			**(57,571)**
	Benefits		
38,879	Pensions	7	41,295
9,169	Commutation, Lump Sum Retirement and Death Benefits	7	7,899
	Payments to and on Account of Leavers		
4,665	Individual Transfers Out to Other Pension Funds		3,303
165	Refunds to Members Leaving Service		323
52,878			**52,820**
155	**Net Withdrawals/(Additions) from Dealings with Members**		**(4,751)**
4,420	**Management Expenses**	8	**4,973**
4,575	**Net Withdrawals Including Fund Management Expenses**		**222**
	Returns on Investments		
(36,069)	Investment Income	9	(29,593)
(9)	Other Income	9	-
74	Taxes on Income	9	22
(36,004)			**(29,571)**
(25,878)	**Profit and losses on disposal of investments and changes in value of investments**	13	**97,455**
(61,882)	**Net return on investments**		**67,884**
(57,307)	**Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year**		**68,107**
(1,202,957)	**Opening Net Assets of the Scheme**		**(1,260,264)**
(1,260,264)	**Closing Net Assets of the Scheme**		**(1,192,157)**

NET ASSET STATEMENT			
2018/19 £'000		Notes	2019/20 £'000
	Investment assets		
303,389	Bonds	12a	304,277
264,830	Equities	12a	201,695
588,929	Pooled Investments	12a	612,573
88,510	Cash Instruments	12a	56,154
8,984	Accrued Income and Unsettled sales	12a	5,794
1,254,642			**1,180,493**
	Investment Liabilities		
(1,372)	Unsettled Purchases	12a	(1,091)
1,253,270	**Net Value of Investment Assets**		**1,179,402**
10,050	**Current Assets**	15	**14,678**
(3,056)	**Current Liabilities**	16	**(1,923)**
1,260,264	**Net Assets of the Fund Available to Fund Benefits at the Period End**		**1,192,157**

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the year end. The actuarial present value of promised retirement benefits is disclosed in **Appendix B**.

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 Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and
- the Local Government Pension Scheme (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 5.50% to 12.50% 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 2020. 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 2019. The employer contributions rates emerging from the 2019 valuation range from 13.5% to 24.7%.

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. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

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 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 2016 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

The Pension Fund panel has delegated the management of the Fund's investments to external investment managers (see Note 10) appointed in accordance with regulations, and whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

Membership

The Council is the administering authority for the Fund and has the major share of contributors and pensioners. All new employees are contractually enrolled into the pension scheme. They can opt out, however automatic re-enrolment will bring them back into the pension scheme every three years, if they hit the Automatic Enrolment (AE) triggers. 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	Greenwich Leisure
Beaconsfield Primary	Innovate - Northolt High School
Brentside Primary Academy	Innovate Services Ltd
Brentside High School	IFS Ltd (International Facilities Services)
Christ the Saviour CofE Primary School	Mitie
Dormers Wells Trust/Day care	Serco Group
Dormers Wells Infant (Dormers Wells Learning Trust)	SLM - community leisure
Dormers Wells Junior Academy (Dormers Wells Learning Trust)	Optivo (formerly Viridian)
Dormers Wells High Academy (Dormers Wells Learning Trust)	
Drayton Manor Academy	
Ellen Wilkinson High School	
Featherstone Academy (Grand Union Multi Academy Trust)	
Greenford High School	
Northolt High School	
Selborne Primary	
St Anne's School	
St Marys 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. Membership details are set out below:

31 March 2019		31 March 2020
39	**Number of employers in the scheme**	37
	Number of Active Members	
5,357	London Borough of Ealing	5,624
1,816	Other employers	1,893
7,173	**Sub total**	**7,517**
	Number of pensioners	
6,550	London Borough of Ealing	6,673
868	Other employers	903
7,418	**Sub total**	**7,576**
	Number of Deferred pensioners	
6,883	London Borough of Ealing	6,934
1,529	Other employers	1,647
8,412	**Sub total**	**8,581**
23,003	**Total number of members in the scheme**	**23,674**

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Statement of Accounts summarises the Fund's transactions for 2019/20 and its position as at 31 March 2020. The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (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 B**.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – Revenue Recognition

Contributions

Primary 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 based on the Rates and Adjustment Schedule as 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. Investment income arising from the underlying investments of the Pooled Investment Vehicles is either reinvested within the Pooled Investment Vehicles and reflected in the unit price or taken as a cash dividend to support the Fund’s outgoing cash flow requirements. Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination Distributions from pooled funds are recognised at the date of issue.

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

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 B**.

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.

Pooled property

As a result of the COVID-19 outbreak, which caused extensive disruption to businesses and economic activities on a global level in all sectors, the property valuers valuing the underlying assets within the three pooled property funds, have reported their valuation on the basis of ‘material valuation uncertainty’. The declaration does not mean that the valuation cannot be relied upon but it does mean that less certainty, and a higher degree of caution, should be attached to the valuation of the property than would normally be the case. Additionally, all three pooled property funds had suspended trading as at 31 March 2020. The effect of this is to require these assets to be moved from a fair value hierarchy level 2 to level 3 as at 31 March 2020. In September 2020, all three managers confirmed they had released their material uncertainty, however, one of the managers, Hermes property, confirmed they were still exercising trading restrictions.

Infrastructure Investment

The fair value of infrastructure investments is unavoidably subjective. The valuations are based on forward-looking estimates and judgments involving many factors. Unquoted private equity assets are valued by the investment managers in accordance with industry standards. There is a risk that these investments, totalling £30.047m may be under or overstated in the accounts. Management have made a judgement to value these assets at level 3.

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.

COVID 19

During March 2020 and subsequently, there has been significant volatility in the financial markets as a result of the COVID-19 pandemic. The Scheme invests in a broad range of asset classes many of which, such as private equity, private debt, property, and infrastructure, are illiquid in nature. Such assets are valued on a periodic basis, mostly quarterly but others less frequently. At the end of the year to March 2020 these asset classes made up approximately 15% of the overall investment portfolio and while there have been significant falls in other asset classes, it is difficult to assess precisely the full financial effect at the date of issue of the financial statements. As noted in note 12B the valuers of the property assets have included a material uncertainty clause in their valuations as at 31 March 2020. The Trustees continues to monitor the situation and the impact that COVID-19 may have on the future performance of these illiquid assets.

The Fund continues to monitor the impact of the global economic impact in the wake of the coronavirus outbreak which has led to significant uncertainty around investment returns in the short term. The Fund acknowledges that the decrease in stocks, a resultant of global events and the impact of COVID-19, has an impact for future outlook, and that there is likely to be considerable pressures on individual employers. As events unfold with restrictions being lifted plus increasing market sentiments, there is hope for economic recovery.

BREXIT

On 31 January 2020, the UK left the EU and entered into an 11-month transition to determine the future of the United Kingdom and European Union relationship. Whilst there is little agreement on the terms of the final exit deal, it is unlikely there will be long-term and short-term ramifications on the Scheme. The Trustees continue to monitor progress and is taking appropriate advice on the impact to the investment portfolio

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

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 B).

The financial statements contain figures that are based on assumptions made by our Private Equity managers. Estimates are made taking into account historical experience, current trends and other relevant factors. The items in the Net Assets Statement at 31 March 2020 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.	Private equity investments are valued at £21.556m in the financial statements. There is a risk that this investment may be under or overstated in the accounts.
Property and Infrastructure	The Pension Fund contains investments in pooled property and infrastructure funds. The ongoing impact of the Covid-19 pandemic has created uncertainty surrounding illiquid asset valuations.	The value of these investments are £119.023m and £30.047m property and infrastructure respectively in the financial statements. As disclosed in note 4, these assets have a material uncertainty over their closing valuation as at 31 March 2020.

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 B**. The estimates are sensitive to changes in the underlying assumptions underpinning the valuations.

Events after the Net Asset Statement date

The material uncertainty surrounding the valuations of property following significant market disruptions brought on by Covid 19, was released by the three managers post year – end. Two of the three property managers, valued at £82m, released their trading restrictions in September 2020.

NOTE 6 – CONTRIBUTIONS RECEIVABLE

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

2018/19 £'000	By Type	2019/20 £'000
(10,347)	Employees' normal contributions	(11,042)
	Employer's contributions:	
(22,585)	Normal contributions	(24,143)
(14,325)	Deficit recovery contributions	(14,814)
(1,919)	Augmentation contributions	(1,134)
(49,176)		**(51,133)**

2018/19 £'000	By Authority	2019/20 £'000
(39,730)	Administering Authority	(41,455)
(9,204)	Scheduled bodies	(9,406)
(242)	Admitted bodies	(272)
(49,176)		**(51,133)**

NOTE 6A – TRANSFERS IN FROM OTHER PENSION FUNDS

2018/19 £'000		2019/20 £'000
(3,547)	Individual transfers	(6,438)
(3,547)		**(6,438)**

NOTE 7 – BENEFITS PAYABLE

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

2018/19 £'000	By Type	2019/20 £'000
38,879	Pensions	41,295
8,671	Commutation/lump sums	7,029
498	Death benefits	870
48,048		**49,194**

2018/19 £m	By Authority	2019/20 £m
44,464	Administering Authority	45,744
3,341	Scheduled Bodies	3,202
243	Admitted Bodies	248
48,048		**49,194**

NOTE 8 – MANAGEMENT EXPENSES

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

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

2018/19 £'000		2019/20 £'000
796	Administration Expenses	1,157
338	Oversight and Governance*	409
3,286	Investment Management Expenses	3,407
4,420		**4,973**

*Includes external audit fees of £41,200 (£16,170 in 2018/19). 2019-20 fees includes £25k relating to 2018-19.

2018/19 £'000		2019/20 £'000
2,952	Management fees	2,865
55	Performance fees	71
121	Custody fees	122
158	Transaction costs	349
3,286		**3,407**

NOTE 9 – INVESTMENT INCOME

2018/19 £'000		2019/20 £'000
13,315	Income from bonds	13,307
15,738	Equity dividends	10,762
6,515	Income from pooled investments	5,008
501	Interest and cash deposits	516
36,069	**Investment income**	**29,593**
9	Other income	-
36,078	**Total before taxes**	**29,593**
(74)	Taxes on income	(22)
36,004	**Total**	**29,571**

NOTE 10a – INVESTMENT MANAGEMENT ARRANGEMENTS

The market value and proportion of investments managed by each fund manager at 31 March 2020 is shown below: The Fund also held directly owned cash investments as at 31 March 2020. The cash is retained within the Custodian Bank account and therefore not included in the analysis below.

31 March 2019 Market Value £'000	%	Fund Manager	Mandate	31 March 2020 Market Value £'000	%
18,604	2%	Lazard	Global equity (Active)	16,013	1%
246,226	21%	Lazard	UK Equity (Active)	185,681	17%
264,830	**23%**	**Lazard**	**Sub-Total**	**201,694**	**18%**
296,552	26%	Royal London	UK Corporate (Active)	302,571	27%
6,837	1%	Royal London	UK Government (Active)	1,706	0%
5,967	1%	Royal London	UK corporate (Pooled)	5,343	1%
309,356	**27%**	**Royal London**	**Sub-Total**	**309,620**	**28%**
177,357	**15%**	**Baillie Gifford (LCIV)**	**UK Equities (Pooled)**	**175,094**	**16%**
31,270	**3%**	**Henderson (LCIV)**	**UK Equities (Pooled)**	**-**	**-**
-	**-**	**RCM (LCIV)**	**Global (Pooled)**	**23**	**-**
125,897	**11%**	Legal & General	Future World - Global Equities (Pooled)	127,833	11%
125,706	**11%**	Legal & General	MSCI World - Global Equities (Pooled)	133,653	12%
251,603	**22%**	**Legal & General**	**Sub total**	**261,486**	**23%**
1,274	**-**	Brightwood	Private Debt (Pooled)	4,309	0%
2,407	**-**	Churchill	Private Debt (Pooled)	11,175	1%
-		Permira	Private Debt (Pooled)	6,072	1%
3,681		**Total Private Debt**	**Sub-Total**	**21,556**	**2%**
46,231	4%	Lothbury	UK Property	44,665	4%
37,799	3%	Hermes	UK Property	37,256	3%
35,021	3%	Standard Life	UK Property	37,102	3%
119,051	**10%**	**Property**	**Sub-Total**	**119,023**	**10%**
-	**-**	**JP Morgan**	**Infrastructure**	**30,047**	**3%**
1,157,148	**100%**		**Total**	**1,118,543**	**100%**

All managers have discretion to buy and sell investments within the limits set by the Pension Fund panel and their respective Investment Management Agreements. Each manager has been appointed with clear strategic benchmarks which place maximum accountability for performance against that benchmark on the investment manager.

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%.

2018/19			2019/20	
Market Value £'000	Holding %		Market Value £'000	Holding %
177,356	14	LCIV GLOBAL ALPHA GROWTH FUND	175,094	15
125,897	10	FUTURE WORLD FUND	127,833	11
125,707	10	MSCI WORLD CARBON TARGET FUND	133,653	11
428,960	**34**	**Total**	**436,580**	**37**

NOTE 11 – RECONCILIATION IN MOVEMENT IN INVESTMENTS

2019/20	Market value 1 April 2019	Purchases during the year	Sales during the year	Change in market value during the year	Market value 31 March 2020
	£'000	£'000	£'000	£'000	£'000
Bonds	303,389	67,271	(57,583)	(8,800)	304,277
Equities	264,830	129,265	(126,671)	(65,729)	201,695
Pooled Investments	588,929	81,363	(35,104)	(22,613)	612,575
Cash Instruments	81,650	143,916	(176,832)	-	48,734
Total	**1,238,798**	**421,815**	**(396,190)**	**(97,142)**	**1,167,281**
Investment Cash	6,860			(309)	7,420
Accrued Income	7,118			-	5,563
Unsettled Purchases	(1,372)			(4)	(1,091)
Unsettled Sales	1,866			-	231
Net investment assets	**1,253,270**			**(97,455)**	**1,179,404**

2018/19	Market value 1 April 2018	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	6,203			(137)	6,860
Accrued Income	7,091			-	7,118
Unsettled Purchases	(769)			(5)	(1,372)
Unsettled Sales	-			-	1,866
Net investment assets	**1,145,911**			**25,878**	**1,253,270**

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 2019				31 March 2020		
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			
6,837	-	-	UK Public sector	1,706	-	-
296,552	-	-	UK Corporate	302,571	-	-
-	-		**Quoted Equities**		-	-
246,226	-	-	UK	185,681	-	-
18,604	-	-	Overseas	16,013	-	-
			Pooled investment vehicles			
119,051	-	-	Property	119,023	-	-
5,967	-	-	Bonds	5,343	-	-
460,230	-	-	Equity - Overseas	436,604	-	-
3,681	-	-	Private Debt	21,556	-	-
-	-	-	Infrastructure	30,047		
			Cash Instruments			
88,510	-	-	Cash deposits	56,154	-	-
-	1,866		Unsettled sales	-	231	-
-	7,118	-	Accrued income	-	5,563	-
1,245,658	**8,984**	**-**	**Total investment assets**	**1,174,698**	**5,794**	**-**
			Investment Liabilities			
-	-	**(1,372)**	Unsettled Purchases	-	-	(1,091)
1,245,658	**8,984**	**(1,372)**	**Net Investment assets**	**1,174,698**	**5,794**	**(1,091)**
			Other financial assets			
	5,392	-	Contributions Due	-	4,558	-
-	4,414	-	Cash Balances	-	10,053	-
-	245	-	Other debtors	-	68	-
1,245,658	**19,035**	**(1,372)**		**1,174,698**	**20,473**	**(1,091)**
			Financial Liabilities			
-	-					
-	-	(2,645)	Current Liabilities	-	-	(1,549)
-	**-**	**(2,645)**		**-**	**-**	**(1,549)**
1,245,658	**19,035**	**(4,017)**	**Total**	**1,174,698**	**20,473**	**(2,640)**
	1,260,675		**Grand Total**		**1,192,531**	

*The classification of current liabilities excludes the Fund's liability for PAYE of £374k (2019: £411k) as this is not classified as a financial instrument. Included within those financial instruments held at fair value through profit and loss, are bonds of £304,277k (£303,389k: 2019) that were designated as fair value through profit and loss on initial purchase.

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 – pooled property and infrastructure funds	Level 3	Closing bid price where bid and offer prices are published Closing single price where single price published. Pooled property fund valuations for 2020 are subject to material uncertainties as disclosed in note 4.	NAV-based pricing set on a forward pricing basis	Estimated acquisition and disposal costs
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 infrastructure holdings, which, due to their opaque and unobservable valuation technique, have been classified as Level 3. Also, given the uncertainty surrounding the valuation of pooled property investments, Management made a decision to move these investments from level 2 to level 3 during the year.

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 2019				31 March 2020		
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			
353,340	888,637	3,681	Held at fair value through profit and loss	251,193	752,878	170,627
353,340	**888,637**	**3,681**		**251,193**	**752,878**	**170,627**
1,245,658			**Grand Total**	**1,174,698**		

*includes pooled property, moved from level 2 to level 3 in 2019/20

NOTE 12C – LEVEL 3 ASSETS SENSITIVITY

The fund has considered the current market trends, and also consulted with independent investment advisors, and has determined that the valuation methods described above are likely to be accurate to within the following ranges and has set out below the resulting potential impact on the closing value of investments held at 31 March 2020.

Assets exposed to Valuation risk	Value	1 year expected Volatility	Value on Increase	Value on decrease
	£'000	%	£'000	£'000
As at 31 March 2020				
Private Debt	21,556	7.2	23,108	20,004
Infrastructure*	30,047	20.1	36,086	23,437
Property**	119,023	10.0	130,925	107,121
	170,626		**190,120**	**150,562**
As at 31 March 2019				
Private Debt	3,681	7.2	3,946	3,416
Infrastructure	-	-	-	-
Property*	-	-	-	-
	3,681		**3,946**	**3,416**

*New investments during the year
**property moved from level 2 to level 3

NOTE 12D: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

2019/20	Opening balance	Transfers into Level 3	Purchases	Sales	Unrealised gains/losses	Realised gains/losses	Closing balance
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Pooled investments - private Debt	3,681	-	19,922	(3,612)	1,498	66	21,556
	3,681	**-**	**19,922**	**(3,612)**	**1,498**	**66**	**21,556**
Pooled investments - Infrastructure	-	-	29,440	-	608	-	30,047
Pooled investments - Property*	-	119,023	-	-	-	-	119,023
	-	**119,023**	**29,440**	**-**	**608**	**-**	**149,070**

*Transferred from level 2 to level 3 at 31 March 2020 due to a reduction in observable market data as a result of unreliable valuations

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 2019 £'000		31 March 2020 £'000
	Financial Assets	
25,883	Held at fair value through profit and loss	(97,451)
25,883		**(97,451)**
	Financial Liabilities	
(5)	Held at fair value through profit and loss	(4)
25,878	**Total**	**(97,455)**

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 focusing 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 14.5%. The Fund believes that 14.5% 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 14.5% price increase	Value on 14.5% price decrease
	£'000	£'000	£'000
As at 31 March 2020	787,368	901,536	673,199
As at 31 March 2019	844,111	928,522	759,700

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% along with an average duration of 8 years.

Assets exposed to interest rate risk	Value	Value on 8% interest rate increase	Value on 8% interest rate decrease
	£'000	£'000	£'000
As at 31 March 2020	365,774	336,512	395,036
As at 31 March 2019	397,866	366,037	429,695

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, some 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 2020	474,173	521,590	426,756
As at 31 March 2019	482,515	530,767	434,264

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 2020 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 investment credit exposure can be summarised in the table below:

Summary	Rating	Balances as at 31 March 2019	Balances as at 31 March 2020
		£'000	£'000
Bank Current Accounts			
Lloyds Bank	A+	4,414	10,053
Money Market Funds			
BNY Mellon Goldman Sachs MMF	AAA	81,650	48,734
Total		**86,064**	**58,787**

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 if required.

NOTE 15 – CURRENT ASSETS

31 March 2019		31 March 2020
£'000		£'000
	Debtors:	
5,140	Contributions due - employers	3,674
251	Contributions due - employees	884
245	Sundry debtors	68
5,636		**4,626**
4,414	**Cash balances - Lloyds Bank**	10,053
10,050	**Total**	**14,679**

31 March 2019 £'000		31 March 2020 £'000
	Analysis of Debtors	
315	Central government bodies	268
5,088	Local authorities	3,957
233	Other entities and individuals	401
5,636	**Total**	**4,626**

NOTE 16 – CURRENT LIABILITIES

31 March 2019 £'000		31 March 2020 £'000
-	Unpaid benefits	(180)
(3,056)	Sundry creditors and accrued expenses	(1,743)
(3,056)	**Total**	**(1,923)**

31 March 2019 £'000	**Analysis of Current Liabilities**	31 March 2020 £'000
(2,247)	Local authorities	(931)
(809)	Other entities and individuals	(992)
(3,056)	**Total**	**(1,923)**

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 2018/19 £'000	Market Value 2018/19 £'000		Contributions 2019/20 £'000	Market Value 2019/20 £'000
122	594	Scottish Widows (as at 31 March 2020)	54	614
2	263	Equitable Life (as at 31 October 2019)	2	273
124	**857**	**Total**	**56**	**887**

NOTE 18 – RELATED PARTY TRANSACTIONS

The Fund is administered by the London Borough of Ealing (the Council). In 2019/20, the Council charged the pension fund £0.9m for expenses incurred in administering the Fund (2019: £1.0m). Through its administration of the fund, the Council has a related party interest with the Pension Fund.

The creditor balance due to the Council at year end was £0.9m at 31 March 2020 (2019: £2.2m).

NOTE 19 – 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 2019/20. No remuneration is paid to these Members in relation to their duties.

NOTE 20 – CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

The total capital commitments as at 31 March 2020 were £44.4m (2019: £100.3m). These commitments relate to outstanding call payments due on the Private Debt portfolio. The Infrastructure portfolios commitment was called in full during the year. 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. In addition, the Fund's actuary has estimated the past service liabilities in relation McCloud to be £6.0m, details of this are contained within the actuary statement below.

NOTE 21 - IMPACT OF MCCLOUD

The recent McCloud case age discrimination ruling could result in increases to the Pension Fund liability. Furthermore, when calculating the potential cost of the McCloud judgment as part of the 2019 actuarial valuations the Fund's Actuary allowed for the final salary underpin to apply in respect of future leavers with deferred, so the further changes in the consultation do not give rise to any additional liabilities in respect of future leavers. The actuary has approximated the liability at year-end date to be £6.0m in respect of past service liabilities, but this is an estimation and subject to further data reviews and is therefore has been recognised as a contingent liability for these financial statements due to the current uncertainty over the final value. Details of this judgement are contained in the Actuary's statement below.
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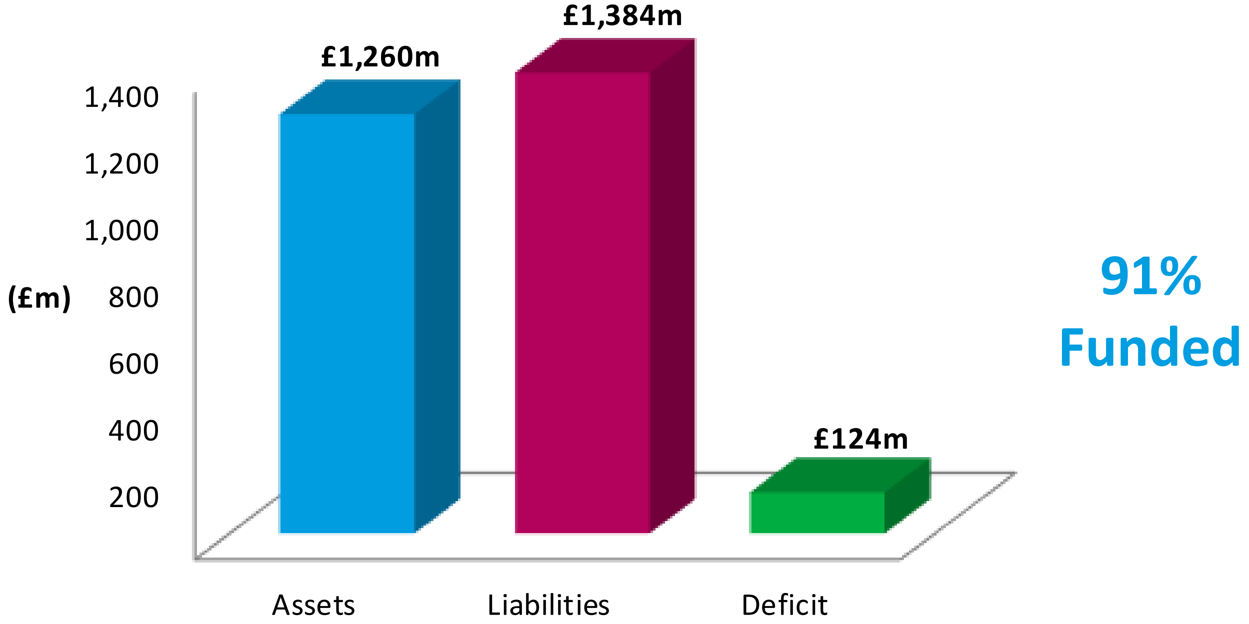
MERCER

ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020 - 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 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023.

On the basis of the assumptions adopted, the Fund's assets of £1,260 million represented 91% of the Fund's past service liabilities of £1,384 million (the "Solvency Funding Target") at the valuation date. The deficit at the valuation was therefore £124 million.



The valuation also showed that a Primary contribution rate of 16.3% 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 FSS is to achieve and 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.

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average recovery period adopted is 14 years, and the total initial recovery payment (the "Secondary rate" for 2020-2023) is an addition of approximately £9.7m per annum on average in £ terms (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS), although this varies year on year. Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2020.

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 Solvency Funding Target and the Primary rate of contribution were as follows:

Assumptions	**For past service liabilities (Solvency Funding Target)**	**For future service liabilities (Primary rate of contribution)**
Rate of return on investments (discount rate)	3.95% per annum	4.65% per annum
Rate of pay increases (long term) *	3.65% per annum	3.65% per annum
Rate of increases in pensions in payment (in excess of GMP)	2.40% per annum	2.40% 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 2022. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2023.

The McCloud Judgment

The "McCloud judgment" refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government announced in 2019 that this needs to be remedied for all public sector schemes including the LGPS. This is likely to result in increased costs for some employers. This remedy is not yet agreed but guidance issued requires that each Fund sets out its policy on addressing the implications.

In line with guidance issued by the LGPS Scheme Advisory Board, the above funding level and Primary contribution rate do not include an allowance for the estimated cost of the McCloud judgment.

However, at the overall Fund level we estimate that the cost of the judgment could be an increase in past service liabilities of broadly £6 million and an increase in the Primary Contribution rate of 0.4% of Pensionable Pay per annum. Where the employer has elected to include a provision for the cost of the judgment, this is included within the secondary rate for that employer (and also within the whole Fund average secondary rate of £9.7 million per annum shown above).

Impact of Covid 19

The valuation results and employer contributions above were assessed as at 31 March 2019. In 2020 we have so far seen significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic. This potentially has far-reaching consequences in terms of funding and risk, which will need to be kept under review. We believe that it is important to take stock of the situation as opposed to make immediate decisions in what is an unprecedented set of events. Our view is that employer contributions should not be revisited but the position should be kept under review by the Administering Authority who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively.

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 2020 (the 31 March 2019 assumptions are included for comparison):

Assumptions	31 March 2019	31 March 2020
Rate of return on investments (discount rate)	2.4% per annum	2.4% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.2% per annum	2.1% per annum
Rate of pay increases*	3.45% per annum	3.35% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	2.3% per annum	2.2% per annum

* This is the long-term assumption. An allowance corresponding to that made at the latest formal actuarial valuation for short-term public sector pay restraint was also included.

The demographic assumptions are the same as those used for funding purposes, with the 31 March 2020 assumptions being updated to reflect the assumptions adopted for the 2019 actuarial valuation. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2020.

Corporate bond yields were similar at the start and end of year resulting in the same discount rate of 2.4% p.a. being used for IAS 26 purposes at the year-end as for last year. The expected long-term rate of CPI inflation decreased during the year, from 2.2% p.a. to 2.1%, which served to decrease the liabilities slightly over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2019 was estimated as £1,939 million excluding the potential impact of the McCloud Judgment.
Interest over the year increased the liabilities by c£47 million and allowing for net benefits accrued/paid over the period also increased the liabilities by c£23 million (this includes any increase in liabilities arising as a result of early retirement and GMP indexation – see comments elsewhere in this statement). Allowing for the potential impact of the McCloud judgment increased the liabilities by £8 million.

There was also a decrease in liabilities of £174 million due to "actuarial gains" (i.e. the effects of the *changes in the actuarial assumptions used, referred to above, and the incorporation of the 31 March 2019 actuarial valuation results into the IAS26 figures).*

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2020 is therefore £1,843 million.

GMP Indexation

At present, the public service schemes are required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government may well extend this at some point in the future to include members reaching State Pension Age from 6 April 2021 onwards, which would give rise to a further cost to the LGPS and its employers. If the Fund were required to index-link GMP benefits in respect of those members who reach their State Pension Age after April 2021, then this would increase the Fund liabilities by about £4 million on IAS26 assumptions, and we have included this amount within the final IAS26 liability figure above.

Michelle Doman

Fellow of the Institute and Faculty of Actuaries

Mercer Limited
May 2020

Ensuring that the London Borough of Ealing Pension Fund (the “Fund”) has sufficient assets to meet its pension liabilities in the long term is the fiduciary responsibility of the Administering Authority (London Borough of Ealing). The Funding Strategy adopted by the London Borough of Ealing Pension Fund will therefore be critical in achieving this.

The purpose of this Funding Strategy Statement (“FSS”) is to set out a clear and transparent funding strategy that will identify how each Fund employer’s pension liabilities are to be met going forward.

The details contained in this Funding Strategy Statement will have a financial and operational impact on all participating employers in the **London Borough of Ealing Pension Fund.**

It is imperative therefore that each existing or potential employer is aware of the details contained in this statement.

Given this, and in accordance with governing legislation, all interested parties connected with the London Borough of Ealing Pension Fund have been consulted and given opportunity to comment prior to this Funding Strategy Statement being finalised and adopted. This statement takes into consideration all comments and feedback received.

THE FUND’S OBJECTIVE

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. This objective will be considered on an employer specific level where appropriate.

However, because financial and market conditions/outlook change between valuations, the assumptions used at one valuation may need to be amended at the next to meet the primary objectives. This in turn means that contributions will be subject to change from one valuation to another.

This objective is considered on an employer specific level when setting individual contribution rates so each employer has the same fundamental objective in relation to their liabilities.

The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen sufficiently prudently for pensions already in payment to continue to be paid, and to reflect the commitments that will arise from members’ accrued pension rights.

The funding strategy set out in this document has been developed alongside the Fund’s investment strategy on an integrated basis, taking into account the overall financial and demographic risks inherent in the Fund to meet the objective for all employers over different periods. The funding strategy includes appropriate margins to allow for the possibility of adverse events (e.g. material reduction in investment returns, economic downturn and higher inflation outlook) leading to a worsening of the funding position which would normally lead to volatility of contribution rates at future valuations if these margins were not included.

This prudence is required by the Regulations and guidance issued by professional bodies and Government agencies to assist the Fund in meeting its primary solvency and long-term cost efficiency objectives.

SOLVENCY AND LONG TERM COST 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. Equally, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

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 Local Government Pension Scheme (the "LGPS") so far as relating to the Fund.

DEFICIT RECOVERY PLAN AND CONTRIBUTIONS

As the solvency level of the Fund is 91% at the valuation date (i.e. the assets of the Fund are less than the liabilities), a deficit recovery plan needs to be implemented 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 (flat or increasing year on year) and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures. This may result in some flexibility in recovery periods by employer which would be at the sole discretion of the Administering Authority. The recovery periods will be set by the Fund, although employers will be free to select any shorter deficit recovery period if they wish. Employers may also elect to make prepayments of contributions which could result in a cash saving over the valuation certificate period.

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 least at the expected monetary levels from the preceding valuation (including any indexation in these monetary payments over the recovery period). Full details are set out in this FSS.

The maximum recovery period for the Fund as a whole is 14 years at this valuation which is three years lower than the corresponding maximum recovery period from the previous valuation. Individual employer recovery periods will be considered depending on their own circumstances Subject to affordability and other considerations, individual employer recovery periods would be expected to reflect a continuation of the period set at the previous valuation. The average recovery period emerging from this valuation is 14 years.

Where there is a material increase in contributions required at this valuation, in certain circumstances the employer may be able to 'phase in' contributions over a period of 3 years in a pattern agreed with the Administering Authority and depending on the affordability of contributions as assessed in the covenant review of an employer.

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment. Therefore, the Fund has considered its policy in relation to costs that could emerge from the McCloud judgment in line with the guidance from the Scheme Advisory Board in conjunction with the Actuary. Whilst the remedy is not known and may not be known for some time, for the purpose of this valuation, when considering the appropriate contribution provision, we have assumed that the judgment would have the effect of removing the current age criteria applied to the underpin implemented in 2014 for the LGPS. This underpin therefore would apply to all active members as at 1 April 2012. The relevant estimated costs have been quantified and notified to employers on this basis but also highlighting that the final costs may be significantly different. All employers in the Fund as at 31 March 2019 have chosen to include these estimated costs over 2020/23 in their certified contributions.

ACTUARIAL ASSUMPTIONS

The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, the "Primary" contribution rate, and any contribution variations due to underlying surpluses or deficits (i.e. included in the "Secondary" rate) are set out in Appendix B to this FSS.

When assessing the appropriate prudent discount rate, consideration has been given to the level of expected asset returns in excess of CPI inflation (i.e. the rate at which the benefits in the LGPS generally increase each year). The discount rate in excess of CPI inflation (the "real discount rate") has been derived based on the expected return on the Fund's assets based on the long-term strategy set out in its Investment Strategy Statement (ISS).

The assumption for the long term expected future real returns has fallen since the last valuation. This is principally due to a combination of a fall in the total expectation of the return on the Fund's assets and the higher expected level of inflation in the long term. The assumption has therefore been adjusted so that in the Actuary's opinion, when allowing for the resultant employer contributions emerging from the valuation, the Fund can reasonably be expected to meet the Solvency and Long-Term Cost Efficiency objectives.

Taking into account the above the Fund Actuary is proposing that the long-term real return over CPI inflation assumptions for determining the baseline past service liabilities should be 1.55% per annum and 2.25% per annum for determining the future service ("primary") contribution rate. This compares to 2.2% per annum and 2.75% per annum respectively at the last valuation.

Where warranted by an employer's circumstances, the Administering Authority retains the discretion to apply a discount rate based on a lower risk investment strategy for that employer to protect the Fund as a whole. Such cases will be determined by the Section 151 Officer and reported to the Committee.

The demographic assumptions are based on the Fund Actuary's bespoke analysis for the Fund, also taking into account the experience of the wider LGPS where relevant. For those employers terminating participation in the Fund, a more prudent mortality assumption will apply (see further comments below).

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 each employer's asset share.

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. In addition, the asset share may be restated for changes in data or other policies.

FUND POLICIES

In addition to the information/approaches required by overarching guidance and Regulation, this statement also summarises the Fund's practice and policies in a number of key areas:

1. Covenant assessment and monitoring

An employer's financial covenant underpins its legal obligation and crucially the ability to meet its financial responsibilities to the Fund now and in the future. The strength of covenant to the Fund effectively underwrites the risks to which the Fund is exposed. These risks include underfunding, longevity, investment and market forces.

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital to the overall risk management and governance of the Fund. The employers' covenants will be assessed and monitored objectively in a proportionate manner, and an employer's ability to meet their obligations in the short and long term will be considered when determining its funding strategy.

After the valuation, the Fund may look to monitor employers' covenants in conjunction with their funding positions over the inter-valuation period. This will enable the Fund to anticipate and pre-empt any material issues arising and thus adopt a proactive approach in partnership with the employer.

2. Admitting employers to the Fund

Various types of employers are permitted to join the LGPS under certain circumstances, and the conditions upon which their entry to the Fund is based and the approach taken is set out in Appendix 3. Examples of new employers include:

- Mandatory Scheme Employers - for example new academies (see later section)
- Designated bodies - those that are permitted to join if they pass a resolution for example Town and Parish Councils.

- Admission bodies - usually arising as a result of an outsourcing or a transfer to an entity that provides some form of public service and their funding primarily derives from local or central government.

The key objective for the Fund is to only admit employers where the risk to the Fund is mitigated as far as possible. The different employers pose different risks to the Fund.

Certain employers may be required to provide a guarantee or alternative security before entry will be allowed, in accordance with the Regulations and Fund policies.

3. Termination policy for employers exiting the Fund

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of the benefits of the exiting employer's current and former employees, along with a termination contribution certificate.

Where there is no guarantor who would subsume the liabilities of the exiting employer, the Fund's policy is that a discount rate linked to government bond yields and a more prudent longevity assumption is used for assessing liabilities on termination. Any exit payments due should be paid immediately although instalment plans will be considered by the Administering Authority on a case by case basis. The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it.

Any exit credits (surplus assets over liabilities) will be paid from the Fund to the exiting employer within 6 months of completion of the cessation assessment by the Actuary. The Administering Authority will seek to modify this approach on a case by case basis if circumstances warrant it (for example, it may work with the outsourcing scheme employer to adjust any exit payment or exit credit to take into account any risk sharing arrangements which exist between the exiting employer and other Fund employers).

This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date. The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it based on the advice of the Actuary.

Where there is a **guarantor** who would subsume the assets and liabilities of the outgoing employer, the default policy is that any deficit or surplus would be subsumed into the guarantor and taken into account at the following valuation. In some instances, an exit debt may be payable by an employer before the assets and liabilities are subsumed by the guarantor, this will be considered on a case-by-case basis. No exit credit would be payable in these circumstances.

In line with the amending Regulations (The Local Government Pension Scheme (Amendment) Regulations 2020) the parties will need to make representations to the Administering Authority if they believe an Exit Credit should be paid outside the policy set out above, or if they dispute the determination of the Administering Authority. The Administering Authority will provide details of the information required to make their determination for each case when the need arises.

In cases where an Exit Credit is to be paid, the default position will be to limit this to the total value of contributions paid into the Fund by the outgoing employer.

The Administering Authority can modify this approach on a case by case basis if circumstances warrant it and the parties make representation. For example, if the parties make representation it may be appropriate to adjust any exit payment or exit credit to take into account any risk sharing arrangements which exist between the exiting employer and the outsourcing scheme employer.

In the event of parties unreasonably seeking to crystallise the exit credit on termination, the Fund will consider its overall policy and seek to recover termination deficits as opposed to allowing them to be subsumed with no impact on contribution requirements until the next assessment of the contribution requirements for the guarantor. Equally where a guarantor decides not to underwrite the residual liabilities the basis of assessment on termination will assume the liabilities are orphaned and thus the minimum risk basis will apply.

4. Policy for academies to pool with the Council

When an LEA school converts to academy status, it is given the opportunity to continue to pool with the Council for the purpose of setting contribution rates or to be treated as a standalone employer. Details of this policy are set out in Appendix 4.

CONTENTS

SUPPLEMENTARY INFORMATION

1
INTRODUCTION

The Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations"), the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the 2014 Transitional Regulations") and The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (all as amended) (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 7 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 each employer is specified in the rates and adjustments certificate.

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.

The Secondary rate for each employer is specified in the rates and adjustments certificate.

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.

For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates.

2

PURPOSE OF 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, exit credits, costs, charges and expenses as defined in the Regulations.

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.

KEY PARTIES TO THE FSS

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

- undertake administration duties in accordance with the Pension Administration Strategy (once implemented).
- 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 including in relation to exit credit payments
- 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 the Administering Authority 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 FUNDING TARGET

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 **Supplement 1**. The Employer Deficit Recovery Plans are set out in **Supplement 2**.

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 2020 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 2019 actuarial valuation:

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 and ancillary death in service and ill health benefits (where appropriate).
- the **Secondary rate**: a schedule of lump sum monetary amounts over 2020/23 in respect of an employer's surplus or deficit (including phasing adjustments).

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 review from 1 April 2023 based on the results of the 2022 valuation.

Where an employer is in a surplus position and a Secondary rate deduction applies (see comment below), the Secondary rate deduction from the Primary rate will be subject to a minimum threshold of £100, below which no deduction will be made.

DEFICIT RECOVERY PLAN

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 on deficit contributions) unless there is specific reason to do so.

Subject to consideration of affordability, as a general rule the deficit recovery period will have the same end date as 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 B). These principles have resulted in the maximum recovery period of 14 years being adopted for most Fund employers.

Where increases (or decreases) in employer contributions are required from 1 April 2020, following completion of the 2019 actuarial valuation, at the sole discretion of the Administering Authority the increase (or decrease) from the rates of contribution payable in the year 2020/21 may be implemented in steps, over a maximum period of 3 years.

For those employers assessed to be in surplus at the valuation date, the surplus will be retained to act as a margin against adverse experience, unless agreed otherwise with the administering authority.

For certain employers, subject to the agreement of the administering authority, the option to prepay Primary rate contributions may be made available. This option would be on the proviso that a "top-up" payment would be made by the employer prior to the end of the prepayment period in order to ensure that no underpayment emerges versus the minimum required by the valuation certificate.

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 (see further comment below). Any employer affected will be notified separately.

EMPLOYERS EXITING THE FUND

Employers must notify the Fund as soon as they become aware of their planned exit date. Where appropriate, or at the request of the Scheme Employer, the Fund will review their certified contribution in order to target a fully funded position at exit. The costs of the contribution rate review will be payable by the employer or the outsourcing Scheme Employer (where necessary).

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. In such circumstances:

The policy for employers who have a guarantor participating in the Fund:

The residual assets and liabilities and hence any surplus or deficit will transfer back to the guarantor as a default policy

The interested parties will need to consider any separate agreements that have been put in place between the exiting employer and the guarantor. In some instances, an exit credit or debt may be payable by an employer before the assets and liabilities are subsumed by the guarantor, this will be considered on a case-by-case basis.

If there is any dispute, then the following arrangements will apply:

- In the case of a surplus, in line with the amending Regulations (The Local Government Pension Scheme (Amendment) Regulations 2020) the parties will need to make formal representations to the Administering Authority if they believe an Exit Credit should be paid outside the policy set out above, or if they dispute the determination of the Administering Authority. The Fund will notify the parties of the information required to make the determination on request.

- If the Fund determines an Exit Credit is payable, then they will pay this directly to the exiting employer within 6 months of completion of the cessation assessment by the Actuary. In cases where an Exit Credit is to be paid, the default position will be to limit this to the total value of contributions paid into the Fund by the outgoing employer.

- In the case of a deficit, in order to maintain a consistent approach, the Fund will seek to recover this from the exiting employer in the first instance although if this is not possible then the deficit will be recovered from the guarantor either as a further contribution collection or at the next valuation.

In some instances, the outgoing employer may only be responsible for part of the residual deficit or surplus as per the separate risk sharing agreement. The default is that any surplus would be retained by the Fund in favour of the outsourcing employer/guarantor unless representation is made by the relevant parties in line with the Regulations (as noted above). For the avoidance of doubt, where the outgoing employer is not responsible for any costs under a risk sharing agreement then no exit credit will be paid as per the Regulations, provided that the Fund is aware of the provisions of the risk sharing agreement in any representation made.

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment, however the final remedy is not known. Where a surplus or deficit is being subsumed, no allowance will be made for McCloud within the calculations. However, if a representation is made to the Administering Authority then a reasonable estimate for the potential cost of McCloud will need to be included. This will be calculated in line with the treatment set out in this Funding Strategy Statement for all members of the outgoing employer. For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made. Once the remedy is known, any calculations will be performed in line with the prevailing regulations and guidance in force at the time.

In the event of parties unreasonably seeking to crystalise the exit credit on termination, the Fund will consider its overall policy and seek to recover termination deficits as opposed to allowing them to be subsumed with no impact on contribution requirements until the next assessment of the contribution requirements for the guarantor. Equally where a guarantor decides not to underwrite the residual liabilities then the basis of assessment on termination will assume the liabilities are orphaned and the minimum risk basis of termination will apply.

The policy for employers who do not have a guarantor participating in the Fund:

In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 6 months of completion of the cessation assessment by the Actuary). This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date.

In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as an immediate lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment, however the final remedy is not known. As part of any termination assessment, a reasonable estimate for the potential cost of McCloud will be included. This will be calculated in line with the treatment set out in this Funding Strategy Statement for all members of the outgoing employer. For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made. Once the remedy is known, any calculations will be performed in line with the prevailing regulations and guidance in force at the time.

The Administering Authority also reserves the right to modify this approach on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary.

Where an employer with no guarantor leaves the Fund and leaves liabilities with the Fund which the Fund must meet without recourse to that employer, the valuation of the termination payment will be calculated using the minimum risk basis.

Further details are set out in the termination policy is set out in **Appendix 3**.

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.

FUNDING FOR DEATHS IN SERVICE

The financial impact of the benefits that become payable on the death of a member differ depending on whether the member dies before or after retirement.

The extent of any funding strain/profit which emerges on the death of a pensioner member (typically a profit) will be determined by the age of the pensioner at death and whether or not any dependants' benefits become payable.

In the event of a member dying whilst in active service, it is not certain that a funding profit would emerge. Whilst the Fund would no longer have to pay the accrued benefits at retirement for the deceased member, a lump sum death grant and also dependants' benefits would become payable instead. The dependants' benefits would also be based on the pensionable service that the member could have accrued had they remained in service until retirement.

Typically, the death of a young member with low pensionable service and dependants is likely to result in a large funding strain for the employer. However, the death of an older/long serving member with no dependants could actually result in a funding profit. Any funding strain or profit will emerge at the next actuarial valuation through increased/reduced deficit, except where the employer is in the termination process when it will be taken into account when the Actuary determines the termination position.

6

LINK TO INVESTMENT POLICY AND THE INVESTMENT STRATEGY STATEMENT (ISS)

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 minus 0.9% 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 57%. This is a measure of the level of reliance on future investment returns i.e. level of investment risk being taken

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. The overall strategic asset allocation is set out in the Investment Strategy Statement.

The current strategy is:

	Benchmark %
UK Equities	20
Global Equities	35
Total Equities	55
UK Corporate Bonds	25
Total Bonds	25
Property	10
Infrastructure	5
Enhanced Yield / Private Debt	5
Total Alternatives	20
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 c2.5% per annum in excess of CPI inflation as at 31 March 2019 i.e. a 50/50 chance of achieving this real return. 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 (see further comment in Appendix 1).

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. The Actuary's formal valuation report includes quantification of some of the major risk factors.

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
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.
- 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. In addition, the implementation of a risk management framework to manage the key financial risks will help reduce risk over time.

DEMOGRAPHIC

The demographic risks are as follows: -

- Future changes in life expectancy (longevity) cannot be predicted with any certainty
- Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions

- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations

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.

Ill health retirements can be costly for employers, particularly small employers where one or two costly ill health retirements can take them well above the "average" implied by the valuation assumptions. Increasingly we are seeing employers mitigate the number of ill health retirements by employing HR / occupational health preventative measures. These in conjunction with ensuring the regulatory procedures in place to ensure that ill-health retirements are properly controlled, can help control exposure to this demographic risk.

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, employing bodies should be doing everything in their power to minimise the number of ill-health retirements.

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
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.
- 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.

LOCAL PENSION BOARD

The Pension Board was established in April 2015 in accordance with the Public Service Pensions Act 2013, the national statutory governance framework delivered through the LGPS Regulations and guidance as issued by the Scheme Advisory Board.

The Board seeks to assist the London Borough of Ealing to maintain effective and efficient administration and governance. The LPB comprises both Scheme members, retired and active, together with employer representatives.

It meets quarterly and all Board Members have undertaken training and have established a work programme that will enable them to meet their obligations to ensure that the Fund complies with the relevant codes of practice and current legislation.

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.
- has been a change in Regulations or Guidance which materially impacts on the policies within the funding strategy.

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 and this will be considered in conjunction with the employer affected and any associated guarantor of the employer's liabilities (if relevant).

COST MANAGEMENT AND THE MCCLOUD JUDGEMENT

The cost management process was set up by HMT, with an additional strand set up by the Scheme Advisory Board (for the LGPS). The aim of this was to control costs for employers and taxpayers via adjustments to benefits and/or employee contributions.

As part of this, it was agreed that employers should bear the costs/risks of external factors such as the discount rate, investment returns and inflation changes, whereas employees should bear the costs/risks of other factors such as wage growth, life expectancy changes, ill health retirement experience and commutation of pension.

The outcomes of the cost management process were expected to be implemented from 1 April 2019, based on data from the 2016 valuations for the LGPS. This has now been put on hold due to age discrimination cases brought in respect of the firefighters and judges schemes, relating to protections provided when the public sector schemes were changed (which was on 1 April 2014 for the LGPS and 1 April 2015 for other Schemes).

It is not known how these cases will affect the LGPS or the cost management process at this time. The Scheme Advisory Board issued guidance **here** which sets out how the McCloud case should be allowed for within the 2019 valuation.

The potential impact of the judgement (based on the information available at the time) has been quantified and communicated to employers as part of the 2019 valuation. This has been assessed by removing the current age criteria applied to the underpin implemented in 2014 for the LGPS. This underpin therefore would apply to all active members as at 1 April 2012. Employers will be able to choose to include these estimated costs over 2020/23 in their certified contributions. Alternatively, they will need to make allowance within their budgets and note that backdated contributions could be payable if the remedy is known before the next valuation.

SUPPLEMENT 1 –

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) – Solvency Funding Target

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 1.55% per annum above CPI inflation, i.e. a total discount rate of 3.95% 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.

Investment return (discount rate) – Cost of Future Accrual

The future service liabilities are calculated using the same assumptions as the solvency 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, thus it is justifiable to use a slightly higher expected return from the investment strategy. 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 based on an overall assumed real discount rate of 2.25% per annum above the long term average assumption for consumer price inflation of 2.4% per annum. This leads to a discount rate of 4.65% per annum.

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 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. The CPI inflation assumption at the valuation date is 2.4% per annum. This adjustment to the RPI inflation assumption will be reviewed from time to time to take into account any reform of the RPI index as announced by the Chancellor in the March 2020 budget. Any change will then be implemented for all relevant policies in this Funding Strategy Statement.

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, for certain employers allowance may be made for expected short term pay restraint. In such circumstances, the default assumption is for pay growth of 2% (covering both headline increases and incremental drift) each year from the valuation date up to 31st March 2023 although employers will be able to opt for the long-term assumption only should they wish.

Application of bespoke salary increase assumptions as put forward by individual employers will be at the ultimate discretion of the Administering Authority but as a minimum must be reasonable and practical. Employers will need to provide clear evidence that justifies any bespoke assumptions (for example a long-term pay agreement). To the extent that experience differs to the assumption adopted, the effects will emerge at the next actuarial valuation.

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). For members in pensionable employment, their CARE benefits are also indexed by CPI although this can be less than zero i.e. a reduction in benefits, whereas for pension increases this cannot be negative, as pensions cannot be reduced.

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 and the experience of the scheme. The mortality tables used are set out below, with a loading reflecting Fund specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. A specific mortality assumption has also been adopted for current members who retire on the grounds of ill health. 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 and a long term improvement trend of 1.75% per annum.

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

Commutation

It has been assumed that, on average, retiring members will take 80% of the maximum tax-free cash available at retirement. This is broadly equivalent to the assumption at the 2016 actuarial valuation. 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

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. In addition, the asset share may be restated for changes in data or other policies.

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 2019 ACTUARIAL VALUATION

Long-term yields	
Market implied RPI inflation	3.40% p.a.
Solvency Funding Target financial assumptions	
Investment return/Discount Rate	3.95% p.a.
CPI price inflation	2.40% p.a.
Long Term Salary increases*	3.65% p.a.
Pension increases/indexation of CARE benefits**	2.40% p.a.
Future service accrual financial assumptions	
Investment return/Discount Rate	4.65% p.a.
CPI price inflation	2.40% p.a.
Long Term Salary increases*	3.65% p.a.
Pension increases/indexation of CARE benefits	2.40% p.a.

* in addition to this, an allowance for further short-term pay restraint may be made. This will be 2% per annum for 4 years to 31 March 2023 depending on an employer's circumstances.

** for those members reaching State Pension Age between 6 April 2016 and 5 April 2021, full

CPI increases on Guaranteed Minimum Pensions have been assumed once in payment. Otherwise statutory increases on Guaranteed Minimum Pension will apply e.g. nil on Guaranteed Minimum Pensions accrued prior to 6 April 1988 and in line with CPI (subject to a maximum of 3% p.a.) for Guaranteed Minimum Pensions accrued after 5 April 1988.

Life expectancy assumptions

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

- Post retirement mortality tables

Current Status	Retirement Type	Mortality Table
Annuitant	Normal Health	95% S3PMA_CMI_2018 [1.75%] 91% S3PFA_M_CMI_2018 [1.75%]
	Dependant	127% S3PMA_CMI_2018 [1.75%] 92% S3DFA_CMI_2018 [1.75%]
	Ill Health	117% S3IMA_CMI_2018 [1.75%] 131% S3IFA_CMI_2018 [1.75%]
	Future Dependant	120% S3PMA_CMI_2018 [1.75%] 111% S3DFA_CMI_2018 [1.75%]
Active	Normal Health	100% S3PMA_CMI_2018 [1.75%] 93% S3PFA_M_CMI_2018 [1.75%]
	Ill Health	117% S3IMA_CMI_2018 [1.75%] 142% S3IFA_CMI_2018 [1.75%]
Deferred	All	120% S3PMA_CMI_2018 [1.75%] 108% S3PFA_M_CMI_2018 [1.75%]
Future Dependant	Dependant	127% S3PMA_CMI_2018 [1.75%] 116% S3DFA_CMI_2018 [1.75%]

-Life expectancies at age 65

Membership Category	Male Life Expectancy at 65	Female Life Expectancy at 65
Pensioners	22.8	24.9
Actives aged 45 now	24.4	26.8
Deferreds aged 45 now	23.0	25.7

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

SUPPLEMENT 2 –

EMPLOYER DEFICIT / SURPLUS RECOVERY PLANS

For certain employers, 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 3.65% per annum (in line with the long-term pay growth assumption) 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	11 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 14 years may be applied.
Open Admitted Bodies	11 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 11 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. Generally, for those employers providing a service, this will be the contract length.

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) taking into account any changes in the primary rate contribution requirements.

For those employers assessed to be in surplus at the valuation date, the surplus will be retained to act as a margin against adverse experience, 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 and managing risk in the inter-valuation period, 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 smaller 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 2020/2023. 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.

SUPPLEMENT 3 –

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.

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

MANDATORY SCHEME EMPLOYERS

Certain employing bodies are required to join the scheme under the Regulations. These bodies include tax raising bodies, those funded by central government (academies and colleges) and universities (reliant on non-government income). Academies also fall under this category.

DESIGNATING BODIES

Designating bodies are permitted to join the scheme if they pass a resolution to this effect. Designating bodies, other than connected entities, are not required under the Regulations to provide a guarantee. These bodies usually have tax raising powers and include Parish and Town Councils.

ADMISSION BODIES

An admitted body is an employer which, if it satisfies certain regulatory criteria, can apply to participate in the Fund. If its application is accepted by the administering authority, it will then have an "admission agreement". In accordance with the Regulations, the admission agreement sets out the conditions of participation of the admitted body including which employees (or categories of employees) are eligible to be members of the Fund.

Admitted bodies can join the Fund if

- They provide a service for a scheme employer as a result of an outsourcing (formerly known as Transferee Admission Bodies)
- They provide some form of public service and their funding in most cases derives primarily from local or central government. In reality they take many different forms but the one common element is that they are "not for profit" organisations (formerly known as Community Admission Bodies).

In general, admitted bodies may only join the Fund if they are guaranteed by a scheme employer. However, there may be exceptional circumstances whereby, subject to the agreement of the administering authority, an admitted body joins the Fund with an alternative form of guarantee. When the agreement or service provision ceases, the Fund's policy is that in all cases it will look to recover any outstanding deficit from the outgoing body unless appropriate instruction is received from the outsourcing employer or guaranteeing employer, in which case the assets and liabilities of the admission body will in revert to the outsourcing scheme employer or guaranteeing employer.

CONNECTED ENTITIES

Connected entities by definition have close ties to a scheme employer given that a connected entity is included in the financial statements of the scheme employer.

Although connected entities are "Designating Bodies" under the Regulations, they have similar characteristics to admitted bodies (in that there is an "outsourcing employer"). However, the Regulations do not strictly require such bodies to have a guarantee from a scheme employer.

To limit the risk to the Fund, the Fund will require that the scheme employer provides a guarantee for their connected entity, in order that the ongoing funding basis will be applied to value the liabilities.

SECOND GENERATION OUTSOURCINGS FOR STAFF NOT EMPLOYED BY THE SCHEME EMPLOYER CONTRACTING THE SERVICES TO AN ADMITTED BODY

A 2nd generation outsourcing is one where a service is being outsourced for the second time, usually after the previous contract has come to an end. For Best Value Authorities, principally the unitary authorities, they are bound by The Best Value Authorities Staff Transfers (Pensions) Direction 2007 so far as 2nd generation outsourcings are concerned. In the case of most other employing bodies, they should have regard to Fair Deal Guidance issued by the Government.

It is usually the case that where services have previously been outsourced, the transferees are employees of the contractor as opposed to the original scheme employer and as such will transfer from one contractor to another without being re-employed by the original scheme employer. There are even instances where staff can be transferred from one contractor to another without ever being employed by the outsourcing scheme employer that is party to the Admission Agreement. This can occur when one employing body takes over the responsibilities of another, such as a maintained school (run by the local education authority) becoming an academy. In this instance the contracting body is termed a 'Related Employer' for the purposes of the Local Government Pension Scheme Regulations and is obliged to guarantee the pension liabilities incurred by the contractor.

"Related employer" is defined as "any Scheme employer or other such contracting body which is a party to the admission agreement (other than an administering authority in its role as an administering authority)".

RISK ASSESSMENTS

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 employer's participation in the Fund comes to its end or is prematurely terminated for any reason (e.g. a contract with a local authority comes to an end or the employer chooses to voluntarily cease participation), 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.

Where the Fund obtains advance notice that an employer's participation is coming to an end, the Regulations enable the Fund to commission a funding assessment leading to a revised contribution certificate which is designed to eliminate, as far as possible, any surplus or deficit by the cessation date.

Whether or not an interim contribution adjustment has been initiated once participation in the Fund has ceased, the employer becomes an exiting employer under the Regulations and the Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of benefits of the exiting employer's current and former employees along with a revision of the rates and adjustment certificate showing any contributions due from the admission body.

When an employer exits the Fund the Regulations give power to the Fund to set a repayment plan to recover the outstanding debt over a period at its sole discretion and this will depend on the affordability of the repayments and financial strength of the exiting employer. Once this repayment plan is set the payments would not be reviewed for changes in the funding position due to market or demographic factors.

The Fund's policy for termination payment plans is as follows:

- The default position is for exit payments and exit credits to be paid immediately in full unless agreed otherwise with the relevant parties.
- At the discretion of the administering authority, instalment plans over a defined period will only be agreed when there are issues of affordability that risk the financial viability of the organisation and the ability of the Fund to recover the debt.
- Any costs associated with the exit valuation will be paid by the employer by either increasing the exit payment or reducing the exit credit by the appropriate amount. In the case of an employer where the exit debt/credit is the responsibility of the original employer through a

risk sharing agreement the costs will be charged directly to the employer unless the original employer directs otherwise.

In the event that unfunded liabilities arise that cannot be recovered from the exiting employer, 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.

BASIS OF TERMINATION

Whilst reserving the right to consider options on a case by case basis, 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).

Details of the minimum risk funding basis are shown below.

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 (or surplus) on closure. In these circumstances no termination payment will be required from (or made to) the outgoing employing body itself, as the deficit (or surplus) 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.

IMPLEMENTATION

ADMISSION BODIES PARTICIPATING BY VIRTUE OF A CONTRACTUAL ARRANGEMENT

For employers that are guaranteed by a guarantor (usually the original employer or letting authority), the Fund's policy at the point of cessation is for the guarantor to subsume the residual assets, liabilities and any surplus or deficit under the default policy. In some instances an exit debt may be payable by an employer before the assets and liabilities are subsumed by the guarantor, this will be considered on a case-by-case basis. No payment of an exit credit will be payable unless representation is made as set out below.

If there is any dispute, then the following arrangements will apply:

- In the case of a surplus, in line with the amending Regulations (The Local Government Pension Scheme (Amendment) Regulations 2020) the parties will need to make representations to the Administering Authority if they believe an Exit Credit should be paid outside the policy set out above, or if they dispute the determination of the Administering Authority. The Fund will notify the parties of the information required to make the determination on request.

- If the Fund determines an Exit Credit is payable, then they will pay this directly to the exiting employer within 6 months of completion of the cessation assessment by the Actuary. In cases where an Exit Credit is to be paid, the default position will be to limit this to the total value of contributions paid into the Fund by the outgoing employer.
- In the case of a deficit, in order to maintain a consistent approach, the Fund will seek to recover this from the exiting employer in the first instance although if this is not possible then the deficit will be recovered from the guarantor either as a further contribution collection or at the next valuation.

In some instances, the outgoing employer may only be responsible for part of the residual deficit or surplus as per the separate risk sharing agreement. The default is that any surplus would be retained by the Fund in favour of the outsourcing employer/guarantor unless representation is made by the relevant parties in line with the Regulations as noted above. For the avoidance of doubt, where the outgoing employer is not responsible for any costs under a risk sharing agreement then no exit credit will be paid as per the Regulations unless the Fund is aware of the provisions of the risk sharing agreement in any representation made and determines an exit credit should be paid.

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment, however the final remedy is not known. Where a surplus or deficit is being subsumed, no allowance will be made for McCloud within the calculations. However, if a representation is made to the Administering Authority then a reasonable estimate for the potential cost of McCloud will need to be included. This will be calculated in line with the treatment set out in this Funding Strategy Statement for all members of the outgoing employer. For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made. Once the remedy is known, any calculations will be performed in line with the prevailing regulations and guidance in force at the time.

In the event of parties unreasonably seeking to crystalise the exit credit on termination unreasonably the Fund will consider its overall policy and seek to recover termination deficits as opposed to allowing them to be subsumed with no impact on contribution requirements until the next assessment of the contribution requirements for the guarantor. Equally where a guarantor decides not to underwrite the residual liabilities then the termination assessment will assume the liabilities are orphaned and the minimum risk basis of termination will be applied.

As the guarantor will absorb the residual assets and liabilities under the default policy above, it is the view of the Actuary that the ongoing valuation basis described above should be adopted for the termination calculations. This is the way the initial admission agreement would typically be structured i.e. the admission would be fully funded based on liabilities assessed on the valuation basis.

If the guarantor refuses to take responsibility, then the residual deferred pensioner and pensioner liabilities should be assessed on the more cautious minimum risk basis. In this situation the size of the termination payment would also depend on what happened to the active members and if they all transferred back to the original Scheme Employer (or elsewhere) and aggregated their previous benefits. As the transfer would normally be effected on a "fully funded" valuation basis the termination payment required would vary depending on the circumstances of the case. Where this occurs the exiting employer would then be treated as if it had no guarantor as per the policy below.

The Administering Authority also reserves the right to modify this approach on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary, based on representations from the interested parties where appropriate.

NON CONTRACT BASED ADMISSION BODIES WITH A GUARANTOR IN THE FUND

The approach for these will be the same as that above and will depend on whether the guarantor is prepared to accept responsibility for residual liabilities. Indeed, it may be that Fund is prepared to accept that no actual termination payment is needed (even if one is calculated) and that all assets/liabilities can simply be absorbed by the guarantor.

ADMISSION BODIES WITH NO GUARANTOR IN THE FUND

These are the cases where the residual liabilities would be orphaned within Fund. It is possible that a bond would be in place. The termination calculation would be on the more cautious “minimum risk” basis.

The actuarial valuation and the revision of any Rates and Adjustments Certificate in respect of the outgoing admission body must be produced by the Actuary at the time when the admission agreement ends; the policy will always be subject to change in the light of changing economic circumstances and legislation.

The policy for such employers will be:

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 6 months of completion of the cessation by the Actuary). This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date.
- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as an immediate lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment, however the final remedy is not known. As part of any termination assessment, a reasonable estimate for the potential cost of McCloud will be included. This will be calculated in line with the treatment set out in this Funding Strategy Statement for all members of the outgoing employer. For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made. Once the remedy is known, any calculations will be performed in line with the prevailing regulations and guidance in force at the time.

The Administering Authority also reserves the right to modify this approach on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary.

The above funding principles will also impact on the **bond requirements** for certain admitted bodies. The purpose of the bond is that it should cover any unfunded liabilities arising on termination that cannot be reclaimed from the outgoing body.

CONNECTED ENTITIES

In the event of cessation, the connected entity will be required to meet any outstanding liabilities valued in line with the approach outlined above. In the event there is a shortfall, the assets and liabilities will revert to the Fund as a whole (i.e. all current active employers).

In the event that a scheme employer provides a guarantee for their connected entity, the assets and liabilities will revert in totality to that scheme employer on termination, including any unrecovered deficit.

RELEVANT REGULATIONS WITHIN THE LOCAL GOVERNMENT PENSION SCHEME REGULATIONS 2013 (AS AMENDED BY THE LOCAL GOVERNMENT PENSION SCHEME (AMENDMENT) REGULATIONS 2018)

Regulation 64 sets out special circumstances where revised actuarial valuations and certificates must be obtained including Regulation 64 (2) where an admission agreement ceases to have effect, the Administering Authority who made it must obtain –

- an actuarial valuation as at the date it ceases the liabilities in respect of current and former employees of the admission body which is a party to that admission agreement ("the outgoing admission body"),
- a revision of any rates and adjustments certificate for any Pension Fund which is affected, showing the exit payment due from the exiting body or exit credit payable to the exiting body. Where it is not possible for any reason to obtain revised contributions from the exiting body, or from an insurer or any person providing an indemnity or bond on behalf of the body, the Administering Authority may obtain a further revision of any rates and adjustment certificate for the Pension Fund, showing –

a) in the case where the exiting body falls within paragraph 1(d) of Part 3 of Schedule 2 the revised contributions due from the body which is the related employer in relation to that admission body, and

b) in any other case, the revised contributions due from each employing authority who contributes to the fund.

If the Administering Authority becomes aware or is of the opinion of a Scheme employer becoming an exiting employer, Regulation 64 (4) provides that it may obtain from an actuary a certificate specifying, in the case of an admission body, the percentage or amount by which, in the actuary's opinion -

- the contribution at the primary rate should be adjusted, or

- any prior secondary rate adjusted should be increased or reduced, with a view to providing that assets equivalent to the exit payment that will fall due from the Scheme employer are provided to the fund by the likely exit date or, where the Scheme employer is unable to meet the liability by that date, over such period of time thereafter as the administering authority considers reasonable.

MINIMUM RISK TERMINATION BASIS

The minimum risk financial assumptions that applied at the actuarial valuation date (31 March 2019) 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 2019**
Discount Rate	1.5% p.a.
CPI price inflation	2.4% p.a.
Pension increases/indexation of CARE benefits	2.4% p.a.

All demographic assumptions will be the same as those adopted for the 2019 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 2% p.a. for Males and Females from 1.75% used in the 2019 valuation for ongoing funding and contribution purposes. This assumption will be reviewed from time to time to allow for any material changes in life expectancy trends and will be formally reassessed at the next valuation.

In addition, since the valuation date, it has been announced that RPI inflation is likely to be reformed with the reform potentially meaning the index is closer to the CPIH inflation measure. This would need to be reflected when deriving an updated market estimate of CPI inflation. For example when assessing a termination position (at February 2020) we will adjust the market RPI inflation to arrive at the CPI inflation assumption by deducting 0.7% per annum as opposed to the 1.0% per annum at the valuation date when assessing an employer's termination position. This adjustment will be kept under review as more details emerge on the reform of RPI.

SUPPLEMENT 4 –
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 standalone 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) – see further comment below under “Multi-Academy Trusts”.

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.

Standalone

As a standalone 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 standalone employers for contribution purposes) were given a one-off option of being able to be pooled going forwards.

As at the 31 March 2019 actuarial valuation, there are currently 8 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.

Multi-Academy Trusts

As stated above, once a decision is made by an Academy, this cannot be reversed by the Academy. However, there may be certain circumstances where, at the request of the Academy, the administering authority permits the Academy to leave the pooled arrangement with the Council in order to participate in an alternative pooled arrangement with other Academies within the same Multi Academy Trust.

The same principles set out above in relation to economies of scale and monitoring of individual funding positions will still apply.

In such circumstances, the Academy leaving the Council pool would not be able to return at a later date.

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 standalone 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**

SUPPLEMENT 5 –

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.

CPIH: An alternative measure of CPI which includes owner occupiers' housing costs and Council Tax (which are excluded from 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.

Exit Credit: the amount payable from the Fund to an exiting employer where the exiting employer is determined to be in surplus at the point of cessation based on a termination assessment by the Fund Actuary.

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.

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.

Prudent Assumption: an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

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 2019 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.

Introduction and background

- 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").

- 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.

- 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

- 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 Head of Technical Accounting. 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.

- 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

- 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.

- 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.

- 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

- 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.

- 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.

- 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).

- 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.

- **The suitability of particular investments and types of investments**

  - 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.

  - 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.

  - 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

- 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

- 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.

- 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.

- 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).

- 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

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

- 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

- 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.

- 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

- 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.

- **Diversification**

  - 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.

- 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.

- 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.

- 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%**			

- 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".
- 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

- **Restrictions on investment**

5.1 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.

- 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.

- **Managers**

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

- 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.

- 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.

- **Risk Management**

- 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.

- 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.

- Asset Risks

Headline Risk	Specifics	Mitigating Actions
Concentration	The risk that a significant allocation to any single asset category and its underperformance relative to	• 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

	expectation would result in difficulties in achieving funding objectives.	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.

- 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.

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

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

- 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

- 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.

- 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.

- 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

- 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

- 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

- 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

- 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

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

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

- 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.

- 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).

- 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;"

- 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.

- 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.

- **Environmental Social & Corporate Governance considerations of the Fund**

  - 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.

  - 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:

    - <u>Sustainable investment/ESG factors – considering the financial impact of environmental, social and governance (ESG) factors on its investments.</u>
    - <u>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.</u>

4.3 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.

4.4 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.

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

4.6 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.

4.7 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.

4.8 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

4.9 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.

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

4.11 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

4.12 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.

4.13 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.

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

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

Stewardship

4.15 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

4.16 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.

4.17 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.

4.18 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.

4.19 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.