

# **London Borough of Ealing Pension Fund**

**Annual Report & Accounts**

**2023/24**

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# CHAIR'S STATEMENT YEAR ENDING 31 MARCH 2024



**Cllr Ilayda Nijhar, *Chair of the Pension Fund Panel (PFP)***

I am pleased to present the annual report and accounts for the Ealing Council Pension Fund for the year ending 31 March 2024. Despite facing several challenges, this year has been marked by significant economic developments and strong performance.

## **Economic Environment and Fund Performance**

Global stock markets grew strongly in early 2024, boosted by positive US economic data and expectations of interest rate cuts. US stock indices, such as the S&P 500 and Nasdaq, hit record highs. European stocks also saw gains, albeit more modest, as inflation in the Eurozone fell. The UK stock market joined the global rally in March despite earlier setbacks from weak economic data. The Bank of England maintained its interest rates at 5.25%, with potential cuts expected later in the year.

## **Bond Markets and Currency Performance**

Bond yields rose globally, reflecting higher interest rates and inflation trends. The US dollar strengthened against major currencies due to robust economic data.

## **Fund Performance**

As of 31 March 2024, the Ealing Total Fund demonstrated solid performance across multiple time frames. The fund's total gross market value was £1,655m. Monthly returns were 2.28%, while the three-month returns were a strong 5.41%. The one-year returns were impressive at 13.31% slightly ahead of the benchmark of 13.30%. Since inception in 1987, the fund has achieved an impressive annualised return of 8.61%, highlighting its long-term growth potential. Net of fees, the annualised return since April 2016 was 7.07%.

Overall, while the fund has shown commendable growth, especially in the short term, there remains a slight underperformance relative to its benchmark over longer periods.

## **Strategic Goals and Governance**

Our primary goal is to maximise returns within acceptable risk levels, minimising employer contributions and ensuring the sustainability of the Pension Fund. We operate the Local Government Pension Scheme (LGPS), a funded defined benefit pension scheme where benefits are guaranteed by law. Any funding shortfall must be met by growing assets or increasing contributions.

We are committed to sustainable investing, aiming for a net-zero emissions target by 2045. Our strategy includes active engagement with companies through the Local Authority Pension Fund Forum (LAPFF).

Throughout the year, the Committee and Pension Board held meetings to address strategic issues, review performance, and monitor risk. Collaboration with the Treasury Risk and Investment Board (TRIB) chaired by the Director of Resources is essential for promptly implementing strategic decisions.

## **Funding Position**

Significant progress has been made in addressing our accrued liabilities and improving the Fund's funding position. The valuation as of 31 March 2022 showed a 96% funding level, up from 91% in March 2019. Although a deficit of £72 million remains, we are confident in our ability to recover this through secondary rate contributions from employers. The primary rate from the 2022 valuation is 18.5% of pay.

## **Collaboration and Cost Efficiency**

We actively seek opportunities to pool assets with the London CIV to achieve cost savings through economies of scale. This collaboration helps reduce costs and enhances overall efficiency.

## **Decarbonisation and Governance**

As Chair, I am committed to guiding the Fund towards an ambitious decarbonisation path as part of Ealing's 'Greening the Borough' initiative. The Pension Board ensures compliance with laws and regulations, maintaining effective governance arrangements.

## **Communication and Appreciation**

We will keep you informed through our website, newsletters, and the annual general meeting. Your feedback is valuable, and we aim to improve our communication and the quality of information provided. Please reach out using the contact details in the 'Staff, Advisors, and Investment Managers' section.

I would like to thank Cllr Anderson, my predecessor, for his outstanding leadership as Chair of the PFP. His dedication and expertise have significantly contributed to our achievements. I also express my appreciation to the PFP colleagues and diligent officers for their unwavering support and commitment.

Together, we will continue to strive for excellence and advance the committee's mission.

**Cllr Ilayda Nijhar**

Chair of the Pension Fund Panel (PFP)

## **HIGHLIGHTS 2023/24**

- The Fund had an exceptional year in terms of performance relative to its peers, ranking very close to the top, in the 5th percentile.
- The value of the Fund rose from £1,472.2m to £1,665.5m at the end of the financial year; an increase of 13.1%
- The 2023/24 investment strategy review was successfully carried out and concluded that a blended approach with allocations to private equity, multi asset credit, and index-linked gilts asset classes be adopted, which provided a higher likelihood of success to achieve a desirable funding level.
- Responsible Investment (RI): The Fund's approach to RI is driven by its fundamental investment beliefs: - long-term investments to drive returns, diversified portfolio to manage risk, achieve a better balance between risk/return, while maintaining a better alignment with climate change and other environmental, social and governance (ESG) objectives

## **MANAGEMENT STRUCTURE**

The London borough of Ealing Pension Fund ("the Fund") is part of the Local Government Pension Scheme. The LGPS is governed by statute with the LGPS falling under the remit of the Department for Levelling Up, Housing and Communities (DLUHC) and the Pensions Regulator.

The 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 Strategic Director Corporate Resources has delegated authority for the day-to-day operation of the Fund.

## SCHEME MANAGEMENT AND ADVISERS

Company Name	Contact	Contact Details
<b>Ealing Officers:</b>		0208 825 5000
Strategic Director, Resources	Emily Hill	Perceval House 14-16 Uxbridge Road London W5 2HL
Assistant Director, Technical Finance	Emma Horner	Perceval House 14-16 Uxbridge Road London W5 2HL
Finance Manager, Pensions & Treasury	Bridget Uku	Perceval House 14-16 Uxbridge Road London W5 2HL
<b>Legal Advisers:</b>		
In-House Team	Rhian Davies – Interim Director Legal and Democratic Services	Perceval House 14-16 Uxbridge Road London W5 2HL
<b>Pension Administration Services:</b>		
In-House Team	Jenny Connett – Pensions Manager	Perceval House 14-16 Uxbridge Road London W5 2HL
Local Pensions Partnership Administration (LPPA)	Ealing Pension Team	Dexter House 2 <sup>nd</sup> Floor, 169 Union Street London, SE1 0LL
<b>Pension Body Membership:</b>		
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

<b>Investment Managers:</b>		
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
Darwin BSF - UK Bereavement Assets	Simon Mauger	Darwin Property Investment Management (Guernsey) Ltd 11 New Street, St Peter Port, Guernsey. GY1 2PF
Henley - UK Property Unit trusts	Jenny McLynn	Henley Investment management First Floor, 50 Grosvenor Hill, London, W1K 3QT, UK
Baillie Gifford – Global Equity Mandate	Stéphanie Aymès	4 <sup>th</sup> Floor 22 Lavington Street London SE1 0NZ
BlackRock - Global Equity Mandate	Gavin Lewis	Drapers Gardens,12 Throgmorton Avenue, London, EC2N 2DL
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 Mixer	810 Seventh Avenue 26 <sup>th</sup> Floor, New York, NY 10019
Churchill – Private Debt mandate	Jessica Tannenbaum	430 Park Avenue, 14 <sup>th</sup> Floor New York, NY 10022
Permira - Private Debt mandate	Rebecca Zimmerman	80 Pall Mall London SW1Y 5ES
<b>Custodian:</b>		
BNY Mellon	Allan Gaskin	One Piccadilly Gardens, Manchester, UK, M1 1RN
<b>Investment Advisors:</b>		
Hymans Robertson	Matt Woodman	One London Wall, London, EC2Y 5EA

<b>AVC Providers:</b>		
Scottish Widows Limited		PO Box 24171, 69 Morrison Street, Edinburgh, EH3 1HL
Utmost Life and Pensions		Walton Street, Aylesbury Bucks, HP21 7QW

<b>Performance Measurement Services:</b>		
BNY Mellon	Matthew Flackett	1 Whitehall Riverside, Leeds, LS1 4BN
PIRC Limited	Karen Thrumble	PIRC Limited, Exchange Tower, London E14 9GE

<b>Company Name</b>	<b>Contact</b>	<b>Contact Details</b>
<b>Auditors:</b>		
Forvis Mazars	Suresh Patel	30 Old Bailey, St Paul's, London, EC4M 7AU
<b>Banking Services:</b>		
Lloyds Bank	Mel Blackburn	25 Gresham Street, London, EC2V 7HN

## **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.

A strong approach to 'Risk Management' is a fundamental principle within the Fund's governance framework. To help discharge this responsibility, risks are identified, monitored and control measures implemented to help mitigate the likelihood or impact of such risks materialising. The Fund's Risk Register captures all risks, under the categories; Funding, Investment, Governance, Operational and Regulatory.

The Fund operations are subject to annual external and internal audits, where the robustness of our control mechanisms, procedures and accounting are independently scrutinised and reported to audit committee. The Fund also participates in the National Fraud Initiative (NFI), where substantial data matching exercises are conducted across government data sources, identifying items requiring further investigation.

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 acting may be prohibitive to the potential benefits gained.

The risks that the Fund is exposed to fall 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 considering suitable 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.

# GOVERNANCE POLICY AND COMPLIANCE STATEMENTS

## 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 one 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 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 Strategic Director, Resources (S151 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 S151 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 Strategic Director Corporate Resources.

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
- 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 current PFP membership is detailed below;

**Councillors (Labour)**

- Cllr Ilayda Nijhar (Chair)
- Cllr Dee Martin (Vice Chair)
- Cllr Yvonne Johnson
- Cllr Ray Wall
- Cllr Callum Anderson
- Cllr Lauren Wall

**Councillors (Conservative)**

- Cllr Anthony Young (Opposition Spokesman)

**Non-Voting Member (Unison)**

- Sukhminder Kalsi (Unison)

Below is the composition of the PFP up to May 2024;

**Councillors (Labour)**

- Cllr Callum Anderson (Chair)
- Cllr Dee Martin (Vice Chair)
- Cllr Yvonne Johnson
- Cllr Ray Wall
- Cllr Ilayda Nijhar
- Cllr Miriam Rice

**Councillors (Conservative)**

- Cllr Tony Young

**Non-Voting Member (Unison)**

- Sukhminder Kalsi

**Panel Member Training provided in 2023/24.**

Meeting / Training Date	Details	Pension Fund Panel Members							
		Clr C Anderson	Clr D Martin	Clr R Wall	Clr Y Johnson	Clr I Nijhar	Clr M Rice	Clr A Young	Sukhminder Kalsi
05/07/2023	*Strategy Review and Fund Performance Update - delivered by Hymans Robertson *Training and Update on the Infrastructure market - delivered by JP Morgan	✓	✓	✓	✓	✓	✓	✓	✓
12/09/2023	*Property Market Outlook and portfolio update - delivered by Lothbury Property Trust *Training and Update on the Bond Market - delivered by Royal London asset Management	✓	✓	✓	✓	✓	✓	Clr Gallant substituted Clr Young	X
14/12/2023	*Training and update in Alternative Investments - delivered by Darwin *Pension Fund Strategy Review and update - delivered by Hymans Robertson	✓	✓	✓	✓	✓	✓		✓
21/03/2024	* Training and Update - delivered by Standard Life Aberdeen *	✓	✓	✓	✓	✓	✓	✓	✓

## Panel Voting Rights:

The voting rights for the panel are as follows:

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

## Contact Details for Pension Fund Panel

Committee Services (Perceval House)  
Katie Sullivan - Telephone: 020 8825 5291

## THE PENSION BOARD

- Ealing Pension Board (EPB) was established under regulation 106 of the Local Government Pension Scheme Regulations 2013.
- The purpose of the EPB 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 EPB can be found [here](#)
- The EPB currently consists of 5 members; 3 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.

# PENSION BOARD ANNUAL REPORT 2023/24

## Introduction

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

## Constitution, Representation Meetings and Attendance

Welcome to the Annual Report of the Local Pension Board of the London borough of Ealing Pension Fund. The Board has made significant progress since its establishment on 6 July 2015, aligning with the requirements of the Public Service Pensions Act 2013. We have expanded our membership from four to six members, ensuring increased resilience and representation for both scheme employers and scheme members. I extend my gratitude to my fellow Board members for their dedicated work throughout the year.

The Board's primary functions involve ensuring effective governance and administration of the LGPS, as well as compliance with relevant laws and regulations. While the Board does not make decisions, it undertakes a scrutiny role and seeks assurances from the Fund based on evidence of meeting its objectives. We recognise the importance of prioritising agenda items for detailed discussion and allocation of our time budget accordingly.

The Board operates under approved Terms of Reference, ensuring compliance with statutory duties and responsibilities, including those outlined by the Pensions Regulator. As the Fund and Administering Authority face increased scrutiny, we remain committed to fulfilling our obligations and complying with legal and regulatory requirements.

The current membership is as shown below:

### Ealing Pension Board Membership 2023/24

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

Throughout the year, the Board has reviewed decisions taken by the Pension Fund, provided recommendations to the Pension Fund Panel reviewed, and updated the risk register and the Pension Board Compliance check list, supported the Fund's net zero target, and evaluated the performance of both the pensions administration service and the Fund as a whole.

As part of its oversight and scrutiny role the Board had updates at each meeting on;

- 05 July 2023
- 12 September 2023
- 14 November 2023
- 21 March 2024

## **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 Levelling Up, Housing and Communities (DLUHC),

The Board is not a Committee of the Council but is established under the Public Service Pensions Act 2013. The Board operates under Terms of Reference which were approved at inception.

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

- The Board's governance arrangements comply with the statute and LGPS regulations that apply to it and best practice guidance issued by the national LGPS Advisory Board.
- Members of the board are fully conversant with their statutory duties and responsibilities such as the requirements of the Pensions Regulator.
- The Ealing fund continues to fulfil its statutory duties.



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

## Budget

The Board operates within a budget of £12k, incorporated into the overall budget of the Pension Fund. The operation costs are expected to remain minimal, and the Chair's annual remuneration of £1k is paid from this budget.

## Overview of 2023/24

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

The Board:

- Reviewed all the decisions taken by the Pension Fund and all recommendations from the Board were fed back to the Panel;
- Reviewed the risk register and made recommendations for updates to the risk register.
- Reviewed and updated the Pension Board Compliance check list and considered any breaches in service delivery;
- Reviewed and supported the Fund's net zero target of 2045;
- Reviewed the performance of the pensions administration service as well as performance of the Fund as a whole.
- Reviewed the Fund's strategic asset allocation

## Board Member Training provided in 2023/24.

Meeting / Training Date	Details	Pension Board Members				
		Ian Potts	Richard Lane	Mary Lancaster	Cllr. Tariq Mahmood	Dennis Frost
05/07/2023	*Strategy Review and Fund Performance Update - delivered by Hymans Robertson	✓	✓	✓	✓	✓
12/09/2023	*Property Market Outlook and portfolio update - delivered by Lothbury Property Trust	X	✓	X	✓	X
14/12/2023	*Training and update in Alternative Investments - delivered by Darwin	✓	✓	X	✓	✓
12/03/2024	Defined Benefit Future Focus Conference - Hymans Robertson	X	X	X	X	✓
11/01/2024	New Code of Practice - Hymans	✓	X	X	X	X
21/03/2023	* Final result of the 2022 valuation and the main funding strategy parameters - Mercer	✓	✓	✓	✓	✓

## **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**

Whilst 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.

We are mindful of external factors that may impact the Fund's reputation and administration, and we will express concerns if appropriate resources are insufficient.

The board has been kept updated on the progress of production and dispatch of the annual benefit statements and have acknowledged some one-off delays brought on by exceptional circumstances being a change in systems.

## **Reporting and Recording Breaches**

Reporting breaches of law to the Pensions Regulator is a responsibility of the Board and its members, and targeted training is encouraged to ensure compliance. 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 DLUHC 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.

One of our board members holds a position on the SAB, ensuring our organisation's representation and involvement in its important decisions.

## **Training**

Training is essential for Board members to be well-versed in the Scheme, and various opportunities have been provided. Assessment of training needs will be an ongoing item on the Board's agenda, including self-development and utilising resources such as the pension regulator's toolkit.

Both formal and informal (cascade) training will be considered.

## **Work plan**

Looking ahead, our work plan includes focusing on areas such as accounts, administration, audit and risk management, governance, and training. Flexibility will be maintained to accommodate additional reviews as required by the Scheme Advisory Board or the Pensions Regulator.

## **Appreciation**

I express my appreciation to my fellow Board members for their voluntary contributions, as well as to the Board officers, Chair and Vice Chair of the Pensions Panel, and the Democratic Services Officer for their invaluable support.

**Chair of the Pension Board**  
**Mr Ian Potts**

## **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 1<sup>st</sup> 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 30<sup>th</sup> 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 Department for Levelling Up, Housing and Communities published a draft Governance Compliance Statutory Guidance note on 8<sup>th</sup> October 2007 for consultation.

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

REQUIREMENT	COMPLIANCE	COMMENT
<p>That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: -</p> <ul style="list-style-type: none"> <li>• employing authorities (e.g. scheme employers),</li> <li>• scheme members (including deferred and pensioner scheme members),</li> <li>• independent professional observers,</li> <li>• expert advisors (on an ad-hoc basis).</li> </ul>	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.
<p>That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.</p>	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.
<b>Selection &amp; Role of Lay Members</b>		
<p>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.</p>	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.
<b>Voting</b>		
<p>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.</p>	Partially Compliant	The constitution does not provide for non-Councillor members to be given voting rights.
<b>Training/Facility Time/Expenses</b>		
<p>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.</p>	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

REQUIREMENT	COMPLIANCE	COMMENT
		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.
<b>Meetings (Frequency/Quorum)</b>		
That an administering authority's main committee or committees meet at least quarterly.	Compliant	Pension Fund Panel meets at least once a quarter.
That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Partly Compliant	No secondary committee, but the supporting body meet monthly.
That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Compliant	There are two lay representatives on the panel. Consultation with key stakeholders takes place and there is an AGM to which all members are invited.
<b>Access</b>		
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.
<b>Scope</b>		
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.
<b>Publicity</b>		

REQUIREMENT	COMPLIANCE	COMMENT
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.

## FINANCIAL PERFORMANCE

The Pension Fund Panel reviews the budgetary estimate for the Pension Fund on an annual basis. In the table below income and expenditure for 2022/23 and 2023/24 is shown together with the agreed budget for 2024/25:

	Actual 2022/23 £m	Forecast 2023/24 £m	Actual 2023/24 £m	Variance		Budget 2024/25 £m
<b>Income</b>						
Employer Contributions	33.0	47.5	47.5	0%	-0.2	49.2
Employee Contributions	14.1	14.7	14.5	0%	0.0	15.4
Transfers In	9.1	4.7	7.1	50%	2.3	4.7
<b>Total Income</b>	<b>56.2</b>	<b>66.9</b>	<b>69.1</b>	<b>3%</b>	<b>2.2</b>	<b>69.3</b>
<b>Expenditure</b>						
Pensions	44.5	49.4	49.9	1%	0.5	53.6
Lump sum retirement benefits	6.8	8.3	9.2	11%	0.9	8.3
Lump sum death grants	0.9	0.9	1.2	39%	0.3	0.8
Transfers out (inc. refunds)	5.9	3.6	7.8	118%	4.2	3.7
Fund Management expenses	3.6	4.3	3.4	-21%	-0.9	4.6
Administration expenses	2.0	1.8	2.1	17%	0.3	1.9
<b>Total Expenditure</b>	<b>63.6</b>	<b>68.3</b>	<b>73.6</b>	<b>8%</b>	<b>5.3</b>	<b>72.9</b>
<b>Net Income/(Expenditure)</b>	<b>(7.4)</b>	<b>(1.4)</b>	<b>(4.5)</b>	<b>220%</b>	<b>-3.1</b>	<b>(3.4)</b>
<b>Investment Income generated by Fund Managers</b>	26.0	34.5	32.5	-6%	-1.9	37.6
<b>Total Income (inclusive of income held with Fund Managers)</b>	<b>18.6</b>	<b>33.1</b>	<b>28.0</b>	<b>-15%</b>	<b>-5.0</b>	<b>34.2</b>

Overall, the London borough of Ealing Pension Fund achieved a net income for the year 2023/24 of £28.0m (£18.6m in 2022/23). This excludes the effect of the increase in the market value of the Fund's investments which was £193.3m (£74.0m decrease in 2022/23).

In-house income was £69.1m in 2023/24 (£56.2: 2022/23). This is largely due to changes in contribution rates emerging from the 2022 Valuation, together with larger payrolls. A few employers also opted to prepay their past service deficit contributions for 3 years in advance, and this has been accounted for in 2023/24

During 2023/24 non-investment income was not enough to cover pension benefits and expenses. This trend is likely to continue due to the rising cost of pension benefits and stagnating contribution levels.

Expenditure increased from £63.6m to £73.6m in 2023/24. The increase is mainly attributable to pension payments inflationary increase.

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. There were no late payments or overdue contributions during the year.

A copy of the [budgetary estimate report for 2024/25](#) can be obtained from the Council's website. The Pension Fund Panel approved the 2024/25 budgetary estimate report on 21 March 2024.

## **Prevention and Detection of Fraud**

The Council participates in the National Fraud Initiative which is designed to target and prevent fraud and corruption. As part of the initiative public agencies are allowed to share this information for cross matching purposes. The Fund has access to the Council's Corporate Fraud Team to support the pursuit and prosecution where necessary, of any potential pension irregularities.

## **POLICY STATEMENTS AND ACCOUNTS**

The following appendices contain various policy statements, and the 2023/24 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
- Communications Policy Statement – page 73

## PENSION FUND ACCOUNTS: APPENDIX A

<b>FUND ACCOUNT</b>			
	<b>Notes</b>	<b>31 March 2023 £'000</b>	<b>31 March 2024 £'000</b>
<b>Dealings with members, employers and others directly involved in the fund</b>			
Contributions	6	(47,139)	(62,015)
Transfers in from other Pension Funds	6a	(9,133)	(7,089)
		<b>(56,272)</b>	<b>(69,104)</b>
Benefits	7	52,148	60,372
Payments to and on account of leavers	7a	5,910	7,814
		<b>58,058</b>	<b>68,186</b>
<b>Net (additions)/withdrawals from dealings with Members</b>		<b>1,786</b>	<b>(918)</b>
Management Expenses	8	5,556	5,519
<b>Net (additions)/withdrawals Including Fund Management Expenses</b>		<b>7,342</b>	<b>4,601</b>
<b>Returns on Investments</b>			
Investment Income	9	(25,998)	(32,522)
Profit and losses on disposal of investments and changes in Value of investments	15	92,641	(165,483)
<b>Net return on investments</b>		<b>66,645</b>	<b>(198,005)</b>
<b>Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year</b>		<b>73,985</b>	<b>(193,405)</b>
<b>Opening Net Assets of the Scheme</b>		<b>(1,546,190)</b>	<b>(1,472,205)</b>
<b>Closing Net Assets of the Scheme</b>		<b>(1,472,205)</b>	<b>(1,665,610)</b>

<b>NET ASSETS STATEMENT</b>			
	<b>Notes</b>	<b>31 March 2023 £'000</b>	<b>31 March 2024 £'000</b>
Investment Assets	10	1,462,372	1,657,148
Investment Liabilities	10	(314)	(1,513)
<b>Total net investments</b>		<b>1,462,058</b>	<b>1,655,635</b>
Current Assets	17	12,403	12,604
<b>Current Liabilities</b>	18	<b>(2,256)</b>	<b>(2,629)</b>
<b>Net Assets of the Fund available to fund benefits at the end of the reporting period</b>		<b>1,472,205</b>	<b>1,665,610</b>

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**

Emily Hill, CPFA  
Strategic Director, Resources (S151 Officer)  
28 February 2025

Councillor Nagpal  
Audit Committee Chair  
28 February 2025

## **Note 1 – General Description of the London Borough Of Ealing Pension Fund**

### **a) General**

The Pension Fund (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, which provides for the payment of benefits to employees and former employees of the London Borough of Ealing Council and the 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. The fund is overseen by the Ealing Pension Fund Panel, which is a committee of Ealing Council.

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 either in service or in retirement. The benefits payable in respect of service from 1<sup>st</sup> April 2014 are based on career average revalued earnings and the number of years of eligible service. Pensions are increased each year in line with the Consumer Price Index.

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.

### **b) Funding**

The Fund is financed by contributions from members, the Council, the 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 and 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 2024. Employers also 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 2022, covering three financial years to 31 March 2026. Presently, the employer contributions rates range from 15.1% to 26.8% of the pensionable pay, as per the 2022 valuation.

### **c) 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:

<b>Item</b>	<b>Service pre 1 April 2008</b>	<b>Service post 31 March 2008</b>
<b>Pension</b>	Each year worked is worth 1/80 x final pensionable pay	Each year worked is worth 1/60 x final pensionable pay
<b>Lump sum</b>	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 1/49<sup>th</sup>. 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.

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

### **d) 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 2013 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.

The Section 151 Officer is responsible for the preparation of the Pension Fund Statement of Accounts. The Audit Committee are responsible for approving the financial statements for publication.

#### **e) 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 on the Council's website.

The Pension Fund panel has delegated the management of the Fund's investments to external investment managers (see Note 12) appointed in accordance with regulations, and whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

#### **f) Membership**

The Council is the administering authority for the Fund and has the major share of contributors and pensioners. Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. New joiners are auto enrolled but can choose to opt out.

Organisations participating in the Ealing Pension Fund include:

- Scheduled bodies, scheduled bodies, which are automatically entitled to be members of the fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

The following table summarises the membership numbers of the Fund:

	31 March 2023	31 March 2024
<b>Number of employers</b>	<b>40</b>	<b>40</b>
<b>Number of Active Members</b>		
London Borough of Ealing	6,022	6,233
Other employers	2,513	2,595
<b>Sub Total</b>	<b>8,535</b>	<b>8,828</b>
<b>Number of pensioners</b>		
London Borough of Ealing	6,989	7,169
Other employers	1,035	1,087
<b>Sub Total</b>	<b>8,024</b>	<b>8,256</b>
<b>Number of Deferred pensioners</b>		
London Borough of Ealing	8,040	8,881
Other employers	2,368	1,633
<b>Total</b>	<b>10,408</b>	<b>10,514</b>
<b>Total number of members in the scheme</b>	<b>26,967</b>	<b>27,598</b>

## Note 2 - Basis of preparation of financial statements

The Statement of Accounts (SoA) summarises the Fund's transactions for 2023/24 and its position as at 31 March 2024. The SoA has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (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 individual transfer values which are accounted for on a cash basis as described below. The accounts have been prepared on a going concern basis.

The Code requires disclosure of any accounting standards issued but not yet adopted. IFRS 16, introduced on 1 January 2019, is due to be adopted by the Code for accounting periods commencing on or after 1 April 2022. This new accounting standard largely removes the distinction between operating and finance leases by introducing an accounting model that requires lessees to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. Implementation of IFRS 16 is not expected to have any impact on the Ealing pension fund because it does not hold any assets as a lessee.

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. The Pension Fund Accounts have been prepared on a going concern basis, with the assumption that the functions of the authority will continue in operational existence for the foreseeable future.

## **Note 3 – Summary of Significant Accounting Policies**

### **Fund Account – Revenue Recognition**

#### **a) Contributions**

Normal contributions, both from the members and from the employers, are accounted for on an accruals basis as below;

- Employer contributions are set at the percentage rate recommended by the actuary for the period to which they relate.
- Employee contributions rates are set in accordance with LGPS regulations using percentage rate bandings, which rise in line with pensionable pay.

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.

#### **b) Transfers to and from other schemes**

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

#### **c) Investment Income**

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

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.

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 income received so far received is used.

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

## **Fund Account – Expense Items**

### **d) 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. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities, providing that payment has been approved.

### **e) 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 is subject to withholding tax in the country of origin unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

### **f) Lifetime Allowances**

Members are entitled to request the Pension Fund pays their tax liabilities due in respect of annual allowance and lifetime allowance in exchange for a reduction in pension. Where the Fund pays member tax liabilities direct to HMRC it is treated as an expense in the year in which the payment occurs.

### **g) Management Expenses**

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

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 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 and charged as expenses to the Fund in accordance with Council policy.

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 broadly based 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**

### **h) Financial Assets**

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. Any amounts due in respect of trades entered into but not yet complete as well as accrued income at 31 March each year are accounted for as financial assets held at amortised cost. 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 Assets Statement shows values of investments have been determined at fair value in accordance with the requirements of the code and IFRS13 "Fair Value Measurement". For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in accordance with the requirements of the Code and IFRS 13 (see Note 14D).

### **i) Foreign Currency Transactions**

Dividends, interest and purchases and sales of investments in foreign currencies are 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. Any exchange differences arising are recognised in profit or loss.

### **j) 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. All cash balances are short-term, highly liquid

investments that are readily convertible to known amounts of cash and are subject to minimal risk of changes in value.

#### **k) Financial Liabilities**

The Fund recognises financial liabilities at fair value as at the reporting date. Any amounts payable in respect of trades entered into but not yet complete at 31 March each year are accounted for as financial liabilities held at amortised cost and reflected in the classification of financial instruments in Note 14D. 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.

#### **l) Additional Voluntary Contributions**

The fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund, and in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, but their valuation is disclosed in Note 19 for information only.

#### **m) 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 below.

### **Note 4 – Critical Judgements in Applying Accounting Policies**

In applying the accounting policies set out in Note 3 above, the Fund may have to make certain critical judgements about complex transactions or those involving uncertainty about future events. There were no such critical judgements made during 2023/24.

### **Note 5 – Assumptions made about the future and other major sources of estimation**

The preparation of 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 future expectations. However, actual outcomes could be different from the assumptions and estimates made. The items in the net asset statement for which there is a significant risk of material adjustment the following year are as follows;

### **Private Equity Investments**

These investments are not publicly listed and therefore a degree of estimation is involved in the valuation. For the purposes of estimation, private equity investments include infrastructure and private debt. The table below details items in the Net Assets Statement at 31 March 2024:

<b>Item</b>	<b>Uncertainties</b>	<b>Effect of actual results differ from assumptions.</b>
Private Debt	Private debt 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 debt investments are valued at £63,974m (£65.150m: 2022/23) in the financial statements. There is a risk that this investment may be under or overstated in the accounts. Further details are shown in note 14a if actual results differ from assumptions.
Infrastructure	The Pension Fund contains investments in infrastructure funds. that are classified within the financial statements as level 3 investments. The final realised value of those funds may differ slightly from the valuations presented in the accounts as detailed in note 14a.	The value of these investments are £63,331m (£63.405m: 2022/23). Further details are shown in note 14a if actual results differ from assumptions.

### **Note 6 – Contributions Receivable**

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

By Category	31 March 2023 £'000	31 March 2024 £'000
Employees' contributions	(14,022)	(14,457)
<b>Employer's contributions:</b>		
Normal contributions	(31,468)	(39,344)
Deficit recovery contributions	(1,022)	(7,199)
Augmentation contributions	(627)	(1,015)
<b>Total employers' contributions</b>	<b>(33,117)</b>	<b>(47,558)</b>
<b>Total contributions receivable</b>	<b>(47,139)</b>	<b>(62,015)</b>

By type of Employer	31 March 2023 £'000	31 March 2024 £'000
Administering Authority	(35,705)	(47,809)
Scheduled bodies	(10,964)	(13,727)
Admitted bodies	(470)	(479)
<b>Total</b>	<b>(47,139)</b>	<b>(62,015)</b>

## Note 6a – Transfers in from other Pension Funds

	31 March 2023 £'000	31 March 2024 £'000
Individual transfers	(4,733)	(7,089)
Bulk transfers	(4,400)	-
<b>Total</b>	<b>(9,133)</b>	<b>(7,089)</b>

## Note 7 – benefits payable

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

By Category	31 March 2023 £'000	31 March 2024 £'000
Pensions	44,486	49,899
Commutation and lump sum retirement benefits	6,795	9,240
Lump sum death benefits	867	1,233
<b>Total</b>	<b>52,148</b>	<b>60,372</b>

By type of Employer	31 March 2023 £'000	31 March 2024 £'000
Administering Authority	47,474	54,564
Scheduled Bodies	4,222	5,323
Admitted Bodies	452	485
<b>Total</b>	<b>52,148</b>	<b>60,372</b>

## Note 7a – payments to and on account of leavers

By Type	31 March 2023 £'000	31 March 2024 £'000
Refunds to members leaving service	494	322
Individual transfers	5,416	7,492
<b>Total</b>	<b>5,910</b>	<b>7,814</b>

## Note 8 – management Expenses.

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

	31 March 2023 £'000	31 March 2024 £'000
Administrative costs	1,577	1,660
Investment management expenses	3,578	3,430
Oversight and Governance costs	401	429
<b>Total</b>	<b>5,556</b>	<b>5,519</b>

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

	31 March 2023 £'000	31 March 2024 £'000
Management fees	3,121	2,925
Performance fees	27	26
Custody fees	141	183
Transaction fees	289	296
<b>Total</b>	<b>3,578</b>	<b>3,430</b>

## Note 8a – External Audit Costs

The fees payable to the Fund's external auditors as agreed with the external auditors and the Public Sector Audit Appointments Ltd (PSAA) was £80k (£16k: in 2022/23)

	31 March 2023 £'000	31 March 2024 £'000
Payable in respect of external audit	16	80
<b>Total</b>	<b>16</b>	<b>80</b>

## Note 9 – Investment Income

Category	2022/23 £'000	2023/24 £'000
Fixed interest securities	14,131	15,454
Equity dividends	1	-
Pooled investments	11,566	15,513
Interest and cash deposits	303	1,555
<b>Investment income</b>	<b>26,001</b>	<b>32,522</b>
Other income	(3)	-
<b>Total before taxes</b>	<b>25,998</b>	<b>32,522</b>
<b>Total</b>	<b>25,998</b>	<b>32,522</b>

## Note 10 – Investments

The table shows the analysis of investments held by the Fund as at 31 March 2024:

	Market Value 31 March 2023 £'000	Market Value 31 March 2024 £'000
<b>Investment Assets</b>		
Equities	-	150
Bonds	301,245	313,083
<b>Pooled Funds</b>		
Fixed Income Unit Trusts	10,743	12,091
Infrastructure Funds	63,405	63,331
Global Equity	875,128	1,041,252
<b>Sub total</b>	<b>949,276</b>	<b>1,116,674</b>
<b>Other Investments</b>		
Pooled Property Investments	111,948	102,953
Private Debt	65,150	63,974
<b>Sub total</b>	<b>177,098</b>	<b>166,927</b>
Cash Deposits	28,716	52,972
Investment Income Due	6,037	6,698
Amounts Receivable for Sales	-	644
<b>Sub total</b>	<b>34,753</b>	<b>60,314</b>
<b>Total Investment Assets</b>	<b>1,462,372</b>	<b>1,657,148</b>
<b>Investment liabilities</b>		
Amounts payable for purchases	(314)	(1,513)
<b>Total investment assets</b>	<b>1,462,058</b>	<b>1,655,635</b>



## Note 11 – Reconciliation in movement in investments.

2023/24	Market value 1 April 2023 £'000	Purchases during the year £'000	Sales during the year £'000	Change in market value during the year £'000	Market value 31 March 2024 £'000
Bonds	301,245	50,739	(49,862)	10,961	313,083
Pooled Investments	949,276	556	-	166,842	1,116,674
Pooled Property Investments	111,948	1,826	-	(10,821)	102,953
Private Debt	65,150	8,152	(6,915)	(2,413)	63,974
Equities	-	-	-	150	150
Cash Instruments	15,582	60,841	(48,107)	-	28,316
<b>Total</b>	<b>1,443,201</b>	<b>122,114</b>	<b>(104,884)</b>	<b>164,719</b>	<b>1,625,150</b>
Investment Cash	13,134			764	24,656
Amounts receivable from Sales	-			-	644
Investment Income due	6,037			-	6,698
Payable for Purchases	(314)			-	(1,513)
<b>Net investment assets</b>	<b>1,462,058</b>			<b>165,483</b>	<b>1,655,635</b>

2022/23	Market value 1 April 2022 £'000	Purchases during the year £'000	Sales during the year £'000	Change in market value during the year £'000	Market value 31 March 2023 £'000
Bonds	352,223	44,289	(42,196)	(53,071)	301,245
Equities	6	-	(6)	-	-
Pooled Investments	968,357	5,633	(10,080)	(14,634)	949,276
Pooled Property Investments	136,588	3,170	-	(27,810)	111,948
Private Debt	52,510	12,462	(1,271)	1,449	65,150
Cash Instruments	18,300	65,352	(68,070)	-	15,582
<b>Total</b>	<b>1,527,984</b>	<b>130,906</b>	<b>(121,623)</b>	<b>(94,066)</b>	<b>1,443,201</b>
Investment Cash	9,183			(85)	13,134
Amounts receivable from Sales	64			-	-
Investment Income due	5,291			-	6,037
Payable for Purchases	(2,780)			-	(314)
<b>Net investment assets</b>	<b>1,539,742</b>			<b>(94,150)</b>	<b>1,462,058</b>

## **Note 12 – Investments analysed by Fund Manager**

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. The bank account for the Fund is held with Lloyds Bank.

Fund Manager	Mandate	Market Value 31 March 2023 £'000	%	Market Value 31 March 2024 £'000	%
<b>Investments managed within the London CIV</b>					
London CIV	Share Capital	-	0	150	0
Baillie Gifford	Global Equity (Active)	244,206	17	286,834	17
		<b>244,206</b>	<b>17</b>	<b>286,984</b>	<b>17</b>
<b>Investments managed outside of the LCIV</b>					
Royal London	UK Corporate (Active)	307,340	21	319,617	19
	UK corporate (Pooled)	10,743	1	12,091	1
BlackRock	Global Equities	46,528	3	57,413	3
Legal & General	Future World - Global Equities (Passive)	296,281	20	341,811	21
	MSCI World - Global Equities (Passive)	288,533	20	355,195	21
Brightwood	Private Debt (Overseas Pooled)	7,259	0	6,461	0
Churchill	Private Debt (Overseas Pooled)	23,608	2	20,155	1
Permira	Private Debt (UK Pooled)	34,283	2	37,358	2
Henley	Unit Trust (UK Property Pooled)	3,153	0	4,626	0
Lothbury	UK Property (Pooled)	39,490	3	34,459	2
Hermes	UK Property (Pooled)	45,255	3	43,639	3
Standard Life	UK Property (Pooled)	34,326	2	31,212	2
JP Morgan	Infrastructure (Overseas Pooled)	58,379	4	58,263	4
Darwin	Bereavement Services (UK Infrastructure Pooled)	5,077	0	5,068	0
Ealing In-house Cash		17,595	1	41,283	2
<b>Total outside the pool</b>		<b>1,217,852</b>	<b>83</b>	<b>1,368,651</b>	<b>83</b>
<b>Total Investments</b>		<b>1,462,058</b>	<b>100</b>	<b>1,655,635</b>	<b>100</b>

### Note 13 – Investments exceeding 5% of Net Assets

The table below shows the Fund's investments which exceed 5% of net assets of the Fund. These are all pooled investment vehicles, which are made up of underlying investments, each of which represent substantially less than 5%.

Investment	31 March 2023 Market Value £'000	Holding %	31 March 2024 Market Value £'000	Holding %
LCIV Global Alpha Growth Fund	244,206	17	286,834	17
Future World Fund	296,281	21	341,811	22
MSCI World Carbon Target Fund	288,533	20	355,195	21
<b>Total</b>	<b>829,020</b>	<b>58</b>	<b>983,840</b>	<b>60</b>

## Note 14 – 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	The published bid market price on the final day of the accounting period	Not required	Not required
Bonds - Corporate bonds and Government gilts	Level 2	Market value based on current yields	Current yields	Not required
Cash deposits and Cash instruments	Level 1	Closing bid value on published exchanges	Not required	Not required
Pooled investments - property	Level 2	Average of broker prices	Evaluated price feeds	Not required
Pooled investments – infrastructure funds	Level 3	Closing bid price where bid and offer prices are published. Closing single price where single price published.	NAV-based pricing set on a forward pricing basis	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 and infrastructure, these assets have been valued at level 3.

The Fund considers that quoted equities and cash are highly liquid and have been valued at Level 1. Further, pooled investment vehicles and bonds 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.

#### Note 14A – 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 2024.

Asset type	Value '£'000	1 year expected Volatility %	Value on Increase £'000	Value on decrease £'000
<b>As at 31 March 2024</b>				
Private Debt	63,974	8.8	69,604	58,345
Infrastructure	63,331	13.6	71,944	54,718
<b>Total</b>	<b>127,305</b>		<b>141,548</b>	<b>113,063</b>
<b>As at 31 March 2023</b>				
Private Debt	65,150	9.6	71,404	58,896
Infrastructure	63,405	16.0	73,550	53,260
<b>Total</b>	<b>128,555</b>		<b>144,954</b>	<b>112,156</b>

## Note 14b: Fair Value Hierarchy

The table below provides an analysis of the financial assets and liabilities of the Fund grouped into levels 1 to 3, based on the level at which fair value has been observed:

	31 March 2023*			31 March 2024		
	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000
<b>Financial Assets</b>						
Held at fair value through profit and loss	13,132	1,279,022	164,181	52,971	1,432,466	164,370
Held at amortised cost	18,439	-	-	19,946	-	-
	164,370	1,279,022	164,181	72,917	1,432,466	164,370
<b>Financial Liabilities</b>						
Payables	(2,060)	-	-	(3,447)	-	-
<b>Grand Total</b>	<b>29,511</b>	<b>1,279,022</b>	<b>164,181</b>	<b>69,470</b>	<b>1,432,466</b>	<b>164,370</b>

\*Note 31 March 2023 figures have been restated for consistency with 31 March 2024

## Note 14c: Reconciliation of Fair Value Measurements Within Level 3

2023/24	Opening balance £'000	Transfers to Level 3 £'000	Purchases £'000	Sales £'000	Unrealised gains/losses £'000	Realised gains/losses £'000	Closing balance £'000
Pooled investments - private Debt	65,150	-	8,152	(6,915)	(2,413)	-	63,974
<b>Total</b>	<b>65,150</b>	<b>-</b>	<b>8,152</b>	<b>(6,915)</b>	<b>(2,413)</b>	<b>-</b>	<b>63,974</b>
Pooled investments - Infrastructure	58,379	-	-	-	(116)	-	58,263
Pooled investments - Private Equity	5,026	-	-	-	41	-	5,068
Pooled Investments - Property	35,625	-	-	-	(2,657)	-	32,968
Corporate Bond	-	3,947	-	-	-	-	3,947
Share Capital	-	150	-	-	-	-	150
<b>Total</b>	<b>99,030</b>	<b>4,097</b>	<b>-</b>	<b>-</b>	<b>(2,731)</b>	<b>-</b>	<b>100,396</b>

2022/23*	Opening balance £'000	Transfers out Level 3 £'000	Purchases £'000	Sales £'000	Unrealised gains/losses £'000	Realised gains/losses £'000	Closing balance £'000
Pooled investments - private Debt	52,510	-	12,462	(1,271)	1,449	-	65,150
	<b>52,510</b>	<b>-</b>	<b>12,462</b>	<b>(1,271)</b>	<b>1,449</b>	<b>0</b>	<b>65,150</b>
Pooled investments - Infrastructure	54,726	-	-	-	3,653	-	58,379
Pooled investments - Private Equity	-	-	5,000	-	26	-	5,026
Pooled Investments - Property	42,376	-	-	-	(6,751)	-	35,625
	<b>97,102</b>	<b>-</b>	<b>5,000</b>	<b>-</b>	<b>(3,072)</b>	<b>-</b>	<b>99,030</b>

\*2022-23 figures were restated in respect of a reclassification of a pooled property investment from level 2 to level 3, valued at £42.4m.

## Note 14d – Classification of Financial Instruments

	31 March 2023			31 March 2024		
	Financial Assets held at Fair Value through Profit and Loss '£'000	Financial Assets held at Amortised cost '£'000	Financial liabilities at Amortised cost '£'000	Financial Assets held at Fair Value through Profit and Loss '£'000	Financial Assets held at Amortised cost '£'000	Financial liabilities at Amortised cost '£'000
Bonds	301,245	-	-	313,083	-	-
Equities	-	-	-	150	-	-
<b>Pooled investment vehicles</b>						
Fixed Income Unit Trusts	10,743	-	-	12,091	-	-
Property	111,948	-	-	102,953	-	-
Infrastructure Funds	63,405	-	-	63,331	-	-
Global Equity	875,128	-	-	1,041,252	-	-
Private Debt	65,150	-	-	63,974	-	-
<b>Cash Instruments</b>						
Cash deposits	28,716	-	-	52,972	-	-
Unsettled sales	-	-	-	-	644	-
Accrued income	-	6,037	-	-	6,698	-
<b>Total investment assets</b>	<b>1,456,335</b>	<b>6,037</b>	<b>-</b>	<b>1,649,807</b>	<b>7,342</b>	<b>-</b>
<b><u>Investment Liabilities</u></b>						
Unsettled Purchases	-	-	(314)	-	-	(1,513)
<b>Net Investment assets</b>	<b>1,456,335</b>	<b>6,037</b>	<b>(314)</b>	<b>1,649,807</b>	<b>7,342</b>	<b>(1,513)</b>
<b><u>Other financial assets</u></b>						
Contributions Due	-	683	-	-	5,667	-
Cash Balances	-	10,852	-	-	6,722	-
Other debtors	-	867	-	-	215	-
	<b>1,456,335</b>	<b>18,439</b>	<b>314)</b>	<b>1,649,807</b>	<b>19,946</b>	<b>(1,513)</b>
<b><u>Financial Liabilities</u></b>						
Current Liabilities	-	-	(1,746)	-	-	(1,934)
	-	-	<b>(1,746)</b>	-	-	<b>(1,934)</b>
<b>Total</b>	<b>1,456,335</b>	<b>18,439</b>	<b>(2,060)</b>	<b>1,649,807</b>	<b>19,946</b>	<b>(3,447)</b>
<b>Grand Total</b>		<b>1,472,714</b>			<b>1,666,306</b>	

\* The classification of current liabilities excludes the Fund's liability for PAYE of £695k (2023: £510k) as this is not classified as a financial instrument.



## Note 15 – Net Gains and Losses on Financial Instruments

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

	31 March 2023 £'000	31 March 2024 £'000
<b>Financial Assets</b>		
Held at fair value through profit and loss	(98,593)	158,021
Financial Assets held at Amortised cost	5,952	7,462
<b>Total</b>	<b>(92,641)</b>	<b>165,483</b>

## Note 16 – 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 11.2% (12.4%: 2023). The Fund believes that 11.2% 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:

<b>Assets exposed to price risk</b>	<b>Value '£'000</b>	<b>Value on price increase '£'000</b>	<b>Value on price decrease '£'000</b>
As at 31 March 2024	1,625,150	1,807,167	1,443,134
As at 31 March 2023	1,050,481	1,180,741	920,221

## **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 100bps (100bps: 2023). It should be noted that an increase in the interest rates results in a decrease in the value of the portfolio and vice versa.

<b>Assets exposed to interest rate risk</b>	<b>Value £'000</b>	<b>Value on interest rate increase £'000</b>	<b>Value on interest rate decrease £'000</b>
As at 31 March 2024	442,120	437,699	446,542
As at 31 March 2023	405,854	401,795	409,912

### **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. Management 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 9.3% (9.9%: 2023) strengthening/weakening of the pound against foreign currencies:

<b>Assets exposed to currency risk</b>	<b>Value £'000</b>	<b>Value on foreign exchange rate increase £'000</b>	<b>Value on foreign exchange rate decrease £'000</b>
As at 31 March 2024	1,131,198	1,236,400	1,025,997
As at 31 March 2023	969,400	1,065,371	873,430

## **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 2024 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 investment credit exposure is summarised in the table below;

<b>Summary</b>	<b>Rating</b>	<b>Balances as at 31 March 2023 £'000</b>	<b>Balances as at 31 March 2024 £'000</b>
<b>Bank Current Accounts</b>			
Lloyds Bank	A+	10,852	6,722
<b>Money Market Funds</b>			
BNY Mellon Goldman Sachs MMF	AAA	15,582	28,316
<b>Total</b>		<b>26,434</b>	<b>35,038</b>

## **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 17 – Current Assets

Item	31 March 2023 £'000	31 March 2024 £'000
<b>Debtors:</b>		
Contributions due - employers	510	4,504
Contributions due - employees	174	1,163
Sundry debtors	867	215
<b>Sub total</b>	<b>1,551</b>	<b>5,882</b>
Cash balances - Lloyds Bank	10,852	6,722
<b>Total</b>	<b>12,403</b>	<b>12,604</b>

	31 March 2023 £'000	31 March 2024 £'000
<b>Analysis of Debtors</b>		
Central government bodies	467	284
Local authorities	828	5,055
Other entities and individuals	256	543
<b>Total</b>	<b>1,551</b>	<b>5,882</b>

## Note 18 – Current Liabilities

Item	31 March 2023 £'000	31 March 2024 £'000
Unpaid benefits	(78)	(90)
Sundry creditors and accrued expenses	(2,178)	(2,539)
<b>Total</b>	<b>(2,256)</b>	<b>(2,629)</b>

	31 March 2023 £'000	31 March 2024 £'000
<b>Analysis of Current Liabilities</b>		
Central government bodies	(510)	(695)
Local authorities	(1,380)	(1,463)
Other entities and individuals	(366)	(471)
<b>Total</b>	<b>(2,256)</b>	<b>(2,629)</b>

## Note 19 – Additional Voluntary Contributions

The Pension Fund's Additional Voluntary Contributions (AVC) providers are Scottish Widows and Utmost. 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.

31 March 2023 Contributions £'000	31 March 2023 Market Value £'000	Provider	31 March 2024 Contributions £'000	31 March 2024 Market Value £'000
58	605	Scottish Widows (as at 31 March 2024)	56	607
96	206	Utmost (as at 31 October 2023)	-	194
<b>154</b>	<b>811</b>	<b>Total</b>	<b>56</b>	<b>801</b>

## Note 20 – Related Party Transactions

The Fund is administered by the London Borough of Ealing (the Council). In 2023/24, the Council charged the pension fund £1.0m for expenses incurred in administering the Fund (£1.0m: 2022/23). 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 £1.4m at 31 March 2024 (197.5k: 2022/23). The amount owing to Pension Fund from the Council was £5.1m (0.82m: 2022/23).

Each member of the Pension Fund Panel (PFP) and Board is required to declare their interests at each meeting. Two members of the Board were scheme members in the Fund, the same as in 2022/23.

The council is also the single largest employer of members of the Pension Fund and contributed £47.81m to the fund in 2023-24 (£35.71m in 2022-23)

The Pension Fund is a minority shareholder in the London CIV (LCIV) Asset Pool, and shares valued at £150k at 31 March 2024 are included in the net asset statement. Part of the portfolio of pension fund investments is managed by the LCIV, as shown in Note 12.

## Note 21 – Key Management Personnel Remuneration

The key management personnel of the Pension Fund are the Members of the Pension Fund Panel and Pension Board, and the Strategic Director Resources. There was a £1k (£1k: 2022/23) remuneration for the Pension Board Chair. No remuneration is paid to other Members in relation to their duties.

The Strategic Director Resources' remuneration is not paid directly by the fund; costs are instead recovered as part of the management costs disclosed in note 8, this amounted to £39k in 2023/24 (£27k: 2022/23).

## **Note 22 – Contingent Liabilities and Contractual Commitments**

The total capital commitments as at 31 March 2024 were 20.9m (£38.2m: 2022/23). These commitments relate to outstanding call payments due on the Private Debt and Secure Income Property portfolios. The amounts called by these funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment. The Fund has no other material contingent assets or liabilities as at 31 March 2024.

## **Note 23 – Events after the Net Assets Statement Date**

Management have reviewed and can confirm that there are no significant events occurring after the reporting period.

## **Note 24 – Funding Arrangements and Actuarial Present Value of Promised retirement benefits**

The London Borough of Ealing Pension Fund is financed through contributions from employees, the administering authority, and other participating employers, as well as returns on investments. The Fund's funding policy aims to ensure that sufficient assets are available to meet the benefits promised to members as they fall due. Contributions are determined by an independent actuarial valuation, undertaken triennially, with the most recent valuation as of 31 March 2022.

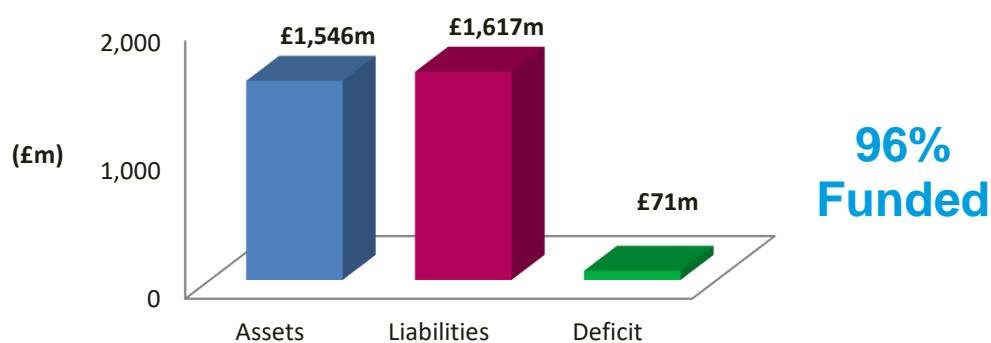
As at 31 March 2024, the actuarial present value of promised retirement benefits, calculated under IAS 26 principles, was £1,657 million (compared to £1,620 million in the prior year). The Fund's net assets available to pay benefits at the same date were £1,666 million (compared to £1,472 million in the prior year). This results in a funding position of approximately 101%, indicating that the Funds available assets slightly exceed the present value of promised benefits. Further details and assumptions underpinning this valuation are provided in Appendix B.

**ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2024 - 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 2022 to determine the contribution rates with effect from 1 April 2023 to 31 March 2026.

On the basis of the assumptions adopted, the Fund’s assets of £1,546 million represented 96% of the Fund’s past service liabilities of £1,617 million (the “Solvency Funding Target”) at the valuation date. The deficit at the valuation was therefore £71 million.



The valuation also showed that a Primary contribution rate of 18.6% 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. Equally, where there is a surplus it may be appropriate to offset this against contributions for future service, in which case contribution reductions will be put in place to allow for this.

The FSS sets out the process for determining the recovery plan in respect of each employer. At the 2022 actuarial valuation the average recovery period adopted for employers in deficit was 11 years (12 years for employers in surplus). The total recovery payment (the “Secondary rate”) for 2023/26 was, on average, an addition of approximately £7m per annum (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 March 2023.

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. Full yield curves were used in calculating the liabilities and the approximate single equivalent rates for the main actuarial assumptions used for assessing the Solvency Funding Target and the Primary rate of contribution, were as follows:

	For past service liabilities (Solvency Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	4.45% per annum	5.10% per annum
Rate of pay increases (long term)	4.35% per annum	4.35% per annum
Rate of increases in pensions in payment (in excess of GMP)	3.10% per annum	3.10% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2025. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2026.

## 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. The assumptions adopted are shown in Appendix 2.

The movement in the value of the Fund's promised retirement benefits for IAS 26 is as follows:

<b>2023/24 Start of period liabilities</b>	<b>£1,620m</b>
Interest on liabilities	£77m
Net benefits accrued/paid over the period*	(£9m)
Actuarial (gains)/losses (see below)	(£31m)
<b>End of period liabilities</b>	<b>£1,657m</b>

\*this includes any increase in liabilities arising as a result of early retirements

<b>2022/23 Start of period liabilities</b>	<b>£2,290m</b>
Interest on liabilities	£64m
<b>Net benefits accrued/paid over the period*</b>	<b>£44m</b>
<b>Actuarial (gains)/losses (see below)</b>	<b>(£778m)</b>

Key factors leading to actuarial gains above are:

- **Change in financial assumptions:** Corporate bond yields increased slightly over the year, with a corresponding increase in discount rate from 4.8% p.a. to 4.9% p.a. The long-term assumed CPI is the same at the end of year as it was at the start of year. In combination, these factors lead to a small reduction in liabilities.
- **Change in demographic assumptions:** As noted in appendix 2, the assumptions have been updated to reflect the new CMI model available. This acts to reduce the liabilities.
- **Pension increases / recent high short-term inflation:** The figures allow for the impact of the April 2024 pension increase of 6.7%, to the extent it wasn't allowed for in the 2023 statement, along with known CPI since September 2023 (which will feed into the 2025 pension increase). As current inflation is higher than the long-term assumption, this increases the liabilities

**Michelle Doman**  
Fellow of the Institute and  
Faculty of Actuaries

**Clive Lewis**  
Fellow of the Institute and  
Faculty of Actuaries

**Mercer Limited**  
**May 2024**

## Appendix 1 - Additional considerations

**The “McCloud judgment”:** The figures above allow for the impact of the judgment based on the proposed remedy.

**GMP indexation:** The above figures allow for the provision of full CPI pension increases on GMP benefits for members who reach State Pension Age after 6 April 2016.

**Covid 19 / Ukraine / Gaza conflict:** The financial assumptions allow for these factors to the degree that they are reflected in the market values on which the assumptions are based. The mortality assumption includes no specific adjustment for COVID as our view is that it is not possible at this point to draw any meaningful conclusions on the long-term impact.

**High inflation over last two years:** The period-end figures above allow for the impact of actual known CPI at the accounting date as noted above. The period-end assumptions then allow for expected (market implied) CPI from that point.

**Virgin Media Court Case:** in June 2023, a High Court judgement in the case of Virgin Media vs NTL Pension Trustees II Limited provided a ruling related to Section 37 of the Pension Scheme act 1993 and changes to scheme rules. However, Mercer understands (from the Government Actuary Department) that all requirements were met and so public sector schemes are unlikely to be affected by this issue. The Fund continues to monitor the situation and the potential impact of the final decision.

## Appendix 2 - financial and demographic assumptions

To assess the liability value of the benefits, we have used the following assumptions as at 31 March 2024 (the 31 March 2023 assumptions are included for comparison):

### Financial assumptions

	31 March 2023	31 March 2024
Rate of return on investments (discount rate)	4.80% per annum	4.90% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.70% per annum	2.70% per annum
Rate of pay increases	3.95% per annum	3.95% per annum
Increases on pensions (in excess of GMP) / Deferred revaluation	2.80% per annum	2.80% per annum

### Post retirement mortality (normal health)

	31 March 2023 (M/F)	31 March 2024 (M/F)
Base mortality table	SAPS 3 / SAPS 3 middle	SAPS 3 / SAPS 3 middle
Future improvements	CMI 21 1.5%	CMI 22 1.5%
Additional parameters	S=7.5, A=0, W20=W21=0	S=7, A=0 W20=W21=0%, W22=25%
<i>Non-retired members (current age 45):</i>		
Weightings	110% / 100%	105% / 95%
Life expectancies at age 65	23.3 / 26.0	22.9 / 25.7
<i>Retired members (current age 65):</i>		
Weightings	106% / 98%	101% / 95%
Life expectancies at age 65	22.0 / 24.3	21.6 / 24.0

The base tables are set based on the most recent mortality analysis for the Fund (undertaken as part of the 2022 actuarial valuation). The future improvements allow for a best estimate long-term improvement rate of 1.5%, and have been updated to allow for the latest CMI tables available (CMI 2022), with a reweighting to maintain consistency with the underlying mortality analysis.

The above table shows the key parameters and resulting life expectancies.

### Other demographic assumptions

The other demographic assumptions are the same as those used for 2022 actuarial funding valuation – full details are set out in the formal report on the actuarial valuation dated March 2023.

## INVESTMENTS AND FUNDING

Over the last twelve months, the average Local Authority Pension Fund returned - 9.1%.

The Fund had an excellent year in terms of performance relative to its peers, ranking very close to the top, in the 5th percentile. The Fund benefited from its high equity allocation in a year when Equities delivered an average return of over 16% when most other asset classes returned less than 4%.

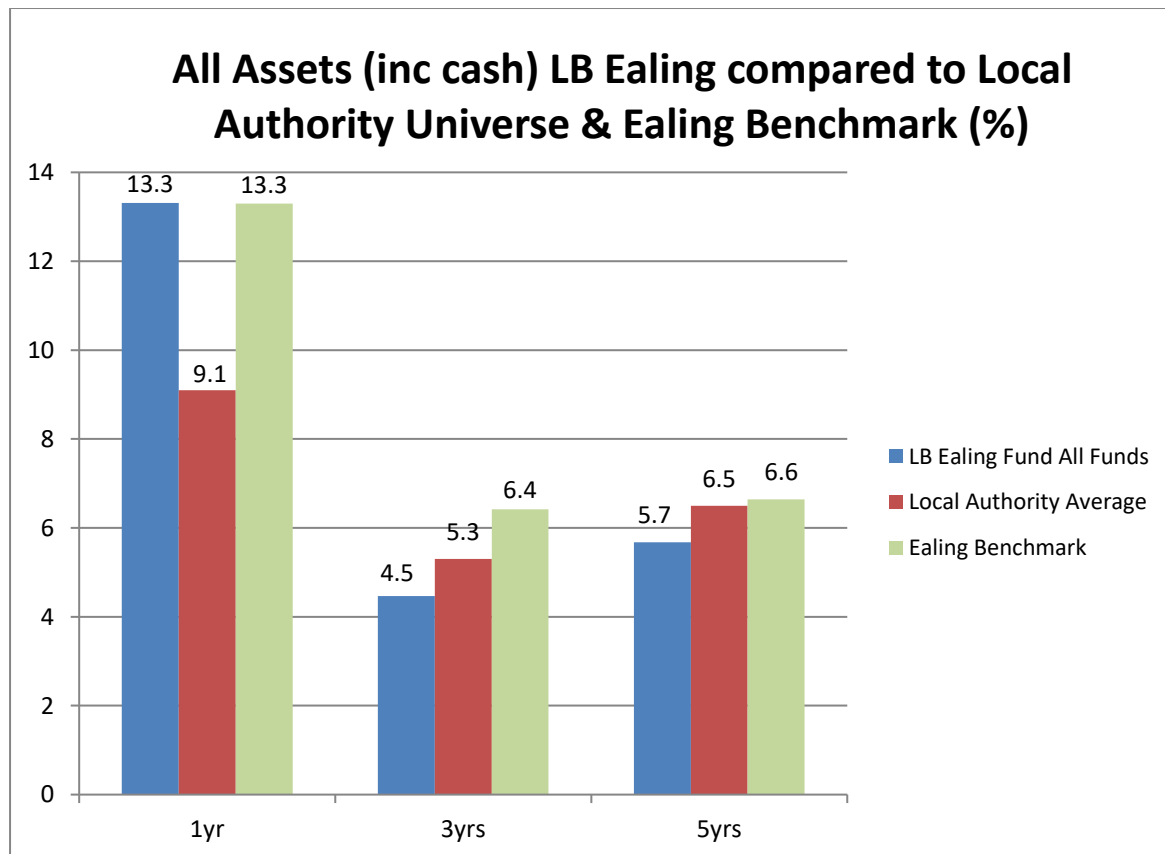
Over the longer term the Fund remains slightly below average, its poor property performance and lack of exposure to alternative assets in the earlier periods being the two key factors.

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

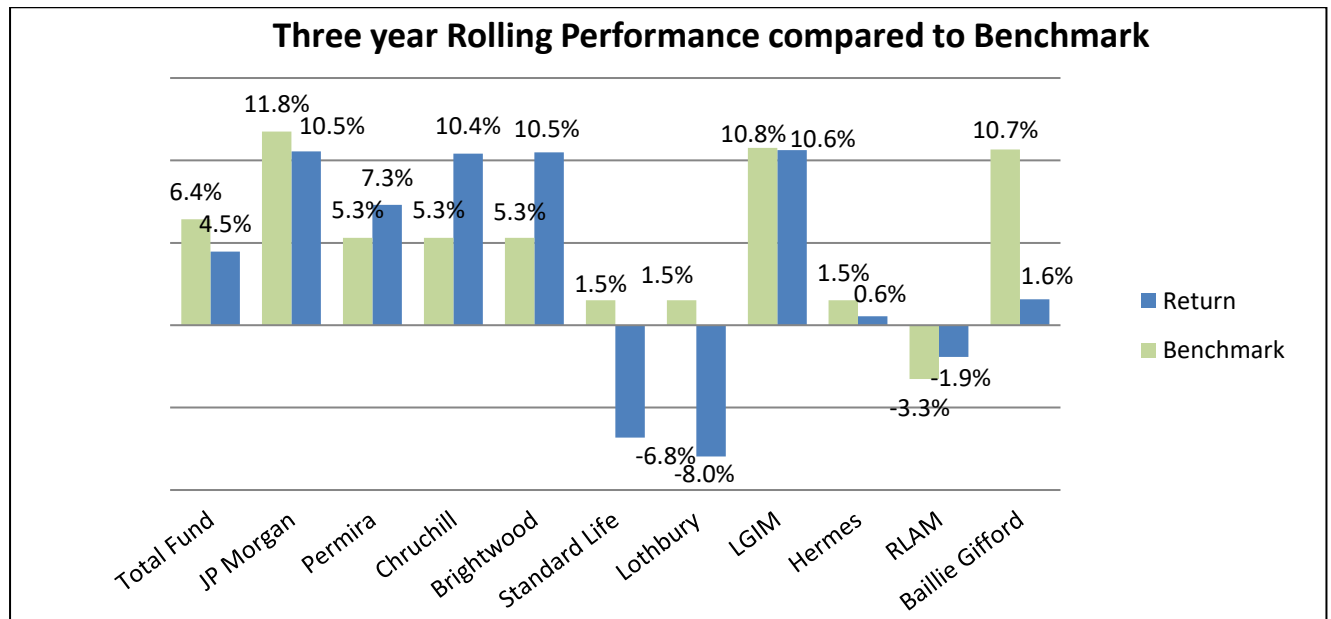
### Performance of the Fund

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 13.3% in 2023/24, and an average of 4.8% and 5.7% for the three years and five years respectively to 31 March 2022/24.



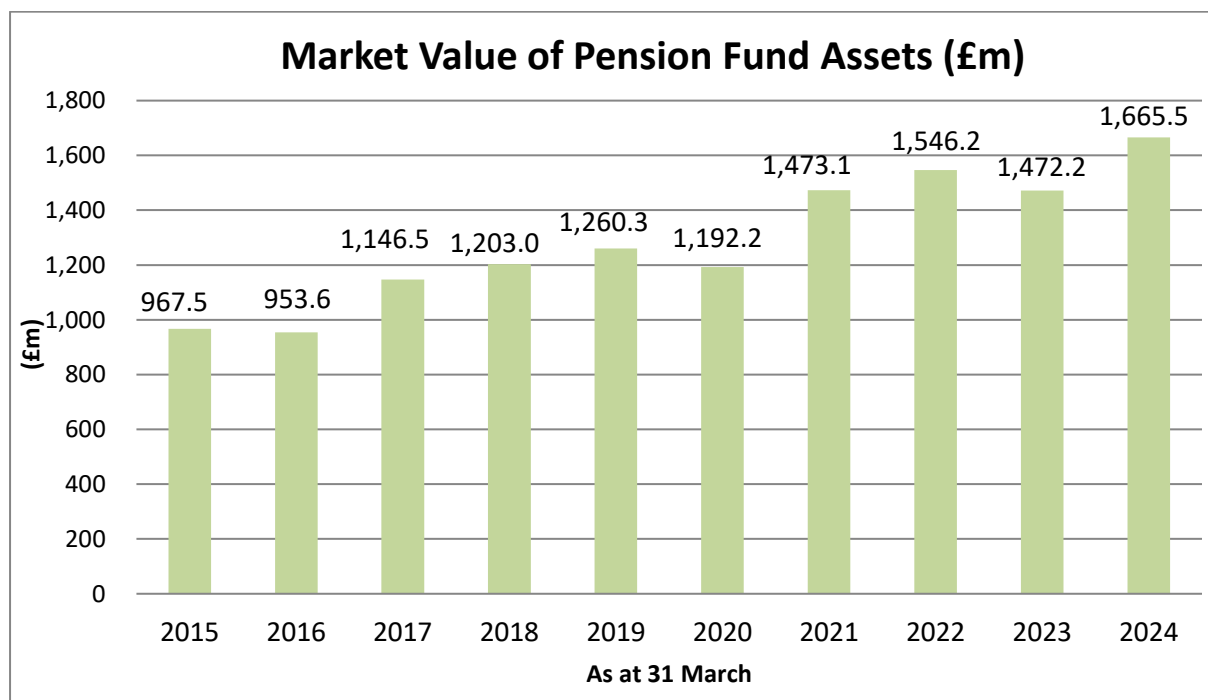
Below is the Long-term 3 year rolling performance analysis of the fund managers together with the Total Fund to 31 March 2024.



\*\* 3-year data is not available for new managers Darwin, Henley, and BlackRock

## Value of the Fund's Assets

At the end of March 2024, the market value of the Pension Fund's total assets was £1665.5m; an increase of 13.1% from the opening value of £1,472.2m. The graph below illustrates the movement of the Fund's assets over the last 10 years (as at the 31 March in each year).



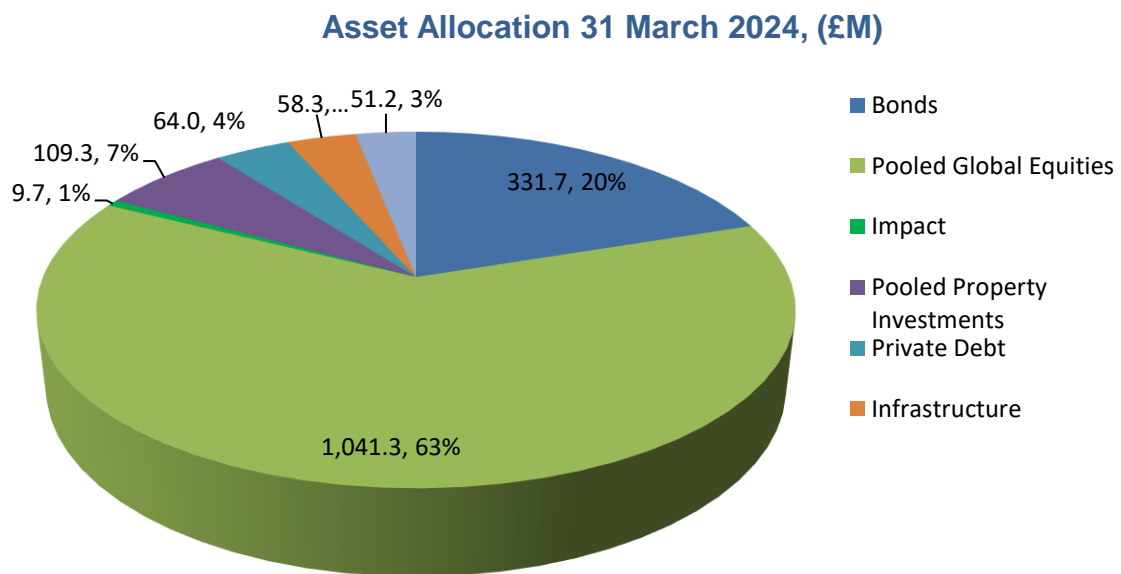
## Investment Management

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 determine the management of the Fund's assets. 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.

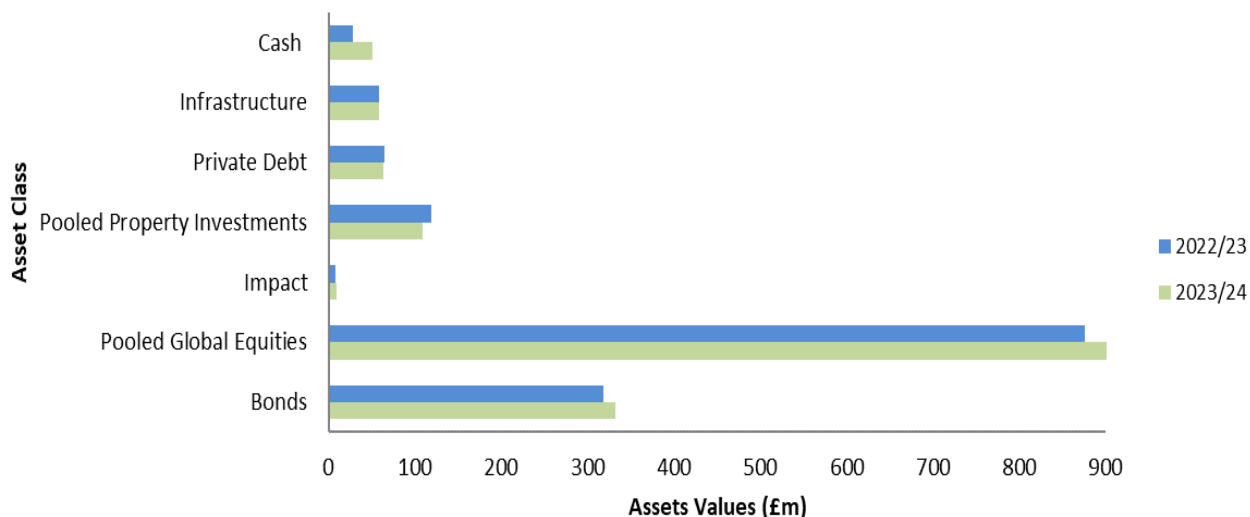
The fund's investments are managed on behalf of the Fund by the appointed investment managers. Each investment manager is required to invest the assets managed by them in accordance with the terms of their investment guidelines. A range of investment managers have been appointed to diversify manager risk, with pooled Global equity, UK Corporate bonds, pooled property, private debt, as well as infrastructure mandates. The Fund's assets are held for safekeeping by the custodian Bank of New York Mellon (BNYM).

The market value allocation to the various asset classes as at the end of 2023/24 is as outlined below:



The graph below sets out how the distribution across the various asset classes has moved between the end of the previous financial year, 31 March 2023, and the end of the current financial year, 31 March 2024.

## Movement in Market Value of Investments - Broken Down By Asset Class



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

Manager	Mandate	% of Fund Under Management at 31/3/24
Baillie Gifford	Global Equities	17%
BlackRock	Global Equities	3%
Legal & general	Global Equities	42%
RLAM	UK Corporate Bonds	19%
Hermes	UK Pooled Property	2%
Lothbury	UK Pooled Property	3%
Standard Life	UK Pooled Property	2%
Henley	Unit Trust	0%
Brightwood	Private Debt	0%
Churchill	Private Debt	1%
Permira	Private Debt	2%
JP Morgan	Infrastructure	4%
Darwin Bereavement Services	Infrastructure	0%



## Top sixteen holdings by Market Value as at 31 March 2024

Top 16 Holdings at 31 <sup>st</sup> March 2024	Market Value £000
DESCRIPTION: IIF UK 1LP	58,263
LOTHBURY PROPERTY FUND	34,149
FEDRTD HERMES PRPTY UNT TRST	32,968
PERMIRA CREDIT SOLUTIONS IV SENIOR GBP SCSP	32,606
STANDARD LIFE LONG LEASE PPTY FUN	31,210
GS GBP LIQ RES INST	26,694
MICROSOFT CORP COM USD0.00001 (APAZ)	17,743
MICROSOFT CORP COM USD0.00001 (GPCL)	16,192
APPLE INC COM NPV	14,799
CHURCHILL MIDDLE MARKET SENIOR LOAN FUND II	13,903
APPLE INC COM NPV	13,668
NVIDIA CORP USD0.001	12,350
ROYAL LON STER EX YL BD-SI	12,091
FACEBOOK	11,355
MICROSOFT	10,803
MARTIN MARIETTA	10,646

## Investment Management Expenses

The investment management expenses for the year to 31 March 2024 were £3,430m, (£3,578m:2022/23).

## Strategic asset allocation

The Fund's asset allocation is detailed in the table below. An implementation strategy and rebalancing, taking into account manager selection, costs, and the Fund's overall objectives is underway.

Asset Class	Asset Values on 31 March 2024 (£m)	Percentage of total assets 31 March 2024 (%)	Strategic Asset Allocation (%)
Global Equity	1,041,252	62.5	47.0
Private Equity	0	0	3
<b>Total Growth</b>	<b>1,041,252</b>	<b>62.5</b>	<b>50.0</b>
Infrastructure	58,271	3.5	6.0
Property	109,310	6.6	9.0
Private Debt	63,975	3.8	5.0
Impact	9,694	0.6	1.0
Multi Asset Credit	0.0	0.0	4.0
<b>Total Income</b>	<b>241,258</b>	<b>14.5</b>	<b>25.0</b>
UK IG Credit	331,711	19.9	15.0
Index Linked Gilts	0	0	10.0
Cash	51,239	3.1	0.0
<b>Total Protection</b>	<b>382,950</b>	<b>23.0</b>	<b>25.0</b>
<b>Total Fund</b>	<b>1,665,460</b>	<b>100</b>	<b>100</b>

## Asset Pooling

The Fund recognises the Government's wish for LGPS funds to pool their investments and is committed to pursuing pooling solutions if they benefit the Fund. The Fund joined the London Collective Investment Vehicle (LCIV) as part of the Government's pooling agenda. The LCIV pool comprises of 32 local authorities within London and is in the process of opening a range of sub-funds covering liquid asset classes, with less liquid asset classes to follow.

The Fund holds assets within the LCIV with a value of £287m as at 31 March 2024. Going forward the Fund will look to transition further assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

The current portfolio comprises of three managers, all of which are among the LCIVs preferred managers. One manager, Baillie Gifford, is within the CIV's Authorised Contractual Scheme (ACS) structure, while LGIM and BlackRock operate outside the CIV but under the auspices of the CIV. The Fund however, benefit from LCIV negotiated fees and the LCIV takes a small proportion in view of the fact that they have negotiated attractive fees.

The investment strategy (ISS) is reviewed at least every three years, where the investment of the Fund's assets is carefully considered by the PFP with advice from investment advisers in particular, whether a collective investment option is available or appropriate.

In implementing the current ISS, the Fund aims to identify whether suitable pooling options exist within the LCIV in the first instance. Consideration will then be given to the broader market where suitable Funds do not exist within the LCIV, and collaborate with other LGPS Funds where appropriate to achieve value for money

## Investment Fee Savings from Pooling

The table below shows management costs incurred and gross indicative savings as a result of investing in the LCIV pool.

Investments managed by LCIV	Fund Value £'m	2023 fees £'m	Actual Savings £'m	Cumulative Savings £'m
Global Alpha Growth Fund	286.8	0.9	0.1	0.5

Savings are calculated by the LCIV by comparing the actual expenses paid within the fund to a rate which is estimated to have been achieved should client funds have invested directly outside of the pooling arrangements.

## Asset table

As at 31st March 2024, Ealing Pension Fund had total assets worth £1,665bn, £287m of which sit within the pool, as per the breakdown below:

<b>Asset values as at 31 March 2024</b>	<b>Pooled £'m</b>	<b>Under pool management £'m</b>	<b>Not pooled £'m</b>	<b>Total £'m</b>
Equities	286.8	754.4	-	<b>1,041.2</b>
Bonds	-	-	331.7	<b>331.7</b>
Property	-	109.3	-	<b>109.3</b>
Impact	-	9.7	-	<b>9.7</b>
Private debt	-	64.0	-	<b>64.0</b>
Infrastructure	-	58.3	-	<b>58.3</b>
Cash and net current assets	-	-	51.2	<b>51.2</b>
<b>Total</b>	<b>286.8</b>	<b>995.7</b>	<b>382.9</b>	<b>1,665.4</b>

## Investments in the UK

Set out below is data that provides additional information on investment in the UK;

<b>Asset values as at 31 March 2024</b>	<b>Pooled £'m</b>	<b>Under pool management £'m</b>	<b>Not pooled £'m</b>	<b>Total £'m</b>
UK Listed Equities	58.8	34.6		<b>93.4</b>
UK Government Bonds			1.8	<b>1.8</b>
UK Infrastructure		3.5		<b>3.5</b>
UK Private Equity	-	-		<b>-</b>

## ADMINISTRATION

The administration of the Fund is monitored by London borough of Ealing and outsourced to the London Pensions Partnership Administration (LPPA) 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.

Under the contractual arrangement, the LPPA carry out the day-to-day administration of pension records, calculate and process benefit payments, maintain a website and produce other documentation for members.

Implementation of the McCloud remedy has been a significant and lengthy exercise to fully implement, and priority being given to addressing any data gaps involving the payment of immediate benefits. Maintaining suitable communication channels with all stakeholder groups remains a key priority for the Service, engaging with Scheme Members through the “Your Pension Service” and the Self-Service portal, with its document sharing functionality, proving a more efficient digital sharing channel. It is pleasing to report that the number of scheme members utilising this digital functionality continues to grow each year.

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

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

Website: [www.lppapensions.co.uk](http://www.lppapensions.co.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  
5<sup>th</sup> 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 2023/24 amounted to £2.089k (£1.978k in 2022/23). The increase in cost is largely due to an increase in the contract price. 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, investment advisory fees, audit, IT, payroll, pension administration, as well as pension related payments to other Local Authorities.

## Key Performance Indicators

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

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

Ealing’s in-house pension team check all payments that are due to be made out of the pension fund for accuracy, correct documentation and ensure that the pensions administration system has been updated correctly. Performance statistics are reported to the PFP on a quarterly basis.

The graph below shows the LPPA casework performance against targets achieved for 2023/24, across active areas within their remit.



## The Scheme

The London borough of Ealing administers the Ealing Pension Fund for the active members, pensioners, and deferred members 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 1<sup>st</sup> 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 2023 to March 2024 were:

<b>Band</b>	<b>Actual Pensionable Pay</b>	<b>Contribution Main Scheme %</b>	<b>Contribution 50/50 %</b>
1	£0 to £16,500	5.50	2.75
2	£16,501 to £25,900	5.80	2.90
3	£25,901 to £42,100	6.50	3.25
4	£42,101 to £53,300	6.80	3.40
5	£53,301 to £74,700	8.50	4.25
6	£74,701 to £105,900	9.90	4.95
7	£105,901 to £124,800	10.50	5.25
8	£124,801 to £187,200	11.40	5.70
9	£187,201 or more	12.50	6.25

The pay bands are adjusted each April in line with the cost of living. The contributions enjoy full tax relief.

## **LGPS 2014**

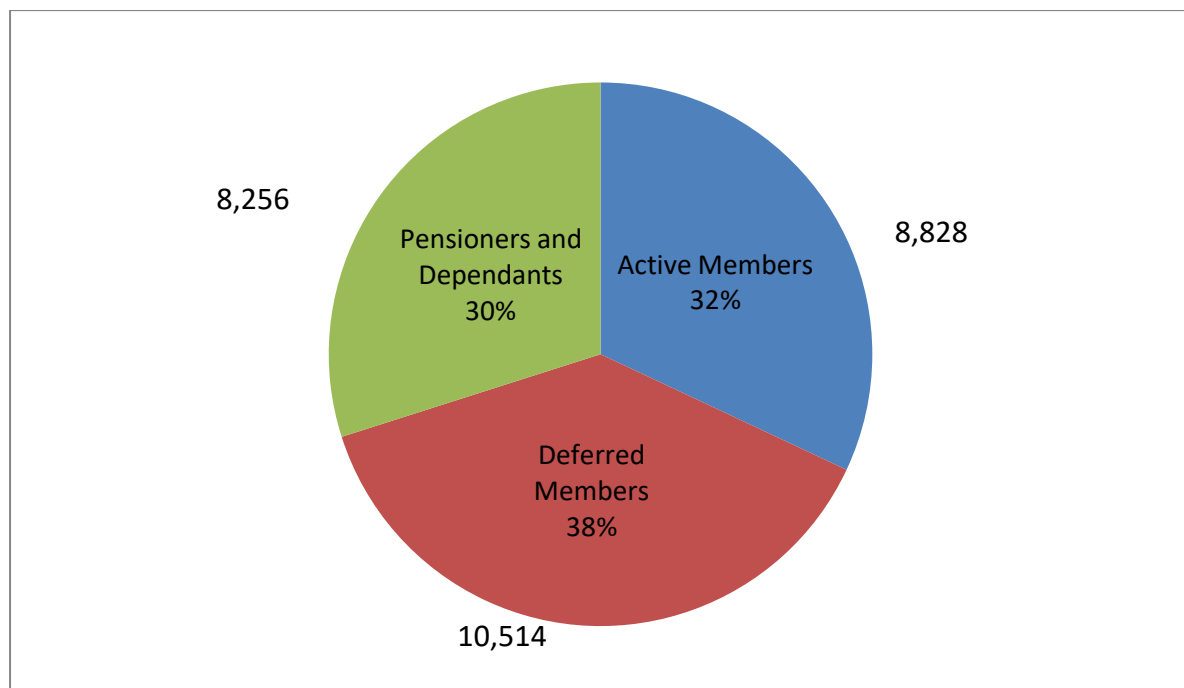
The new scheme did not change pensions already paid or benefits built up before April 2014, existing benefits were protected in full. The main changes were as follows:

- A Career Average Revalued Earnings (CARE) scheme using CPI as the revaluation factor (prior to 31 March 2014, the scheme was a final salary scheme).
- The accrual rate is 1/49th (this used to be 1/60th).
- 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).
- 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.
- 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).
- 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).

### **Fund members and employers.**

The Pension Fund had 39 employers in the Fund during the financial year 2023/24, including the London borough of Ealing. These employers in the Fund are listed in the section Accounting Policies and Notes to the Accounts.

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



## Definitions:

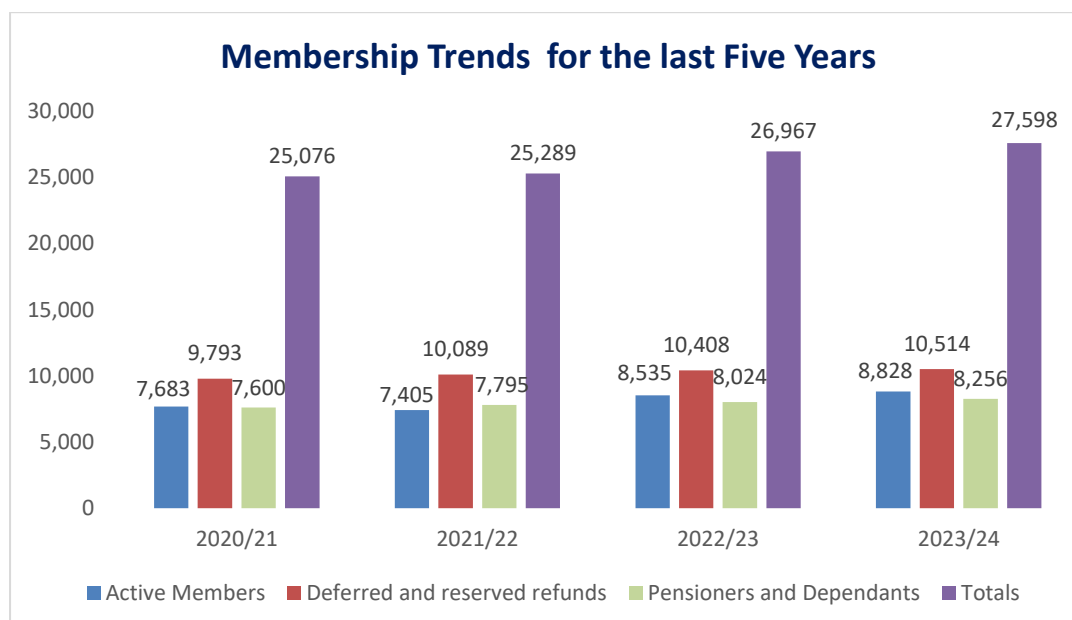
- **Active Members:** Those in employment with the Council or one of the other scheme employers and making contributions to the Pension Fund.
- **Deferred Members:** Those who have left the Council or one of the scheme employers but have not yet become entitled to receive their pension from the Fund.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

## Membership of the Fund

The table below shows a summary of the membership during the year;

Type of Employer	Number
Scheduled Bodies	26
Admitted Bodies	12
<b>Total</b>	<b>38</b>

## Membership Trends



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. only available for staff transferring over and does not admit new members. Casual staff will be contractually enrolled into the pension scheme after three months employment. They will be automatically enrolled into the pension scheme if they reach the automatic enrolment (AE) triggers during the first three months of employment. They can opt into the scheme at any time. Automatic re-enrolment happens every three years for eligible employees who are not in the pension scheme. Ealing's next AE date is 1/4/2025.



# COMMUNICATIONS POLICY STATEMENT

## 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, Annual Benefits Statements as well as the pension fund Annual General meeting (AGM)
- Retired Scheme members are communicated with via newsletters, the annual pensions increase advice and AGM. Individual queries are dealt with by the LPPA, the 3rd party administrators.
- 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 AGM.
- In addition, [the PFP reports and minutes](#), and the [pension fund annual report and accounts](#) are available on the Council's website.

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 guide 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 Strategic Director Corporate Resources no less frequently than annually, or sooner, if there are any material changes in the Council's communications policy.

## **Value for Money statement**

The Fund is committed to achieving and enhancing value for money (VfM) and to make the administration of the scheme as efficient and cost effective as possible. The Fund is committed to enhancing VfM in the following areas where possible:

- Ensure the correct benefits are paid to, and the correct income collected from, the correct people in a timely manner.
- Ensuring service delivery is cost effective by setting budgets and monitoring them against expenditure, look for efficiencies and environmentally responsible ways in delivering communications through partnership working.
- Improving data quality through monitoring regular monitoring of the Fund's administration.
- following the Pension Regulator's Code of Practice and ensuring operational processes highlight any potential breaches of the law

Aside, the council is one of 32 London local authorities and have been active participants in the Collective Investment Vehicle (CIV) programme, the regional pool for London. This affords the Fund access to benefits of scale, reduced costs and excellent value for money.

## **Internal Disputes Resolution Procedure**

The LGPS is required by statute to make arrangements for the formal resolution of disagreements between, on the one hand, the managers of the Scheme and on the other, active, deferred and pensioner members or their representatives. There is, therefore, access to a two-stage dispute resolution procedure. This procedure consists of an initial application to the person or persons appointed by the individual's employer as the stage one adjudicator to consider the matter.

If the complainant is still dissatisfied with the decision, they then have the right to refer the matter to the Stage 2 adjudicator to consider the matter under dispute. The Stage 2 adjudicator is Kim Brown, Director of Workforce and Organisational Development.

If after the 2<sup>nd</sup> 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](#) to view their pension record online and see 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 benefits and lump sum.

**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 LPPA.

To access the secure system, you will firstly need to sign up for my pension online on the [LPPA website](#). Once you have your activation code you can go online and set up a username and password.

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

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

If you require assistance with this system, please contact the LPPA.

Please note this service is available for active members, members with a frozen pension and Ealing pensioners.

# 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 Strategic Director Corporate Resources;
- Manage its affairs to secure economic, efficient, and effective use of resources and safeguard its assets;
- Approve the Statement of Accounts.

## Responsibilities of the Strategic Director Corporate Resources

The Strategic Director Corporate Resources 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 Strategic Director Corporate Resources 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 Strategic Director Corporate Resources Officer has:

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

Responsible Financial Officer's Certificate:

I certify that the Accounts set out below have been prepared in accordance with proper practices and present fairly the transactions of the London borough of Ealing Pension Fund for the year ended 31 March 2024 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.

Emily Hill, CPFA  
Strategic Director, Resources (S151 Officer)

28 February 2025

# AUDIT OPINION

## Independent auditor's statement to the members of London Borough of Ealing Council on the pension fund financial statements included within the London Borough of Ealing Pension Fund Annual Report

### Report on the financial statements

We have examined the Pension Fund financial statements for the year ended 31 March 2024 included within the London Borough of Ealing Pension Fund annual report, which comprise the Fund Account, the Net Assets Statement and the notes to the financial statements, including material accounting policy information.

### Opinion

In our opinion, the Pension Fund financial statements are consistent with the audited financial statements of London Borough of Ealing for the year ended 31 March 2024, within which the Pension Fund financial statements opinion was qualified, and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.

### Respective responsibilities of the Strategic Director, Resources and the auditor

As explained more fully in the Statement of Responsibilities, the Strategic Director, Resources 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 the Members of London Borough of Ealing as a body, whether the Pension Fund financial statements within the Pension Fund annual report are consistent with the financial statements of London Borough of Ealing.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the Pension Fund financial statements contained within the audited financial statements of London Borough of Ealing describes the basis of our opinions on the financial statements.

### Use of this auditor's statement

This report is made solely to the members of London Borough of Ealing, as a body and as administering authority for the London Borough of Ealing Pension Fund, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014. Our work has been undertaken so that we might state to the members of London Borough of Ealing those matters we are required to state to them and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than London Borough of Ealing and London Borough of Ealing's members as a body, for our audit work, for this statement, or for the opinions we have formed.

Suresh Patel, For and on behalf of Forvis Mazars LLP  
30 Old Bailey,  
London,  
EC4M 7AU

28/02/2025

# FUNDING STRATEGY STATEMENT (FSS) APPENDIX C

The information enclosed in this statement and the accompanying policies have a financial and operational impact on all participating employers in the London borough of Ealing Pension Fund. It is imperative that all existing and potential employers are aware of the details set out herein.

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

## 1. Guide to the FSS and Policies

The information required by overarching guidance and Regulations is included in Section 2 and Section 3 of the Funding Strategy Statement. This document also sets out the Fund’s policies in the following key areas:

### **Actuarial Method and Assumptions (Supplement 1)**

The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, known as the “Primary” contribution rate, and any contribution variations due to underlying surpluses or deficits, known as the “Secondary” rate, together with other factors that may impact an employer’s contribution outcomes.

### **Deficit Recovery and Surplus Offset Plans (Supplement 2)**

The key principles when considering deficit recovery and surplus offset plans as part of the valuation.

### **Employer Types and Admission Policy, (Supplement 3)**

Various types of employers are permitted to join the LGPS under certain circumstances. The conditions upon which their entry to the Fund is based and the approach taken.

### **Termination Policy and Flexibility for Exit Payments (Supplement 4)**

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 former employees along with a termination contribution certificate showing any exit debt or exit credit, due from or to the exiting employer.

### **New Academy Conversions and Multi-Academy Trusts (Supplement 5)**

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. In addition, current Fund policy regarding the treatment of local authority-maintained schools when converting to academy status is for the new academy to inherit the school’s share of the historic local authority deficit at the point of its conversion. Further details on this (including the statement to be signed by the academy should it wish to be pooled on conversion) and also the Fund’s policy for Multi-Academy Trusts.

### **Ill Health Insurance Arrangements (Supplement 6)**

The Fund has implemented a captive insurance arrangement which pools the risks associated with ill health retirement costs for employers whose financial position could be materially affected by ill health retirement of one of their members. The captive arrangement is reflected in the employer contribution rates (including on termination) for the eligible employers.

### **Glossary (Supplement 7)**

A glossary of the key terms used throughout is available at the end of this document.

## **2. Background**

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 Administering Authority has taken advice from the actuary in preparing this Statement.

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.

### **Integrated Risk Management Strategy**

The funding strategy set out in this document has been developed alongside the Fund’s investment strategy on an integrated basis considering 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 result in greater 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. Individual employer results will also have regard to their covenant strength, where deemed appropriate by the Administering Authority.

## The Regulations

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 Solvency Objective**

The Administering Authority’s long-term objective is for the Fund to achieve a 100% solvency level over a reasonable time period. Contributions are set in relation to this objective which means that once 100% solvency is achieved, if assumptions are borne out in practice, there would be sufficient assets to pay all benefits earned up to the valuation date as they fall due.

However, because financial and market conditions/outlook change between valuations, the assumptions used at one valuation may need to be amended at the next in order to meet the Fund’s objective. This in turn means that contributions will be subject to change from one valuation to another. This objective translates to 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 with sufficient prudence for this objective to be reasonably achieved in the long term at each valuation.

### **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 considered 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.



## 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.

### 3. Key Funding Principles

#### Purpose of the FSS

Funding is making advance provision to meet the cost of pension and other benefit promises. Decisions taken on the funding approach therefore determine the 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 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.

<b>The aims of the fund are to:</b>	<b>The purpose of the fund is to:</b>
<ul style="list-style-type: none"><li>• manage employers’ liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due.</li><li>• 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.</li><li>• maximise the returns from investments within reasonable risk parameters considering the above aims.</li></ul>	<ul style="list-style-type: none"><li>• receive monies in respect of contributions, transfer values and investment income, and</li><li>• pay out monies in respect of Fund benefits, transfer values, costs, charges and expenses as defined in the Regulations.</li></ul>

## 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 Sub-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

<b>The Administering Authority should:</b>	<b>The Individual Employer should:</b>
<ul style="list-style-type: none"> <li>• operate the pension fund</li> <li>• collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations.</li> <li>• pay from the pension fund the relevant entitlements as stipulated in the Regulations.</li> <li>• invest surplus monies in accordance the Regulations.</li> <li>• ensure that cash is available to meet liabilities as and when they fall due.</li> <li>• take measures as set out in the Regulations to safeguard the fund against the consequences of employer default.</li> <li>• manage the valuation process in consultation with the Fund's actuary.</li> <li>• prepare and maintain a FSS and an Investment Strategy Statement ("ISS), both after proper consultation with interested parties, and</li> <li>• monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary.</li> <li>• effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a scheme employer, and</li> <li>• establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions</li> </ul>	<ul style="list-style-type: none"> <li>• deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations</li> <li>• pay all contributions, including their own, as determined by the actuary, promptly by the due date.</li> <li>• undertake administration duties in accordance with the Pension Administration Strategy.</li> <li>• develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework.</li> <li>• make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits, early retirement strain, and</li> <li>• 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</li> <li>• notify the Administering Authority promptly of any changes to membership which may affect future funding.</li> <li>• understand the pension impacts of any changes to their organisational structure and service delivery model.</li> <li>• understand that the quality of the data provided to the Fund will directly impact on the assessment of the liabilities and contributions. In particular, any deficiencies in the data would normally result in the employer paying higher contributions than otherwise would be the case if the data was of high quality.</li> </ul>

**The Administering Authority should:**

Regulator's relevant Code of Practice.

**The Individual Employer should:**

The Fund Actuary should:	A Guarantor should:
<ul style="list-style-type: none"> <li>• 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 its FSS and the Regulations.</li> <li>• prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as such as pension strain costs, ill health retirement costs etc.</li> <li>• provide advice and valuations on the termination of admission agreements.</li> <li>• provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default.</li> <li>• assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations.</li> <li>• advise the Administering Authority on the funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and</li> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>• notify the Administering Authority promptly of any changes to its guarantee status, as this may impact on the treatment of the employer in the valuation process or upon termination.</li> <li>• provide details of the agreement, and any changes to the agreement, between the employer and the guarantor to ensure appropriate treatment is applied to any calculations.</li> <li>• be aware of all guarantees that are currently in place.</li> <li>• work with the Fund and the employer in the context of the guarantee</li> <li>• receive relevant information on the employer and their funding position in order to fulfil its obligations as a guarantor.</li> </ul>

## 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.

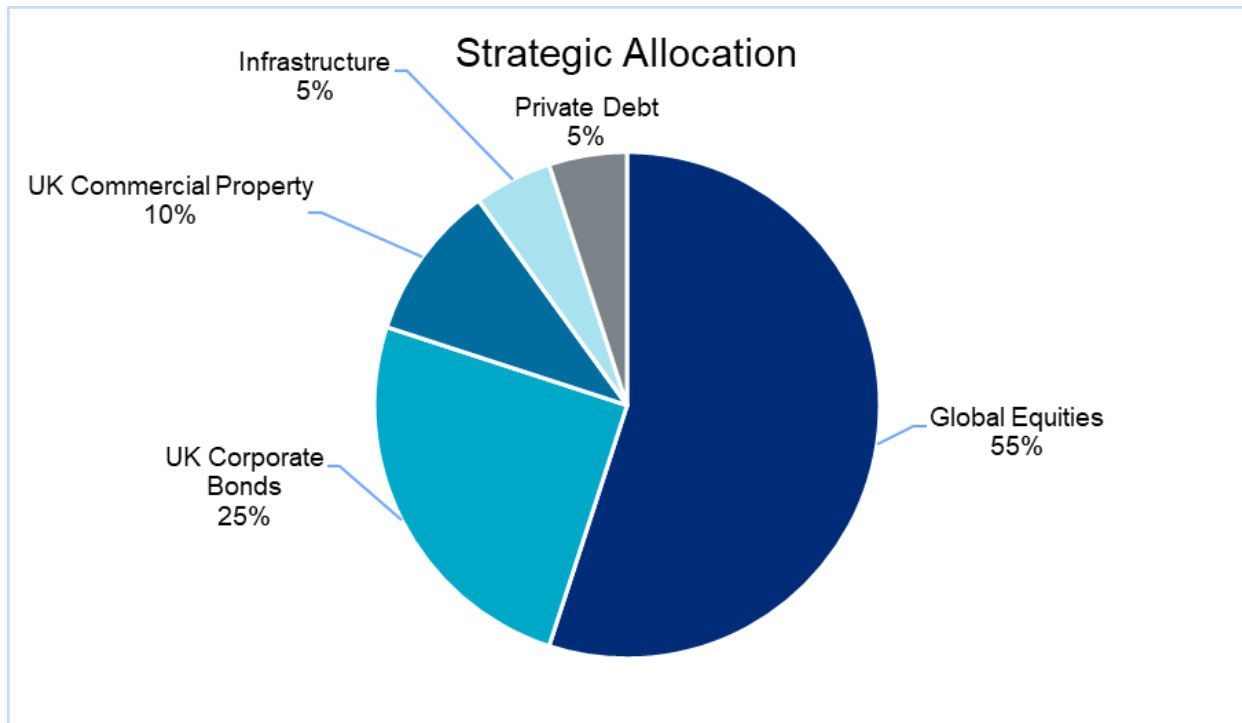
Each employer’s contributions are set at such a level to achieve long-term cost efficiency and full solvency in a reasonable timeframe.

The results of the 2022 valuation show the liabilities to be 96% covered by the assets, with the funding deficit of £71m being covered by future deficit contributions.

## 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, considering the investment strategy adopted by the Fund, as set out in the ISS.

The overall strategic asset allocation is set out in the ISS. The current strategy is included below.



The investment strategy set out above and individual return expectations on those asset classes equate to an overall best estimate average expected return of 2.7% per annum in excess of CPI inflation as at 31 March 2022 i.e. a 50/50 chance of achieving this real return. For the purposes of setting a funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations.

### Risk Management Strategy

In the context of managing various aspects of the Fund's financial risks, the Administering Authority will consider implementing investment risk management techniques where appropriate. Further details will be set out in the ISS.

### Climate Change

An important part of the risk analysis underpinning the funding strategy will be to identify the impact of climate change transition risk (shorter term) and physical risks (longer term) on the potential funding outcomes. In terms of the current valuation an analysis of different climate change scenarios at the Whole Fund level relative to the baseline position assuming that the funding assumptions are played out on a best estimate basis.

The projections are meant to illustrate the different elements of risk under two climate change scenarios based on the current strategic allocation. The scenarios are not meant to be predictors of what may happen and are only a small subset of a very wide range of scenarios that could arise depending on the global actions

taken in relation to climate change. The actions taken by the Fund in relation to making its asset portfolio more sustainable will be set out in the separate Taskforce for Climate Change (TCFD) reports. This will include analysis of the asset portfolio adopting the same (or similar) scenarios. The analysis considers a projection of the funding levels under the scenarios considered which are designed to illustrate the transition and physical risks over different periods depending on what actions are taken globally on climate change.

The key metrics are the relative impact on the funding level over the different time periods as this illustrates the impact of climate related market shocks on the funding plan. Whilst these scenarios are only two out of a considerable range of potential outcomes, it shows that climate change can have far reaching effects on the Fund.

The Actuary applies a nuanced approach to understand what is/is not priced into the markets in terms of transition and physical risks. They include assumptions about what is currently priced into markets, and later price in shocks when the markets account for future impacts (both physical and transition impacts). The two climate shock scenarios considered are:

- 1. Rapid Transition** - there is a sudden divestment across multiple securities in 2025 to align portfolios to the Paris Agreement goals, this will have disruptive effects on financial markets with sudden repricing followed by stranded assets and a sentiment shock. Average temperature increase stabilises at 1.5°C around 2050. In relative terms to the best estimate basis at the valuation date, this could have a slightly detrimental impact on the funding level of around 5% after 5 years as the larger transition risks manifest. However, whilst the rapid transition sees a world that has a major shock in the early years there is then a period of recovery in the following years, with reduced physical damages in the long term. The projection then follows the baseline as the time period spans out towards 20 years and beyond although does not fully recover.
- 2. Failed Transition** - The world fails to meet the Paris Agreement goals and global warming reaches 4.3°C above pre-industrial levels by 2100. Physical climate impacts cause large reductions in economic productivity and increasing impacts from extreme weather events. In relative terms this could lead to a marginal increase in the funding level of 1% after 5 years which reflects the lower impact from transition risks (versus the market pricing) and a hugely detrimental impact of 19% after 20 years which shows the material consequences of the physical risks from the significant temperature increases as time progresses.

The actuarial assumptions (versus the best estimate) include a level of prudence which implicitly allows for the climate risk and other risks to support future contribution stability and the Actuary has concluded that the level of prudence is currently sufficient. However, any climate related impacts will potentially put significant stress on the funding plan, especially when taken into account with other risk factors so needs to be monitored over time. Other risks (e.g. longevity) will also be considered in future analysis but are expected to have a much lower impact than the financial market impacts. The expected impact on asset returns under different scenarios and timeframes will be shown in more detail in the separate TCFD reports.

## 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.

<b>Financial</b>	<b>Demographic</b>
<p>The financial risks are as follows: -</p> <ul style="list-style-type: none"> <li>• Investment markets fail to perform in line with expectations.</li> <li>• Protection and risk management policies fail to perform in line with expectations.</li> <li>• Market outlook moves at variance with assumptions.</li> <li>• Investment Fund Managers fail to achieve performance targets over the longer term</li> <li>• Asset re-allocations in volatile markets may lock in past losses.</li> <li>• Pay and price inflation significantly more than anticipated.</li> <li>• Future underperformance arising as a result of participating in the larger asset pooling vehicle</li> <li>• An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.</li> <li>• 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.</li> <li>• 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.</li> </ul>	<p>The demographic risks are as follows: -</p> <ul style="list-style-type: none"> <li>• Future changes in life expectancy (longevity) that cannot be predicted with any certainty. Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, potentially result in a greater liability for pension funds.</li> <li>• Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions for employers</li> <li>• Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations. The Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy.</li> <li>• 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.</li> </ul>

<b>Governance</b>	<b>Regulatory</b>
<p>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.</p> <p>Governance risks are as follows: -</p> <ul style="list-style-type: none"> <li>• The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated.</li> <li>• 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.</li> <li>• Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates.</li> <li>• An employer ceasing to exist with insufficient funding or adequacy of a bond.</li> <li>• An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.</li> <li>• Changes in the Committee membership.</li> <li>• 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.</li> </ul>	<p>The key regulatory risks are as follows: -</p> <ul style="list-style-type: none"> <li>• Changes to Regulations, e.g., changes to the benefits package, retirement age, potential new entrants to the Fund, Typically these would be via the Cost Management Process although in light of the McCloud discrimination case, there can be exceptional circumstances which give rise to unexpected changes in Regulations.</li> <li>• Changes to national pension requirements and/or HMRC Rules</li> <li>• Political risk that the guarantee from the Department for Education for academies is removed or modified along with the operational risks because of the potential for a large increase in the number of academies in the Fund due to Government policy.</li> <li>• Membership of the Local Government Pension Scheme 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.</li> </ul>



## **Monitoring and Review**

A full review of this Statement will occur no less frequently than every 3 years, to coincide with completion of a full statutory actuarial valuation and every review of employer rates or interim 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 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 Scheme 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
- if there have been material changes in the ISS

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

## **Review of contributions**

The Administering Authority has considered whether to introduce the discretion to review contributions between valuations and has concluded at this time not to incorporate this into the current Funding Strategy. The approach will be reviewed and may be revised as part of each actuarial valuation exercise.

# SUPPLEMENT 1

## ACTUARIAL METHOD AND ASSUMPTIONS

The key whole Fund assumptions used for calculating the funding target and the cost of future accrual for the 2022 actuarial valuation are set out below.

Financial Assumptions	2022 valuation assumption	Description
<b>Investment return / discount rate</b>	4.45% p.a. (past) and 5.1% p.a. (future)	<p>Derived from the expected return on the Fund assets based on the long-term strategy set out in the ISS, including appropriate margins for prudence. For the 2022 valuation this is based on an assumed return of 1.35% p.a. above CPI inflation (past) and 2.0% p.a. above CPI inflation (future). This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.</p> <p>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.</p> <p>The assumed real returns quoted above will be periodically reviewed by the administering authority over the period to the next actuarial valuation to ensure that they reflect any significant changes in the Fund's investment strategy or significant changes in market conditions, which impact the appropriate margins for prudence referred to above that were agreed when setting the valuation funding strategy.</p>
<b>Inflation (Retail Prices Index)</b>	3.90% p.a.	The investment market's expectation 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 whole Fund's accrued liabilities).
<b>Inflation (Consumer Prices Index)</b>	3.10% p.a. (includes an adjustment of 0.80% p.a.)	RPI inflation (above) reduced to reflect the expected long-term difference between RPI and CPI measures of inflation (reflecting the profile and duration of the whole Fund's accrued liabilities and 2030 RPI reform) and adjusted to incorporate an Inflation Risk Premium ("IRP"). This varies for the ongoing and minimum risk termination basis, reflecting the degree of inflation hedging inherent in the notional termination basis and will also reflect the duration of an employer's liabilities in the case of a minimum risk termination calculation.

<b>Financial Assumptions</b>	<b>2022 valuation assumption</b>	<b>Description</b>
		The adjustment to the RPI inflation assumption will be reviewed from time to time consider any market factors which affect the estimate of CPI inflation.
<b>Salary increases (long-term)</b>	4.35% p.a.	Pre-1 April 2014 benefits (and 2014 to 2022 McCloud underpin) - the assumption for real salary increases (salary increases more than 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.
<b>Pension Increases and Deferred Revaluation</b>	3.10% p.a.	Assumed to be in line with the CPI inflation assumption above (noting that pension increases cannot be negative as pensions cannot be reduced). At the 2022 valuation, an adjustment has been made to the liabilities to allow for the known inflation for the period 30 September 2021 to 31 March 2022, and where material, allowance will continue to be made for inflation as it emerges when assessing funding positions between valuations.
<b>Indexation of CARE benefits</b>	3.10% p.a.	Assumed to be in line with the CPI inflation assumption above. For members in pensionable employment, indexation of CARE benefits can be less than zero (i.e. a reduction in benefits).

## Demographic Assumptions

### Mortality/Life Expectancy

The derivation of the mortality assumption is set out in separate advice as supplied by the Actuary. 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) including a loading reflecting Fund specific experience and will make allowance for future improvements in longevity and the experience of the scheme. 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 trend in longevity seen over recent time periods (as evidenced in the 2021 CMI analysis) will continue in the longer term and as such, the assumptions build in a level of longevity 'improvement' year on year in the future in line with the CMI 2021 projections and a long-term improvement trend of 1.75% per annum.

As an indication of impact, we have set out the life expectancies at age 65 based on the 2019 and 2022 assumptions:

Membership Category	Male Life Expectancy at 65 (2019 assumptions)	Female Life Expectancy at 65 (2019 assumptions)
Pensioners	22.8	24.9
Actives aged 45 now	24.4	26.8
Deferreds aged 45 now	23.0	25.7

Membership Category	Male Life Expectancy at 65 (2022 assumptions)	Female Life Expectancy at 65 (2022 assumptions)
Pensioners	22.1	24.4
Actives aged 45 now	23.7	26.4
Deferreds aged 45 now	23.2	25.9

For example, a male pensioner, currently aged 65, would be expected to live to age 87.1. Whereas a male active member aged 45 would be expected to live until age 88.7. The difference reflects the expected increase in life expectancy over the next 20 years in the assumptions above.

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

The post-retirement mortality tables adopted for this valuation are set out below:

Current Status	Retirement Type	Mortality Table
Male Annuitant	Normal health	106% S3PMA_CMI_2021 [1.75%]
Female Annuitant	Normal health	99% S3PFA_M_CMI_2021 [1.75%]
Male Annuitant	Dependant	126% S3PMA_CMI_2021 [1.75%]
Female Annuitant	Dependant	114% S3DFA_CMI_2021 [1.75%]
Male Annuitant	Ill health	128% S3IMA_CMI_2021 [1.75%]
Female Annuitant	Ill health	156% S3IFA_CMI_2021 [1.75%]
Male Annuitant	Future dependant	126% S3PMA_CMI_2021 [1.75%]
Female Annuitant	Future dependant	114% S3DFA_CMI_2021 [1.75%]
Male Active	Normal health	110% S3PMA_CMI_2021 [1.75%]
Female Active	Normal health	100% S3PFA_M_CMI_2021 [1.75%]
Male Active	Ill health	237% S3IMA_CMI_2021 [1.75%]
Female Active	Ill health	319% S3IFA_CMI_2021 [1.75%]
Male Deferred	All	118% S3PMA_CMI_2021 [1.75%]
Female Deferred	All	107% S3PFA_M_CMI_2021 [1.75%]
Male Active / Deferred	Future dependant	127% S3PMA_CMI_2021 [1.75%]
Female Active / Deferred	Future dependant	115% S3DFA_CMI_2021 [1.75%]

<b>Other Demographic Assumptions</b>	
<b>Commutation</b>	Following analysis undertaken by the Actuary, it has been assumed that all retiring members will take 75% of the maximum tax-free cash available at retirement. 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.
<b>Other Demographics</b>	Alongside commutation, as part of the 31 March 2022 valuation, the Actuary has carried out analysis to review the assumptions relating to: the incidence of ill health retirements, withdrawal rates, the proportions married/civil partnership assumption, and also the probability of member's dying prior to retirement. Following the outcomes of this analysis, the assumptions for proportions married/civil partnerships and the pre-retirement mortality have been updated in line with the recommendations from the Actuary.

<b>Other Demographic Assumptions</b>	
	All other assumptions remain in line with the assumptions adopted for the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option. Where any member has opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years.
<b>Expenses</b>	Expenses are met out of the Fund, in accordance with the Regulations. This is allowed for by adding 1.0% of pensionable pay to the contributions from participating employers. This is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.
<b>Discretionary Benefits</b>	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.

Further details on the demographic assumptions are set out in the Actuary's formal report.

### **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.

The assumptions to be used in the calculation of the funding target are set out above. 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.

There will be a funding plan for each employer. In determining contribution requirements the Administering Authority, based on the advice of the Actuary, will consider whether the funding plan adopted for an employer is reasonably likely to be successful having regard to the particular circumstances of that employer (potentially considering any material changes after the valuation date up to 31 March 2023).

As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. As

indicated above, these rates are assessed considering the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers in the Fund.

### **Method and assumptions used in calculating the cost of future accrual (or primary rate)**

The future service liabilities are calculated using the same assumptions as the 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 considered 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.

### **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 maybe 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.

### **Other factors affecting employer contribution outcomes**

Notwithstanding the policies below, the Administering Authority, in consultation with the actuary where necessary, reserves the right to consider whether any exceptional arrangements should apply in particular cases.

**Covenant:** 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 continue to monitor employer's 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.

**Stability:** Subject to affordability considerations (and any change emerging to the Primary Rate) 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) where deficits remain unless there is a specific reason not to do so. As set out in Supplement B, for those employers in surplus, surplus offset secondary contributions will only be permitted in certain circumstances.

**Contribution Increases:** 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 2023/2026. 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.

**Phasing:** Where there is a material increase in total (i.e. both primary and secondary rate combined) contributions required at this valuation, in certain circumstances, the employer may be able to "phase in" contributions over a maximum 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.

**Pooling** Where agreed by the Administering Authority, the contribution rate outcomes for certain employers may be pooled together, with a pooled contribution rate being certified by the Actuary in the Rates and Adjustments Certificate e.g. for those academies pooled with the London borough of Ealing for contribution rate purposes (as per Appendix E). It should be noted that contributions will still be allocated to the individual employers by the administration team.

**Insurance:** 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.

**Prepayments:** Employers may also wish to make prepayments of contributions which could result in a cash saving over the valuation certificate period. Further details of the potential savings will be set out in the Rates and Adjustments Certificate produced by the Actuary. Any employers who prepay Primary Rate contributions will also be required to make "top-up" payments should actual payroll be higher than that assumed when making the prepayment to ensure no underpayment emerges.

**Early Retirement Strain Costs:** Any “strain” costs generated as a result of redundancy, efficiency or flexible retirements will be recovered by additional capital payments to the Fund by the employer. These will be paid in full at the point of retirement. In certain situations, depending on the covenant of the employer and at the discretion of the Administrative Authority, an alternative payment structure may be agreed.

**Deaths:** The extent to which any funding strain/profit emerges on the death of a member will depend on the profile of the member (status / age / whether any dependant’s benefits become payable) and impacts can be material. Any funding strain/profit will typically emerge at the next actuarial valuation through increased/reduced deficit contributions, except where the employer is terminating, when it will be considered when the Actuary determines the termination position.

# SUPPLEMENT 2

## Deficit recovery and surplus offset plans

### Employer Recovery Plans – key principles

If the funding level of an employer is below 100% at the valuation date (i.e. the assets of the employer 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.

The maximum recovery period for the Fund as a whole is 11 years at this valuation, which is 3 years shorter than the maximum recovery period from the previous valuation. The default recovery period will be 8 years, which is again shorter than the default recovery period from the previous valuation. Subject to affordability and other considerations, individual employer recovery periods would also be expected to reduce at this valuation, albeit in certain circumstances this may not be possible in order to achieve contribution rate stability. The average recovery period at this valuation is 11 years. For those employers in surplus a default recovery period of 12 years will apply.

Secondary Rate contributions for each employer will be expressed as £s amounts increasing at 4.35% per annum (in line with the Fund’s 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 given other competing cost pressures, 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 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 an 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
Scheme Employers	8 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.
Open Admitted Bodies	8 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 8 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 contract length.

\*For certain employers, subject to the agreement of the administering authority, depending on affordability and other considerations, a maximum recovery period of up to 11 years may be applied

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may consider 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 broadly the deficit contributions at the expected monetary levels from the preceding valuation (allowing for any indexation in these monetary payments over the recovery period), consider any changes in the primary rate contribution requirements.

### **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.

### **Surplus offset plans**

For those employers assessed to be in surplus at the valuation date, a surplus buffer will be applied meaning surplus offsets won't be available to those with a funding level of less than 110%. For those with funding levels greater than 110%, surplus offsets will be based on the surplus above 110% only. Surplus offsets will be allowed only where there is no deficit on the termination basis.

For any employers assessed to be in surplus at the valuation date, where surplus offsets will be payable, and who are expected to exit the Fund in the period to 31 March 2026 the Secondary rate payments will be based on the expected length of participation in the Fund. For all other employers assessed to be in surplus at the valuation date, the Secondary rate will be based on a default recovery period of 12 years, unless otherwise agreed by the Administering Authority.

### **Administering Authority Discretion**

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 when determining deficit recovery/surplus offset plans.

# **SUPPLEMENT 3**

## **Employer types and Admission policy**

### **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). Please also refer to Appendix E in relation to academies.

#### **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 because 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).

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.

However, 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. These liabilities relate both to any staff whom it may be outsourcing for the first time and to any staff who may be transferring from one contractor to another having previously been employed by a scheme employer prior to the initial outsourcing

"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 termination 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 Fund. As the Scheme Employer is effectively the ultimate guarantor for these admissions to the Fund 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 Supplement 1. 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 Fund, including if the guarantor is a participating employer within another LGPS Fund. In order to protect other employers within the Fund 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.

### **Contribution Rate Assessments**

Where there are less than 5 members transferring at the point of admission, unless agreed otherwise with the Administering Authority, the initial contribution rate payable from the date of admission, will be set in line the corresponding contribution rate payable by the letting employer towards future service benefit accrual. The initial rate will apply until the actuarial valuation following the date of admission when the new admitted body's contribution requirements will be fully reassessed.

In all other situations, unless agreed otherwise with the Administering Authority, the Actuary will undertake an assessment of the required contribution rate payable by the new admitted body.

### **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.

# SUPPLEMENT 4

## TERMINATION POLICY AND FLEXIBILITY FOR EXIT PAYMENTS

### 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, as an alternative to requiring an immediate payment in full, 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 (see further details below).
- 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 Fund's policy is that a termination assessment will be made based on 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).

For all termination cases, the underlying assumptions adopted for individual employers will be based on the approximate duration of that employer's liabilities.

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 Fund's policy is that the valuation funding basis will be used for the termination assessment unless the guarantor informs the Fund 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 Fund. Therefore, a separate assessment of the assets to be transferred will be required.

Whether or not the termination liabilities are assessed on the valuation funding basis or the minimum risk termination basis, the liabilities will also include an allowance for estimated future administrative expenses in relation to any remaining members on termination.

### **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 final cessation assessment by the Actuary.
- 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.

If requested, the Administering Authority will provide details of the information considered as part of the determination. A determination notice will be provided alongside the termination assessment from the Actuary. The notice will cover the following information and process steps:

1. Details of the employers involved in the process (e.g. the exiting employer and guarantor).
2. Details of the admission agreement, commercial contracts and any amendments to the terms that have been made available to the Administering Authority and considered as part of the decision-making process. The underlying principle will be that if an employer is responsible for a deficit, they will be eligible for any surplus (subject to the cap of contributions paid in the case of a surplus payment). This is subject to the information provided and any risk sharing arrangements in place.
3. The final termination certification of the exit credit by the Actuary.
4. The Administering Authority's determination based on the information provided.
5. Details of the appeals process in the event that a party disagrees with the determination and wishes to make representations to the Administering Authority.

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. Should a termination assessment be undertaken prior to final regulations being made, where a surplus or deficit isn't being subsumed, an allowance will be made for McCloud within the calculations consistent with the allowance made for the 2022 valuation. 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 Regulations have been finalised, any calculations will be performed in line with the prevailing regulations and associated guidance.



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 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 the guarantor can simply absorb all assets/liabilities.

#### **Admission bodies with no guarantor in the Fund / only a guarantee of last resort**

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 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. Should a termination assessment be undertaken prior to final regulations being made, allowance will be made for McCloud within the calculations consistent with the allowance made for the 2022 valuation. 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 Regulations have been finalised, any calculations will be performed in line with these and associated guidance.

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.

### **Policy in relation to the flexibility for exit debt payments**

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

1. The default position is for exit payments to be paid immediately in full unless there is a risk sharing arrangement in place with a guaranteeing Scheme employer in the Fund whereby the exiting employer is not responsible for any exit payment. In the case of an exit credit the determination process set out above will be followed.
2. At the discretion of the administering authority, instalment plans over an agreed period will only be agreed subject to the policy in relation to any flexibility in recovering exit payments.

As set out above, the default position for exit payments is that they are paid in full at the point of exit (adjusted for interest where appropriate). If an employer requests that an exit debt payment is recovered over a fixed period, they must make a request in writing covering the reasons for such a request. Any deviation from this position will be based on the Administering Authority's assessment of whether the full exit debt is affordable and whether it is in the interests of taxpayers to adopt the instalment approach. In making this assessment the Administering Authority will consider the covenant of the employer and also whether any security is required and available to back the arrangements.

Any costs (including necessary actuarial, legal and covenant advice) associated with assessing this will be borne by the employer and will be charged as an upfront payment to the Fund.

The following policy and processes will be followed in line with the principles set out in the statutory guidance published 2 March 2021.

## **Policy for Spreading Exit Payments**

The following process will determine whether an employer is eligible to spread their exit payment over a defined period.

1. The Administering Authority will request updated financial information from the employer including management accounts showing expected financial progression of the organisation and any other relevant information to use as part of their covenant review. If this information is not provided, then the default policy of immediate payment will be adopted.
2. Once this information has been provided, the Administering Authority (in conjunction with the Fund Actuary, covenant, and legal advisors where necessary) will review the covenant of the employer to determine whether it is in the interests of the Fund to allow them to spread the exit debt over a period of time. Depending on the length of the period and also the size of the outstanding debt, the Fund may request security to support the payment plan before entering into an agreement to spread the exit payments.
3. This could include non-uniform payments e.g. a lump sum up front followed by a series of payments over the agreed period. The payments required will include allowance for interest on late payment.
4. The initial process to determine whether an exit debt should be spread may take up to 6 months from receipt of data, so it is important that employers who request to spread exit debt payments notify the Fund in good time
5. If it is agreed that the exit payments can be spread, then the Administering Authority will engage with the employer regarding the following:
  - a. The spreading period that will be adopted (this will usually be subject to a maximum of 5 years) except in exceptional circumstances at the sole discretion of the Fund based on the advice of the Actuary and covenant advisor.
  - b. The initial and annual payments due and how these will change over the period
  - c. The interest rates applicable and the costs associated with the payment plan devised (which will be met by the employer unless agreed otherwise with the Administering Authority)
  - d. The level of security required to support the payment plan (if any) and the form of that security e.g. bond, escrow account etc.
  - e. The responsibilities of the employer during the exit spreading period including the supply of updated information and events which would trigger a review of the situation
  - f. The views of the Actuary, covenant, legal and any other specialists necessary
  - g. The covenant information that will be required on a regular basis to allow the payment plan to continue.

- h. Under what circumstances the payment plan may be reviewed or immediate payment requested (e.g. where there has been a significant change in covenant or circumstances)
- 6. Once the Administering Authority has reached its decision, the arrangement will be documented, and any supporting agreements will be included.
- 7. The costs associated with the advice sought and drafting of the Debt Spreading Agreement will be passed onto the employer and will be charged as an upfront payment to the Fund.

**Termination Basis**

A minimum risk approach will apply on termination where liabilities are not being subsumed, to appropriately reflect the transfer of pension risk from the exiting employer to the Fund. The discount rate underlying the minimum risk basis is set with reference to the return on a notional portfolio of fixed interest government bond yields at the date of termination.

In setting the CPI assumption to apply on the minimum-risk basis, market RPI inflation will be reduced by 0.3% p.a. to reflect the average difference between RPI and CPI indices allowing for RPI reform in 2030, consistent with the ongoing funding approach. However no adjustment will be made for an “inflation risk premium” reflecting the fully hedged nature of the notional low-risk portfolio. This adjustment will be kept under review over time.

The minimum risk financial assumptions that applied at the actuarial valuation date (31 March 2022) 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.

Minimum risk assumptions	31 March 2022
Discount Rate	1.7% p.a.
CPI price inflation	3.6% p.a.
Pension increases/indexation of CARE benefits	3.6% p.a.

All demographic assumptions will be the same as those adopted for the 2022 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. from 1.75% used in the 2022 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.

**Administering Authority discretion on minimum risk assumptions.**

The minimum-risk basis of termination will be reviewed as a matter of course at each actuarial valuation but will also be reviewed in times of extreme events, such as a material shift in market conditions or shift in economic/fiscal policy which will affect the assets or liabilities of the exiting employer. This is to ensure that the approach remains appropriate, given the risk, associated with funding the orphaned liabilities left behind by an exiting employer, is being passed to other Fund employers, and ultimately the taxpayer.

The Administering Authority therefore reserves the right to review the assumptions (both financial and demographic) if circumstances warrant it. Employers would be notified of any change (and the rationale for the change). For the avoidance of doubt the discount rate / investment return assumption will be not greater than the prudent expected return on the actual investments in which the Fund is reasonably expected to invest the assets of the terminating employer, as determined by the Administering Authority after taking appropriate advice.

The Fund also has the discretion to apply a different approach on a case-by-case basis considering all factors (financial and non-financial) pertaining to the exiting employer.

# **SUPPLEMENT 5**

## **Academies Funding Policy / Multi Academy Trusts**

### **Introduction to Policy on Pension Funding for new Academies**

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 Fund's 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. The initial transferring deficit is calculated as the capitalised amount of the funding contributions relating to past service (based on the local authority recovery period) the school would have made to the Fund had it not converted to academy status at the conversion date. The deficit allocated will be subject to a limit to ensure that the minimum asset share of the new academy is nil. 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. Secondary Rate contributions will reflect the combined funding position of the pool and will be allocated to each constituent in line with the approach agreed between the administering authority and the Actuary. 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 line with 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”.

### **Cross-Subsidies**

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.

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 2022 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**

Multi-Academy Trusts (MATs) are groups of academies managed and operated by one proprietor. The employer of non-teaching staff in academies is the proprietor of the Academy Trust and not the individual academy within the Trust. It is therefore the proprietor who is the employer for LGPS purposes making the MAT legally responsible for staff across all schools in the pool (see below).

Multi-Academy Trusts are often set up to cover a number of academies across England. The employees of the former schools can be employed directly by the Trust so they can be deployed across different academy schools in the Trust if necessary.

In cases where numerous academies are operated by the same managing Trust, the Fund is willing to allow a combined funding position and average contribution requirements to apply to all constituent academies (i.e. a MAT pool). In such cases, the Actuary will certify a pooled Primary and Secondary contribution rate for the MAT in the Rates and Adjustments Certificate. Notwithstanding this, the Fund will continue to track the constituent academies separately, in the interests of transparency and clarity around entry and exit events.

### **Approach to setting contribution rates (MAT pool)**

The Fund must have a separate employer number for each academy for transparency of cashflows, managing risks should an academy need to leave one Trust for another and for accounting where disaggregated disclosure reports are required. It should also be noted that the Department for Education (DfE) have confirmed that the guarantee relates to individual academies and MATs.

Any new academies joining an existing MAT pool in the Fund can contribute at the employer contribution rate already established for the MAT, but an actuarial assessment will still need to be carried out to determine the deficit applicable to the transferring staff.

## **Academies requesting to move from LEA Pool to MAT Pool**

As stated above, once a decision is made by an Academy to pool with the LEA on conversion, 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.

## **Outsourcings by Multi Academy Trusts**

The Fund's current policy, in accordance with the Regulations, is to require a separate admission agreement in respect of separate contracts.

Under Schedule 2, Part 3, paragraph 5. of the 2013 Regulations, if the admission body is exercising the functions of the scheme employer in connection with more than one contract or other arrangement under paragraph 1(d)(i), the administering authority and the admission body shall enter into a separate admission agreement in respect of each contract or arrangement.

With the development of MATs, there is a case for the Fund to allow a MAT to enter into a single admission agreement with the contractor providing similar services at various sites provided the outsourcing is covered by a single commercial contract.

The Fund will need to have sight of the contract in order to satisfy the regulatory requirement that the Admission Agreement covers one contract. The Admission Agreement will need to have provision for adding future employees should any academies join the MAT subsequent to the commencement date.

The scheme employer, the Multi Academy Trust in this instance, needs to be a party to any admission agreement and, as such, is the ultimate guarantor. In the event of contractor failure, the LGPS regulations provide that the outstanding liabilities assessed by the Fund's actuary can be called from the scheme employer i.e. the Multi Academy Trust.

At every triennial valuation the actuary reviews the funding level of the admitted body and adjusts its employer contribution rate as required. Once either the service contract comes to an end or all the LGPS members have left, the admission agreement terminates and, in accordance with Fund policy, the Trust becomes responsible for the assets and liabilities standing to the account of the admitted body. A cessation valuation can be provided by the Fund actuary should the Trust request it.



**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 6

## Ill-health insurance arrangements

### Overview of arrangement

Ill health retirements can be expensive 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.

For certain employers in the Fund (following discussions with the Fund Actuary) the Administering Authority have established a captive insurance arrangement to cover ill-health retirement costs. This will apply to all ill-health retirements from 1 April 2023. It applies only to ill-health retirements involving the early payment of pension and to the associated benefit costs.

The captive arrangement operates as follows:

- “Premiums” are paid by the eligible employers into the captive arrangement which is tracked separately by the Fund Actuary in the valuation calculations. The premiums are included in the employer’s primary rate. The premium for 2023/26 is 0.5% of pay per annum.
- The captive arrangement is then used to meet strain costs (over and above the premium paid) emerging from ill-health retirements in respect of active members i.e. there is no initial impact on the deficit position for employers within the captive and any subsequent impact should be manageable.
- The premiums are set with the expectation that they will be sufficient to cover the costs in the 3 years following the valuation date. If any excess premiums over costs are built up in the Captive, these will be used to offset future adverse experience and/or result in lower premiums at the discretion of the Administering Authority based on the advice of the Actuary.
- In the event of poor experience over a valuation period any shortfall in the captive fund is effectively underwritten by London borough of Ealing. However, the future premiums will be adjusted to recover any shortfall over a reasonable period with a view to keeping premiums as stable as possible for employers. Over time the captive arrangement should therefore be self-funding and smooth out fluctuations in the contribution requirements for those employers in the captive arrangement.
- Premiums payable are subject to review from valuation to valuation depending on experience and the expected ill health trends. They will also be adjusted for any changes in the LGPS benefits. They will be included in employer rates at each valuation or on commencement of participation for new employers.

### Employers covered by the arrangement

The Fund has set an initial eligibility criteria of employers whose contribution rates are not currently pooled with the London borough of Ealing at the valuation date.

These employers have been notified of their participation. New employers entering the Fund will also be included if they meet these criteria. In certain circumstances, the Administering Authority retains the discretion to include/exclude any employer from the arrangement.

For employers outside the captive arrangement, the current treatment of ill-health retirements will still apply, whereby an assumption for ill-health retirements is made within the calculation of employer contributions and any excess costs

associated with ill-health retirements will emerge as part of the subsequent actuarial valuation assessment, and in any subsequent secondary rate contributions payable into the Fund.

### **Employer responsibilities**

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 ensure robust processes are in place to determine eligibility for ill health retirements.

The Fund and the Actuary will monitor the number of retirements that each captive employer is granting over time. If any employer has an unusually high incidence of ill health retirements, consideration will be given to the governance around the eligibility criteria applied by the employer, and it is possible that some or all of the costs would fall on that employer if the governance.

# SUPPLEMENT 7

## GLOSSARY OF TERMS

### **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.

### **Benefits**

The benefits provided by the Fund are specified in the governing legislation contained in the Regulations referred to within the FSS. Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure for members. 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 scheme benefits in relation to the member only and pay 50% of the normal member contribution.

### **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.

### **CMI**

Acronym standing for "Continuous Mortality Investigation". The CMI carry out research in relation to mortality and morbidity experience, which can then be used by actuaries to assess the funding required by pension funds and other bodies.

## **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).

## **Contingent Assets**

Assets held by employers in the Fund that can be called upon by the Fund in the event of the employer not being able to cover the debt due upon termination. The terms will be set out in a separate agreement between the Fund and employer

## **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.

## **Deferred Debt Agreement (DDA)**

A written agreement between the Administering Authority and an exiting Fund employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the assessed Secondary rate until the termination of the DDA.

## **Deferred Employer**

An employer that has entered into a DDA with the Fund.

## **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.

## **Derivatives**

Financial instruments linked to the performance of specific assets which can be used to magnify or reduce exposure to those assets

## **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.

## **Early Retirement Strain**

The additional cost incurred by a scheme employer as a result of allowing a Scheme Member aged 55 or over to retire before Normal Retirement Age and to receive a full pension based on accrued service at the date of retirement without full actuarial reduction.

### **Employer's Future Service Contribution Rate ("Primary 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. See also "Primary Rate" below.

### **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.

### **Equity Protection**

An insurance contract which provides protection against falls in equity markets. Depending on the pricing structure, this may be financed by giving up some of the upside potential in equity market gains.

### **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. For example, these include councils, colleges, universities and academies

### **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.

### **Gilts**

Loans made to the UK Government, which the Government undertakes to repay at an agreed later date. The "coupon" (i.e. the interest paid as part of the loan agreement) and the final settlement amount will be a fixed amount and agreed at the outset of the loan.

### **Government Actuary's Department (GAD)**

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.

### **Guarantee of Last Resort**

For the purposes of the FSS, a guarantee of last resort refers to the situation where an employer has exhausted all alternative options for payment of an exit debt and so the debt is recovered from another employer in the Fund, however the liabilities are not subsumed in this case.

### **Ill-Health Captive**

This is a notional fund designed to protect certain employers against excessive ill health costs in return for an agreed insurance premium. It works like insurance in that a fixed premium is paid by employers who are part of the captive and then the captive arrangement will meet ill health funding costs that may arise in future, in respect of the employer's members, providing the policy criteria is met.

### **Index-Linked Gilts**

Loans made to the UK Government, which the Government undertakes to repay at an agreed later date. The coupon (i.e. the interest paid as part of the loan agreement) and the final settlement amount are adjusted in line with the movements in RPI inflation in order to retain their 'real' value over time and protect against the potential effects of inflation.

### **Investment Strategy**

The long-term distribution of assets among various asset classes that considers 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.

### **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.

### **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.

### **Long-term cost efficiency**

This is a measure of the extent to which the Fund's policies properly address the need to balance immediate budgetary pressures with the undesirability of imposing an excessive debt burden on future generations.

### **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.

## **McCloud Judgment**

This refers to the linked legal cases of Sargeant and McCloud, and which found that the transitional protections (which were afforded to older members when the public service pension schemes were reformed in 2014/15) constituted unlawful age discrimination.

## **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.

## **Primary Contribution Rate**

The contribution rate required to meet the cost of the future accrual of benefits including ancillary, death in service and ill health benefits together with administration costs. It is expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit, but allowing for any employer-specific



circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant. The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers' Primary rates. For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates. See also "Employer's future service contribution rate" above.

### **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**

If the funding level of an employer is above or below 100% at the valuation date (i.e. the assets of the employer are more or less than the liabilities), a recovery plan may be needed to return the funding level back to 100% over a fixed period ("the recovery period", as defined in the Funding Strategy Statement). The recovery plan will set out the Secondary contributions payable by an employer over the recovery period. Secondary contributions can be positive or negative (i.e. an off-set to future accrual costs) but there are restrictions over which negative Secondary contributions will be applied, as set out in the Fund's policy.

### **SAB Funding Basis or SAB Basis**

A set of actuarial assumptions determined by the LGPS Scheme Advisory Board (SAB). Its purposes are to set out the funding position on a standardised approach so that comparisons can be made with other LGPS Funds, and to assist with the "Section 13 review" as carried out by the Government Actuary's Department. As an example, the real discount rate over and above CPI used in the SAB Basis as at 31 March 2022 was 2.4% p.a., so it can be substantially different from the actuarial assumptions used to calculate the Fund's solvency funding position and contribution outcomes for employers

### **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).

## **Secondary Rate of the Employer's Contribution**

An adjustment to the Primary rate to reflect any past service deficit or surplus, to arrive at the rate 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 that in which the valuation date falls. The Secondary rate is specified in the rates and adjustments certificate. For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates.

## **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.

## **Strain Costs**

The costs arising when members retire before their normal retirement date and receive their pensions immediately without actuarial reduction. So far as the Fund is concerned, where the retirements are not caused by ill-health, these costs are invoiced directly to the retiring member's employer at the retirement date and treated by the Fund as additional contributions, unless agreed with the administering authority. The costs are calculated by the Actuary.

## **Surplus Buffer**

Where an employer has a funding level above 100%, this is the surplus held back to act as a cushion against future adverse experience. It is retained in the employer's asset share, rather than used to reduce future contributions, to aid future contribution rate stability.

## **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, expressed as an expected out-performance over CPI in the long term by the Fund's assets i.e. the "real rate".

## **50/50 Scheme**

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

# INVESTMENT STRATEGY STATEMENT APPENDIX D

## 1. Introduction and background

- 1.1 This is the Investment Strategy Statement (ISS) of the London borough of Ealing Pension Fund (the Fund), which is administered by Ealing Council (the Administering Authority or Scheme Manager). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (“the Regulations”).
- 1.2 The ISS has been prepared by Officers in consultation with Pension Fund Panel (“the PFP”) having taken advice from the Fund’s strategic investment adviser, currently Hymans Robertson LLP. The PFP acts on the delegated authority of the Administering Authority.
- 1.3 This ISS, which was approved by the PFP on 14 December 2023, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The PFP has consulted with the Treasury Risk & Investment Board and Trade Union representatives on the contents of the Fund’s investment strategy.

### **Pension Fund Panel**

- 1.4 The PFP comprises seven Councillors, two non-voting Trade Union representatives and one non-voting scheme employer representative and is advised by an Investment Consultant and the Treasury Risk & Investment Board (TRIB), whose membership includes the Strategic Director Resources. The Panel which meets quarterly is responsible for setting investment policy, appointing persons to implement that policy and carrying out regular reviews and monitoring of investment performance. This decision is taken whilst remaining cognisant of the need to meet the Fund’s liabilities.
- 1.5 This ISS outlines the broad investment principles governing the investment policy of the pension fund and covers investment responsibilities; scheme liabilities; eligible assets; social, environmental, and corporate governance considerations.

### **Investment Responsibilities**

- 1.6 Investment Managers have responsibility for the day-to-day management of the assets and full investment discretion subject to the investment guidelines and restrictions agreed with the PFP.
- 1.7 The custodians have responsibility for the recording and safekeeping of the assets, the settlement of transactions as directed by the relevant investment manager and some administrative matters.
- 1.8 The investment consultant provides advice to the PFP on strategic investment issues such as the long-term investment strategy (in conjunction with the Fund Actuary) and the appointment of the investment managers for the Fund. The Actuary provides advice on the financial position of the Fund and the nature and extent of its liabilities.

## **Liabilities**

- 1.9 The Fund is a defined benefit scheme, which provided benefits related to final salary prior to 1st April 2014 and career averaged earnings from 1st April 2014 onwards. Each member's main benefits are specified in terms of a formula based on salary and service and are unaffected by the investment return achieved on the assets. There are some discretionary benefits, which can be agreed by the Council, but these additional benefits will be considered in the light of the overall level of funding in the Fund. Full Fund benefit details are set out in the LGPS regulations.
- 1.10 Ealing Council and the other contributing authorities are responsible for meeting the balance of costs necessary to finance the benefits payable from the Fund. This is funded from the Council's revenue budget. Employers' contribution rates are determined every three years based on the advice of the Fund's actuary following the triennial valuation and are subject to inter-valuation monitoring. The last actuarial valuation was 31 March 2022.
- 1.11 The investment objective is to maximise investment returns over the long term within specified risk tolerances. Investment returns are defined as overall rates of return on assets (capital growth and income).
- 1.12 The PFP seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund's Funding Strategy Statement which was approved on the 21 March 2023 as part of the 2022 actuarial valuation process.

## **2. The suitability of particular investments and types of investments**

- 2.1 The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. The Fund's funding position will be reviewed at each triennial actuarial valuation, or more frequently as required especially in light of new regulations allowing more flexibility for employers.
- 2.2 The PFP aims to fund the scheme in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases.
- 2.3 The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the PFP's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility, risk, and the nature of the Fund's liabilities. The PFP has decided that, given the financial circumstances of the Fund, it can afford to take on some risk in the pursuit of incremental return. However, the PFP has decided that the risk level should be such that the possibility of the funding level falling by 25% from the current level, over the next five years, is small. Naturally there may be significant market events which can significantly impact the value of the Fund.

## **Investment Strategy**

- 2.4 The approach that the Fund has taken to setting an appropriate investment strategy is as follows:
- Commissioning an Investment Adviser to assist
  - Identify strategic options and themes to cover in reviews
  - High level strategy review including the Asset liability Modelling (ALM)
  - Review the Fund's investment beliefs and objectives, risk appetite
  - 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 (a mix between growth, income and protection asset class mix)
  - Manager selection
  - Implementation
  - Monitoring performance of the overall strategy and the investment managers on a regular basis
  - Rebalancing as necessary
- 2.5 The PFP review the suitability of the investment strategy on a regular basis, typically around the triennial Actuarial Valuation. The PFP formally reviewed the strategy, with the assistance of the Fund's investment consultants, in July 2021, further changes have been made to the strategy since then in consultation with the advisers.
- 2.6 The individual managers' activity transactions plus quarterly and longer-term rolling performance are reported quarterly to the PFP who question and seek explanations from the investment consultant and investment managers (when asked to attend Panel meetings) on their activities and performance. The investment performance of the managers is calculated independently by the Fund's custodian BNY Mellon.
- 2.7 This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).
- 2.8 In addition, the PFP monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:
- Suitability given the Fund's level of funding and liability profile
  - The level of expected risk
  - Outlook for asset returns
- 2.9 The PFP also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation.

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

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

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

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

### Investment Beliefs

2.13 In October 2021, the Fund's Investment adviser carried out an exercise through a questionnaire and interactive workshop to establish the investment beliefs of the PFP and this is summarised below. The workshop also included a questionnaire on Responsible Investment (RI) which formed part of the review of the Fund's ISS.

<p><b>Objectives and strategy matters</b> The PFP believes 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.</p>
<p><b>Contributions and investment risk</b> The PFP believes in striking a balance between affordable, but stable, contributions 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.</p>
<p><b>Investment horizon</b> The PFP appreciates that long-term investing tends to improve returns and reduce costs.</p>
<p><b>Diversification</b> The PFP believes that diversification is important and reduces the overall dependence on any particular market or asset class and help manage volatility but are also conscious of the risks associated with over-diversification (e.g., excessive governance demands and higher fees).</p>
<p><b>Existence of Risk Premia</b> The PFP believes that investing in equities, credit and real assets should over the long-term deliver higher returns than government bonds, i.e. the Fund can earn a risk premium for investing in such asset classes.</p>
<p><b>Liquidity</b> The PFP is willing to accept a degree of illiquidity to enhance returns, but not an excessive amount that it would impact the Fund's ability to pay benefits or become a forced seller of assets.</p>
<p><b>Strategic Asset Allocation</b> The PFP believes that setting an appropriate strategic asset allocation is fundamental for the Fund to achieve its objectives and that rebalancing, subject to appropriate tolerances, can add value over the longer term.</p>
<p><b>Tactical Asset Allocation</b> The PFP believes that market inefficiencies can exist and that managers are better placed to capture these opportunities. Tactical asset allocation should only be used by the PFP in very exceptional situations with the aim to protect the Fund.</p>
<p><b>Strategy Implementation</b> The PFP believes that a balance of passive and active management will, over the course of a market cycle, provide the best mix of performance, diversification and cost</p>

**Passive Management**

Passive management should be used where market inefficiencies are not expected and managers should be selected mainly on the basis of appropriateness of benchmark and competitiveness of fees.

**Active Management**

Active management should be considered where market inefficiencies are anticipated. Active management should be delegated to the Fund's investment managers. Managers should be selected on the basis of expected added value net of fees, and manager appointments are expected to be for the long-term.

**Currency Hedging**

The PFP understands that currency hedging should be analysed on a case by case basis, considering the level of risk, the level of return of the underlying asset, the time horizon and the operation feasibility and cost.

**Pooling**

The PFP believes that pooling should deliver material benefits to the Fund including gaining exposure to new asset classes, stronger oversight of investment managers, lower investment costs and sharing of best practice.

The PFP understands that active engagement with the Pool and effective governance of the services it provides will be necessary to maximise the benefits realised.

The PFP reserves the right to engage other investment managers should the Pool be unable to provide appropriate investment solutions in a timely manner.

### 3. Funding Objectives

3.1 The Fund is managed in such a manner that, in normal market conditions, all accrued benefits are fully covered by the actuarial value of the Fund's assets and that an appropriate level of contribution is agreed by the Administering Authority to meet the cost of future benefits arising. The Funding Strategy Statement and the Investment Strategy Statement are Inherently linked and together aim to deliver stable contribution rates for employers. The investment objective is to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers, minimising long term cost. The Fund's objective is to achieve a return on Fund assets that is sufficient, over the long-term, to meet the funding objectives on an ongoing basis.

### 4. Diversification

4.1 The PFP seeks to diversify risk through investing in a range of assets, investment managers, strategies, and investment styles. The investment policy is to appoint expert investment managers with clear performance benchmarks and to place maximum accountability for performance against those benchmarks on the investment manager. Ealing has adopted an active specialist approach to investment management.

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

4.3 The PFP reviews the nature of Fund investments on a regular basis, with particular

reference to suitability and diversification. The PFP seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the PFP is proposed, appropriate advice and training is sought and considered to ensure its suitability and diversification.

- 4.4 The PFP agreed that the Fund move to the following asset allocation as set out below, in order to achieve the desired outcomes.

	Current Target	Pragmatic Strategy
Total Growth	55%	50.0%
Global Equity	55%	47.0%
Private Equity	0.0%	3.0%
Total Income	20%	25.0%
Property	10.0%	9.0%
Infrastructure	4.0%	6.0%
Private Debt	5.0%	5.0%
Impact	1%	1.0%
Mult Asset Credit	0.0%	4.0%
Total Protection	25.0%	25.0%
UK IG Credit	25.0%	15.0%
Index Linked Gilts	0.0%	10.0%
Cash	0.0%	0.0%
Total	100%	100%
Likelihood of success	87%	90%
Downside Risk	72%	75%

- 4.5 In line with the Regulations, the Fund’s investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007”.
- 4.6 It is estimated that the maximum that the Fund will invest in each asset will be around 50% higher than the target allocation, albeit this is unlikely to be the case in reality, given the regular rebalancing of the Fund.

### Restrictions on investment

- 4.7 The Regulations have been amended to remove the previous restrictions that applied under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The Fund has agreed a number of its own restrictions as set out in the table below. Some other investment restrictions have been negotiated with individual fund managers and the CIV Pool.
- 4.8 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)	25%
Total investment in illiquid assets [1]	30%

\*Are usually classified as illiquid investments.



## 5 Managers

- 5.1 The PFP has appointed investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.
- 5.2 The PFP, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund.
- 5.3 The PFP have appointed investment managers which invest passively, who have the aim of replicating the performance of a market index, and active investment managers looking to outperform a particular benchmark index. Active investment managers will hold a mix of investments which reflects their views relative to their respective benchmark.

## 6 Risk Management

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

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

### 6.2 Funding risks

<b>Headline Risk</b>	<b>Specifics</b>	<b>Mitigating Actions</b>
Financial mismatch	The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities	<ul style="list-style-type: none"><li>As indicated above, the PFP has set a strategic asset allocation benchmark for the Fund. This benchmark was set considering asset liability modelling which focused on probability of success and level of downside risk.</li><li>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.</li></ul>
Changing demographics	The risk that longevity improves, and other demographic factors change, increasing the cost of Fund benefits	<ul style="list-style-type: none"><li>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</li></ul>

<b>Headline Risk</b>	<b>Specifics</b>	<b>Mitigating Actions</b>
		<ul style="list-style-type: none"> <li>This risk is captured within the Funding Strategy which is monitored by the Panel.</li> </ul>
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	<ul style="list-style-type: none"> <li>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.</li> </ul>

### 6.3 Asset Risks

<b>Headline Risk</b>	<b>Specifics</b>	<b>Mitigating Actions</b>
Concentration	The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.	<ul style="list-style-type: none"> <li>The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The PFP has put in place rebalancing arrangements to ensure the Fund's "actual allocation" does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk.</li> </ul>
Liquidity Risk	The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.	<ul style="list-style-type: none"> <li>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.</li> <li>The Fund actively manages its cash flows over the short and longer term to ensure liquidity.</li> </ul>
Exchange Rate Risk	The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).	<ul style="list-style-type: none"> <li>The Fund is a longer term investor and can withstand short term currency fluctuations.</li> <li>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.</li> <li>Any decision to hedge currency is</li> </ul>

		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.	<ul style="list-style-type: none"> <li>• Details of the Fund's approach to managing ESG risks are set out later in this document.</li> <li>• 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.</li> <li>• The Fund expects its investment managers to integrate material ESG factors within its investment analysis and decision making.</li> </ul>
Manager underperformance	The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.	<ul style="list-style-type: none"> <li>• 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.</li> </ul>
Investment Advice Risk	Risk that the Fund is negatively impacted by investment advice received.	<ul style="list-style-type: none"> <li>• The PFP regularly considers and reviews effectiveness of advice given.</li> </ul>
Regulatory and Political Risks	Adverse regulatory or political change	<ul style="list-style-type: none"> <li>• Risk is mitigated by diversifying across markets and monitored by reviewing the investment strategy and specific investment mandates.</li> </ul>

#### 6.4 Other provider risks

<b>Headline Risk</b>	<b>Specifics</b>	<b>Mitigating Actions</b>
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.	<ul style="list-style-type: none"> <li>• 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</li> </ul>

<b>Headline Risk</b>	<b>Specifics</b>	<b>Mitigating Actions</b>
		<p>concerns exist.</p> <ul style="list-style-type: none"> <li>The risk of incurring additional costs in relation to transitioning assets is managed through the use of professional advisers and experienced in house staff.</li> </ul>
Custody risk	The risk of losing economic rights to Fund assets, when held in custody or when being traded.	<ul style="list-style-type: none"> <li>The Fund maintains beneficial ownership of assets when held in Custody.</li> </ul>
Credit default	The possibility of default of counterparty in meeting its obligations.	<ul style="list-style-type: none"> <li>Counterparty risk is managed through robust procurement and contracting processes.</li> </ul>
Stock-lending	The possibility of default and loss of economic rights to Fund assets.	<ul style="list-style-type: none"> <li>The Fund does not currently permit BNY Mellon to lend stock.</li> <li>Any stock lending 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.</li> </ul>

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

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

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

### **Assets to be invested in the Pool**

7.2 The key criteria for assessment of Pool solutions will be as follows:

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

7.3 The current portfolio comprises of three managers, all of which are among the CIVs preferred managers. One manager, Baillie Gifford, is within the CIV's Authorised Contractual Scheme (ACS) structure, while LGIM operate outside the CIV but under the auspices of the CIV. LGIM and BlackRock investment solutions could not be brought into the CIV because they use funds which are not compatible with the vehicle operated by the CIV. Authorities however benefit from CIV negotiated

fees and the CIV takes a small proportion in view of the fact that they have negotiated attractive fees.

7.4 Global equities held within the CIV amount to 17.3% of the Fund and are allocated as follows:

<b>Asset class Manager</b>	<b>% of Fund assets</b>	<b>Benchmark and performance objective</b>
Baillie Gifford Global Alpha Fund	17.3%	<p>Benchmark Index: MSCI All County World</p> <p>The objective of the Sub-fund is to exceed the rate of return of the MSCI All Country World Index (the "Index")</p> <p>The fund aims to achieve capital growth by outperforming the MSCI All County World Index by 3% p.a. over the market cycle</p>

**Global equities held with LGIM:**

<b>Asset class Manager</b>	<b>% of Fund assets</b>	<b>Benchmark and performance objective</b>
LGIM Future World Fund	20.6%	<p>Benchmark Index: FTSE All-World ex CW Climate Balanced FI</p> <p>The objective of the Sub-fund is to replicate performance of the Index and ensure the pooled fund has similar characteristics as the index whilst not necessarily holding all the constituents of the Index.</p> <p>The anticipated annual tracking error, in normal market conditions, relative to the Index is +/-0.60% in 2 years out of 3.</p>
LGIM MSCI World Low Carbon Target Index Fund	21.5%	<p>Benchmark Index: MSCI World Low Carbon Target Index</p> <p>The objective of the Sub-fund is to track the performance of the MSCI World Low Carbon Target Index to within +/- 1.00% p.a. for two years out of three.</p>

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

## 8 Assets to reside outside of the Pool

8.1 The Fund's target allocation of 9% of the Fund within pooled 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 decides to disinvest. In addition, the holdings shown below will sit outside the pool.

<b>Asset class Manager</b>	<b>% of Fund assets</b>	<b>Benchmark</b>	<b>Rational for initially withholding Investment outside of the London CIV Pool</b>
RLAM - UK Corporate Bonds	20.0%	ML Sterling Non- Gilts (TR)	This is being held outside of the pool as the Fund has an allocation to UK Corporate Bonds and the pool only offers a global solution
JP Morgan Asset Management - Infrastructure	3.5%	UK CPI + 5%	Infrastructure investments are not currently available within the CIV. The Fund is now invested in this illiquid strategy
Private Debt	3.9%	SONIA 3 Months + 3% p.a.	Private Debt was not available at the time of investment
Impact	0.6%	Absolute 8% p.a. Return Bmk	Not available at the time of investment

8.2 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.

## 9 Structure and governance of the London CIV Pool

9.1 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.

## 10 Holding the London CIV to account

- 10.1 The boroughs interact with the London CIV through the Pensions Sectoral Joint Committee (PSJC) and through the CIV Investment Advisory Committee (IAC).
- 10.2 London CIV has formal agreements and arrangement in place and is already in the process of pooling investments for the London Local Authorities.
- 10.3 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.
- 10.4 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).
- 10.5 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;"
- 10.6 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.
- 10.7 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 thorough investment strategies are being implemented and the timescales.

## **11 Environmental Social & Corporate Governance considerations of the Fund**

- 11.1 Regulation 7(2)(e) requires the ISS to state how social, environmental, or corporate governance considerations are considered in the selection, non-selection, retention, and realisation of investments.
- 11.2 The PFP recognise that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. The PFP consider the Fund's approach to responsible investment in two key areas:
1. Sustainable investment/ESG factors – considering the financial impact of environmental, social and governance (ESG) factors on its investments.
  2. Stewardship and governance – acting as responsible and active investors/owner, through considering voting of shares, and engaging with investee company management as part of the investment process.
- 11.3 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.
- 11.4 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.
- 11.5 The PFP expects its fund managers to integrate material ESG factors within their investment analysis and decision making.
- 11.6 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.
- 11.7 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.
- 11.8 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
- 11.9 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.

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

11.11 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.

## **12 Corporate Governance/Voting**

12.1 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.

12.2 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.

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

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

## **13 Stewardship**

13.1 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

13.2 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.

- 13.3 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 considered in the management of the affairs of the companies in which they collectively invest.
- 13.4 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.
- 13.5 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.

# 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.