London Borough of Ealing Pension Fund

Annual Report & Accounts

2013/14

EALING COUNCIL

Ealing
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CONTENTS

CHAIR'S STATEMENT

Cllr Yvonne Johnson, Chair of the Pension Fund Panel

I am delighted to once again present the London Borough of Ealing's Pension Fund annual report for the year ending 31st March 2014 on behalf of the Pension Fund Panel which I chair.

We administer a statutory funded scheme (i.e. assets are set aside and invested to meet future liabilities) called the Local Government Pension Scheme (LGPS) on behalf of our scheme members. Scheme benefits are defined in statute and employee contributions are currently fixed, hence any current and future funding shortfalls have to be met by the assets growing faster or the employer increasing their contribution. There are proposed changes to the LGPS which will result in a cost control cap which may require scheme members to either increase contributions or reduce benefits to meet any funding shortfall above a specified limit. Scheme member contributions are not within the Council's control as these are determined nationally. Currently the Council's cost of running its scheme remains comfortably within the indicated cost cap.

There were four panel meetings over the reporting year. Members reviewed a broad range of issues and also met with and probed fund manager performance, particularly in relation their rolling three year performance where we have set them an outperformance target. Members of the panel also explored a range of investment strategies, reviewed governance arrangements and actively debated the options for collaborative working with other LGPS schemes in an effort to improve knowledge and resource sharing and reduce scheme cost.

The economic backdrop within the UK and US are showing signs of improvement, but downside risks persist and the Eurozone economy remains fragile. Ongoing geopolitical tensions are still impacting on financial markets so the value of our investments has seen some volatility.

In spite of these factors, I am pleased to report that the fund rose in value from £800m to £867m over the financial year, and our fund out-performed our benchmark return by 0.8% in relative terms. We also out-performed the average return of a peer group universe of other LGPS funds being ranked in the top 28% of performers. I can also confirm that the latest triennial valuation of the fund carried out on 31 March 2014 indicated the funding level of the fund was 72% compared to the last valuation funding level of 70%.

We continue to review the Fund's investment mix to ensure we achieve the highest returns within our target risk parameters to minimise the amount the Council needs to contribute as the scheme sponsor. We continue to review the governance arrangements in our drive to offering and maintaining quality scheme and service to scheme participants. In addition to quarterly PFP meetings, the Treasury Risk and Investment Board (TRIB), a sub group of officers, meet monthly to actively assist to the PFP in monitoring risk, and to generate new ideas on the full range of PFP issues as well as speeding up the implementation of strategic decisions taken by the PFP.

Public sector pensions are still undergoing major changes to reduce the costs of running the scheme and to ensure fairness of the distribution of costs across generations. I informed you last year about the proposed changes to the scheme. These changes have now been finalised and took effect from 1 April 2014.

Wider changes have also been proposed for the governance and structure of the LGPS and the outcomes of consultations are currently underway.

We continue to keep abreast of all proposed regulatory changes and ensure that where possible we participate in industry debate to contribute towards securing a sound and sustainable scheme. We are closely involved in reviewing the options for collaborative investing across London schemes. We will continue to keep you updated of proposed changes to the scheme through various communication channels including our website, newsletters and our annual general meeting. As always a member engagement day was held on 12 March 2014 which incorporated three member briefings on scheme changes and one to one sessions for some for some members to discuss their individual pension queries. Feedback from those who attended was excellent and next year we will once again be holding and annual AGM.

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

Once again I encourage you to provide us with feedback to assist us in improving the way we communicate with you and the quality of the information you receive. Contact details can be found in the section ‘Staff, Advisors and Investment Managers.

HIGHLIGHTS 2013-14

- The value of the Fund rose from £800.0m to £867.4m at the end of the financial year; an increase of 8.4%.
- 71% of assets under management are held in equities, 27% in corporate bonds, and 2% in UK pooled property funds.
- The Pension Fund performed well across the year, outperforming the benchmark performance by 0.8%, and performing in the 26th percentile against its peer group of other Local Authority Funds.
- Overall in 2013/14 the scheme again remained cash flow positive (when investment income is included), with income to the scheme (contributions and investment income) at £83.1m, 75.7% more than the outgoings of £47.3m, enabling the Council to invest sensibly for the longer term without worrying about short term market movements.

MANAGEMENT STRUCTURE

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

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

PENSION FUND PANEL

Terms of Reference

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

Members during 2013/14		Political Party
Councillors	Cllr Johnson (Chair)	Labour
	Cllr Cowing	Conservative
	Cllr Langan	Labour
	Cllr Manro	Labour
	Cllr Harris	Conservative
	Cllr Sabiers	Labour
	Cllr Steed	Liberal Democrat
	Cllr Young	Conservative
Non-Voting Members		
	S Kalsi	(Unison)
	H Turner	(Admitted body representative)

Contact Details for Pension Fund Panel

Committee Services (Perceval House)
Gordon Williams - Telephone: 0208 825 6058

Panel Member Training 2013/14

Topic	Provider
Passive Investments	Blackrock Investments
Efficient/Smart Beta Investment Strategy	HSBC

Panel Voting Rights:

The voting rights for the panel are as follows:

- Councillors who are members of the Pension Fund Panel have voting rights.
- Trade union and admitted body representatives who are members of the Pension Fund Panel are non-voting.

STAFF, ADVISERS AND INVESTMENT MANAGERS

Company Name	Contact	Contact Details
Ealing Officers:		0208 825 5000
Director of Finance	Maria G. Christofi	Perceval House 14-16 Uxbridge Road London W5 2HL
Assistant Director of Corporate Finance	Nigel Watson	Perceval House 14-16 Uxbridge Road London W5 2HL
Head of Financial Planning & Investments	Matthew Bunyon	Perceval House 14-16 Uxbridge Road London W5 2HL
Group Manager, Treasury & Investments	Bridget Uku	Perceval House 14-16 Uxbridge Road London W5 2HL
Consulting Actuaries:		
Mercer	Ian Kirk	1 Tower Place West Tower Place London EC3R 5BU
Auditors:		
KPMG		12th Floor, 15 Canada Square, Canary Wharf, London
Investment Consultant:		
Aon Hewitt	Kate Charsley	10 Devonshire Square London EC2M 4YP
Legal Advisers:		
In-House Team	Helen Harris – Director of Legal and Democratic Services	Perceval House 14-16 Uxbridge Road London W5 2HL
Pension Administration Services:		
In-House Team	Jane Lynham – Payroll and Pensions Manager	Perceval House 14-16 Uxbridge Road London W5 2HL

Company Name	Contact	Contact Details
London Pensions Fund Authority (LPFA)	Ealing Pension Team	Dexter House 2 Royal Mint Court London EC3N 4LP
Custodian:		
BNY Mellon	Rachel Richer	BNY Mellon Asset Servicing UK Pension Team 3rd Floor, 160 Queen Victoria Street London EC4V 4LA
Investment Managers:		
Lazard – UK Equity Mandate	Louisa Vincent	50 Stratton Street London W1J 8LL
Allianz – Global Equity Mandate	Andrew Whitaker	155 Bishopsgate London EC2M 3AD
RLAM – UK Corporate Bond Mandate	James Stoddart	55 Gracechurch Street London EC3V 0UF
Lothbury – UK Property Mandate	Thomas Jansen	155 Bishopsgate, London, EC2M 3TQ
Standard Life – UK Property Mandate	Euan Baird	1 George St, Edinburgh, EH2 2LL
Performance Measurement Services:		
WM Performance Services State Street	Karen Thrumble	525 Ferry Road Edinburgh EH5 2AW
Pension Body Membership:		
National Association of Pension Funds - represents the interests of the occupational pensions movement, organises conferences and training programs for members.	n/a	Cheapside House 138 Cheapside London EC2V 6AE
Local Authority Pension Fund Forum - promotes the investment interests of local authority pension funds, and to maximise their influence as shareholders.	David Sellors	Email: David.Sellors@lapfforum.org Telephone: +44(0) 7920 809 515

THE SCHEME

The London Borough of Ealing administers the Ealing Pension Fund for the active members, pensioners and deferreds of the Council and admitted and scheduled bodies.

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

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

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

- A guaranteed pension based on salary and length of time in the scheme
- Tax free lump sum on benefit accumulated prior to 1st April 2008 and option to convert some of the pension into tax free lump sum on post 1st April 2008 service
- Life assurance cover 3x member yearly pay from the day of joining scheme
- Pensions for spouses/civil and nominated 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 inflation

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 7.5%, 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 2013 to March 2014 were:

Full-time Pensionable Pay	% Contribution
£0 to £13,700	5.5%
£13,701 to £16,100	5.8%
£16,101 to £20,800	5.9%
£20,801 to £34,700	6.5%
£34,701 to £46,500	6.8%
£46,501 to £87,100	7.2%
More than £87,100	7.5%

If you work part-time your rate will was based on the whole-time pay rate for your job, although you only paid contributions on the pay you actually earn.

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

The contributions enjoy full tax relief and, in addition, result in reduced National Insurance Contributions for the contributor.

The contribution rate for Councillors is 6% of eligible allowances, councillors pensions are currently under review.

LGPS 2014

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

1	A Career Average Revalued Earnings (CARE) scheme using CPI as the revaluation factor (prior to 31st March 2014, the scheme was a final salary scheme).
2	The accrual rate will be 1/49th (this used to be 1/60th).
3	There will be no normal scheme pension age, instead each member's Normal Pension Age (NPA) will be their State Pension Age (the NPA used to be 65).
4	Average member contributions to the scheme will be 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 is no change to average member contributions, the lowest paid will pay the same or less and the highest paid will pay higher contributions on a more progressive scale after tax relief (see table below).
5	Members who have already or are considering opting out of the scheme can instead elect to pay half the contributions for half the pension, while still retaining the full value of other benefits. This is known as the 50/50 option (before, the scheme had no such flexible option).
6	For current scheme members, benefits for service prior to 1st April 2014 are protected, including remaining 'Rule of 85' protection. Protected past service continues to be based on final salary and current NPA.
7	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).

2014 Member Contributions

As mentioned above while the average contribution rate for members remains 6.5%, the structure has been altered to be more progressive. Also the table below reflects the rate paid on actual pay and not full time equivalent as was previously the case.

Actual Pensionable Pay	% Contribution
£0 to £13,500	5.5%
£13,501 to £21,000	5.8%
£21,001 to £34,000	6.5%
£34,001 to £43,000	6.8%
£43,001 to £60,000	8.5%
£60,001 to £85,000	9.9%
£85,001 to £100,000	10.5%
£100,001 to £150,000	11.4%
More than £150,000	12.5%

2014 death in service lump sum

This will continue to be three times pensionable pay but will now include non-contractual overtime and additional hours.

2014 ill health cover

There is only one change to ill health cover. Enhancement of service to age 65 for Tier 1 ill health or enhancement for Tier 2 of 25% of service to 65, will be replaced by the same enhancement but based on the individual's Normal Pension Age rather than 65. If your State Pension Age is higher than 65 when you are retired on grounds of ill health, the enhancement will reflect that higher pension age.

Further information on the 2014 changes visit www.lgps.org.uk or http://www.yourpension.org.uk/LPFA/Scheme-Reform.aspx (Ealing's Pension Fund administrators LPFA)

ADMITTED & SCHEDULED BODIES

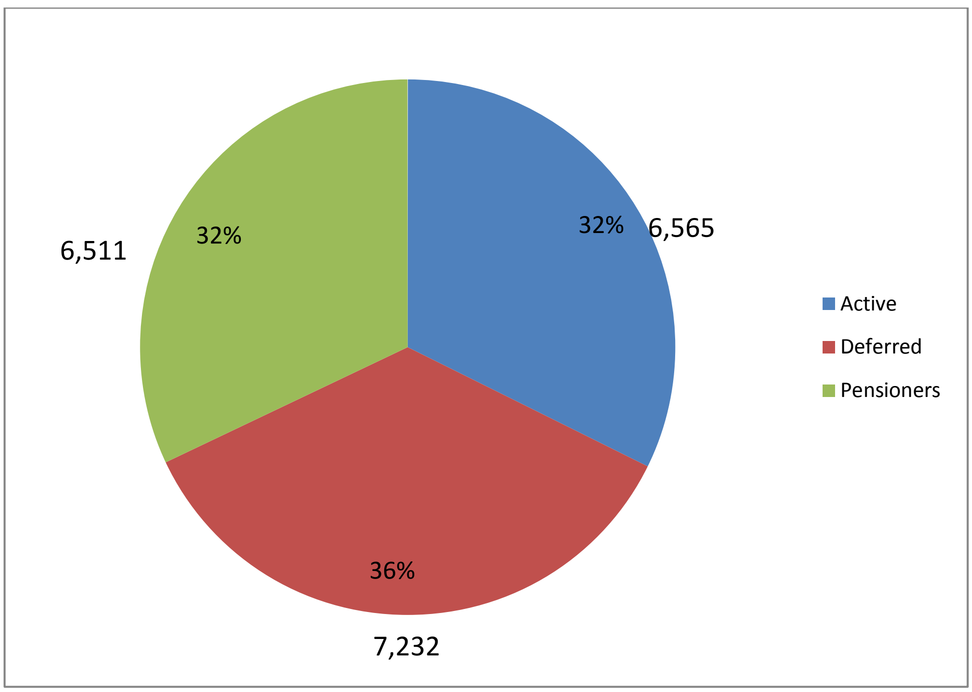
The Pension Fund had 17 employers in the Fund during the financial year 2013/14, including the London Borough of Ealing. The other employers in the Fund fall into either scheduled body status or admitted body status. These employers in the Fund are listed in the section Accounting Policies and Notes to the Accounts.

MEMBERSHIP OF THE FUND

Admission to the Local Government Pension Scheme (LGPS) administered by Ealing is open to all Council and Scheduled Body employees, 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 Admitted Bodies is dependent on the status of the admission agreement, whether it is open, i.e. admits new members, or closed, i.e. is only available for staff transferring over and does not admit new members.

The LGPS is also available to all councillors and elected mayors of an English county council, district council or London borough council or of a Welsh county council or county borough council who are offered membership of the Scheme under their council's scheme of allowances and who are under age 75.

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 its Admitted or Scheduled Bodies and making contributions to the Pension Fund.
- **Deferred Members**: Those who have left the Council or one of its Admitted or Scheduled Bodies, but have not yet become entitled to receive their pension from the scheme.
- **Pensioners**: Those who receive a pension from the Scheme (including spouses' and dependants' pension).

BUDGET REVIEW

The Pension Fund Panel reviews the budget for the Pension Fund on an annual basis. In the table below income and expenditure for 2013/14 and 2012/13 is shown with the agreed budget for 2014/15:

	Actual 2012/13 £m	Forecast 2013/14 £m	Actual 2013/14 £m	Variance %	Variance m	Budget* 2014/15 £m
Income						
Employer Contributions	28.2	39.1	39.2	0	0.1	29.8
Employee Contributions	9	9.3	9.3	0	0	8.9
Transfer In	3.6	2.7	2.7	0	0	2.7
Total Income	**40.8**	**51.1**	**51.2**	**0**	**0.1**	**41.4**
Expenditure						
Pensions	30.9	32.8	32.7	0	(0.1)	34.5
Lump sum retirement benefits	5.5	6.2	6.6	6	0.4	6.2
Lump sum death grants	0.9	0.6	0.5	-17	(0.1)	0.6
Transfers out (inc. refunds)	3.2	3.0	2.8	-7	(0.2)	3.0
Fund Management expenses	2.3	2.6	2.5	-4	(0.1)	3.1
Administration expenses	0.9	1.0	1.0	0	0.0	0.9
Total Expenditure	**43.7**	**46.2**	**46.1**	**0**	**(0.1)**	**48.3**
Net Income/Expenditure	**-2.9**	**4.9**	**5.1**	**2**	**0.1**	**-6.9**
Investment Income generated by Fund Managers	25.8	28.0	30.8	10	2.8	28.4
Total Income (inclusive of income held with Fund Managers)	**22.9**	**32.9**	**35.8**	**9**	**2.9**	**21.5**

Overall the London Borough of Ealing Pension Fund achieved a net surplus for the year 2013/14 of £35.8m (£22.9m in 2012/13). This excludes the effect of the rise in market value of the Fund's investments which was £31.6m (£85.5m in 2012/13).

During 2013/14 non-investment income was not enough to cover pension benefits and expenses. This trend is expected to continue due to the rising cost of pension benefits and stagnating contribution levels. Current cash levels will not be sufficient to meet forecasted pension obligations in 2014/15, so withdrawal of cash from investments will be necessary to cover this shortfall.

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

A copy of the budget report for 2013/14 can be obtained from the Council's website, or using the file path below.

http://www.ealing.gov.uk/meetings/meeting/225/pension_fund_panel

The Pension Fund Panel approved the 2013/14 budget report on 27th February 2014.

RISK MANAGEMENT

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

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

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

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

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

The key risks to the fund are:

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

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

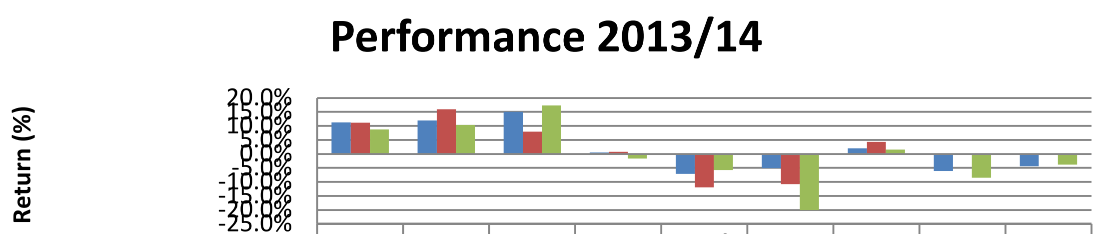
- Monitoring longevity triennially and in discussions with the Fund Actuary on how best to manage the impact on the Fund from people living longer.
- Adequate diversification of assets and managers/manager style, quarterly monitoring of investment performance and regular reviews of asset allocation to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

INVESTMENT REVIEW

Investment Background

The average local authority pension fund returned 6% in 2013/14. Equity markets continued to perform strongly with most developed markets producing returns in the high ’teens in local currency. However, much of this return was eroded for UK investors in the US and Japan by the strength of Sterling which gained 9% against the US Dollar and 17% against the Yen over the year. UK equities were below the overseas average but returned 11% for the year. Active managers continued to add value relative to the FTSE All-Share index, the fourth consecutive year that this has now occurred.

The graph below shows the impact of this surge on various markets over the last financial year compared to the WM* universe:



	EQUITIES						Bonds		
	UK	North America	Europe	Japan	Pacific	Other	UK Corp	Overseas	UK Index Linked
WM Wtd Average	11.3%	11.9%	15.1%	0.5%	-7.1%	-5.1%	2.0%	-6.1%	-4.4%
Ealing Fund Return	11.2%	16.0%	8.0%	0.8%	-11.9%	-10.8%	4.3%		
Ealing Benchmark/Index	8.8%	10.3%	17.3%	-1.6%	-5.8%	-20.0%	1.6%	-8.5%	-3.8%

*WM are the independent performance measurement company for the Fund.

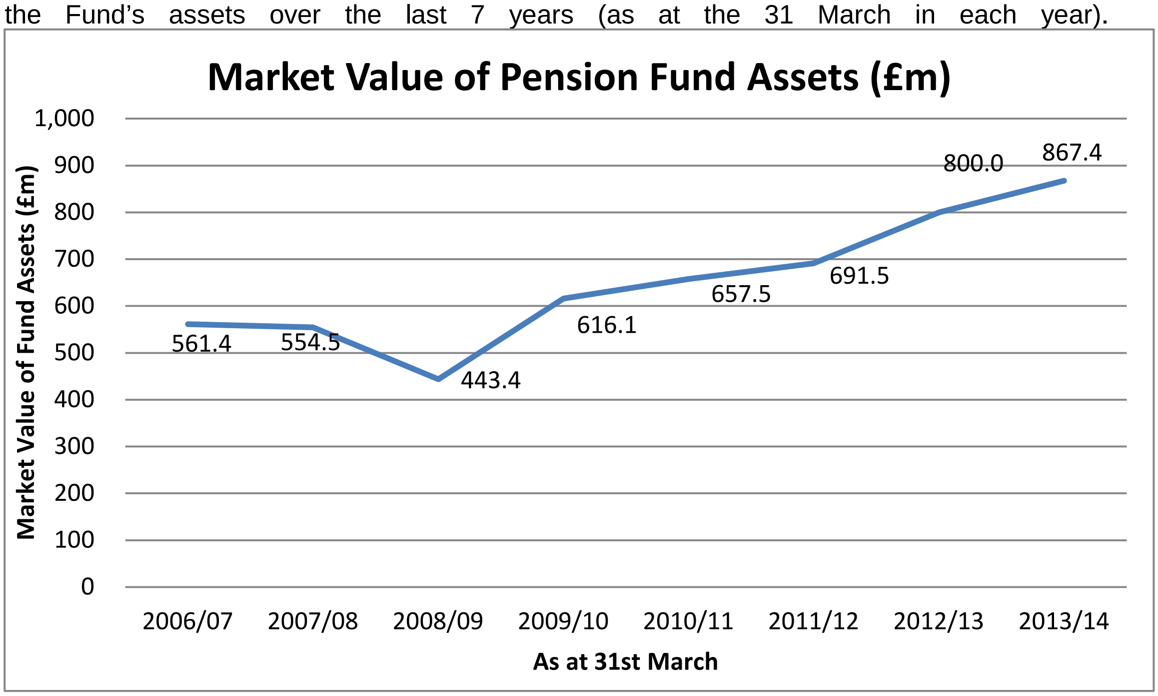
Global equity markets, supported by positive US economic data and accommodative monetary policies, continued to move higher during the first half of 2013. This was despite financial turmoil in Cyprus, political gridlock in Italy and the on-going lack of agreement over fiscal policy in the US during the first quarter. However, markets then subsequently retreated from their mid-May highs on concerns over potentially reduced support for US bond markets and credit tightening in China. In particular, worries over higher interest rates in the US led to heavy selling of Emerging Market assets. Heightened concerns were triggered by comments from the Federal Reserve Chairman, Ben Bernanke, that a tapering of quantitative easing would be justified if economic data continued to improve.

In Q3 2013 the Fed surprised investors by deciding to delay tapering its $85 billion-a-month asset purchase programme, citing continuing concerns about the health of the economy. Markets did, however, sell off towards the end of the quarter as concerns over the US debt ceiling resurfaced. Investors were unsettled by the lack of progress in negotiations to raise the ceiling and worries over an extended government shutdown and potential technical debt default kept the market on edge. Global equities continued to move higher in Q4, propelled by improving economic data, low interest rates and increased risk appetite.

Global equities continued to climb in 2014 despite a weak start to the year caused in the main by the tapering of bond purchases by the US Federal Reserve. Equity markets have climbed since then despite uncertainty over interest rates. Crises in Ukraine and Iraq led to a rally in the price of energy stocks as concerns emerged over Europe's dependence on energy importing. Continued strength in the US, built upon the promise of lowering employment and increased house sales contrasted with Europe moving sideways despite continued economic stimulus from the ECB. The first half of the year ended with evidence of China's continued growth despite weaker economic data earlier in the year. Similarly, India showed signs of life in May as the markets reacted well to Nahrendra Modi's election as Prime Minister.

Value of the Fund's Assets

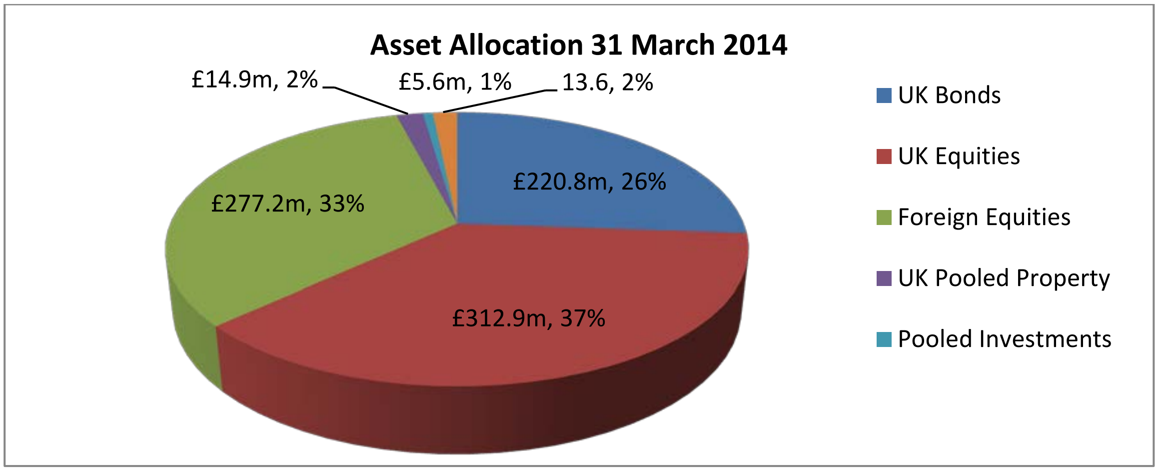
At the end of March 2014 the market value of the Pension Fund's total assets was £867.4m; a rise of 8.4% from the opening value of £800.0m. The graph below depicts the progress of the Fund's assets over the last 7 years (as at the 31 March in each year).



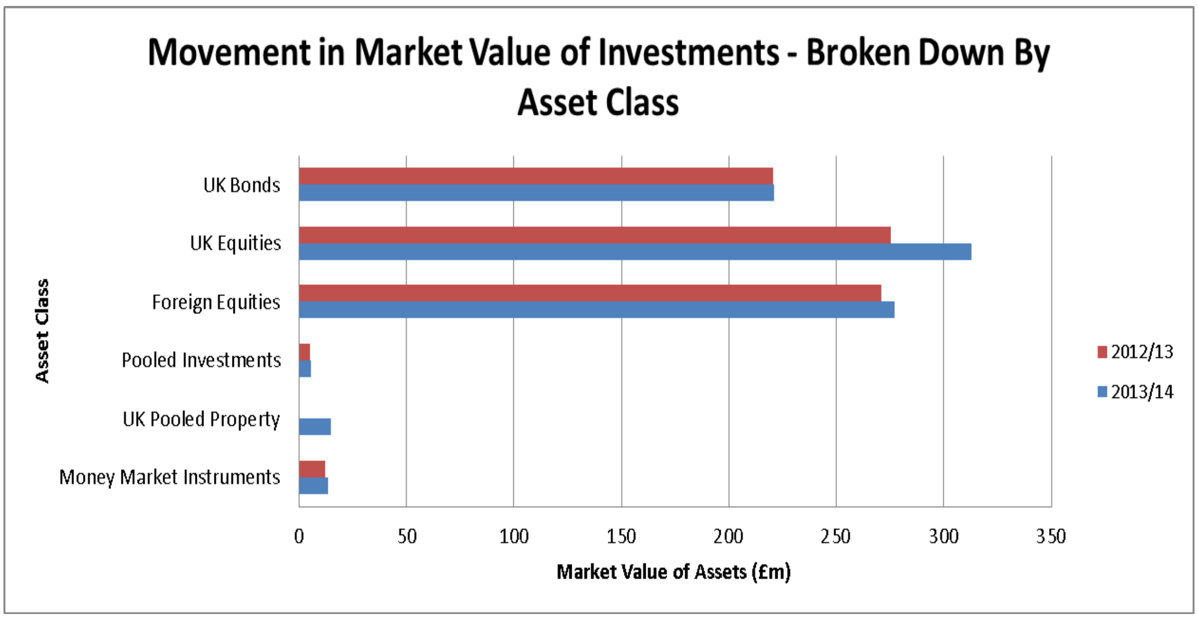
Investment Management

The management of the Fund's assets is determined by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The regulations enable authorities to appoint investment managers to manage and invest Pension Fund assets on their behalf, subject to being satisfied with their experience, competence and risk control, with appropriate arrangements for monitoring performance. The Local Government Pension Scheme (Administration) Regulations 2008 requires the Fund to publish a Statement of Investment Principles (SIP), which sets out the main parameters and responsibilities for the management of the Fund. The SIP covers the investment style for fund managers e.g. balanced active/passive, types of investment to be permitted and the relative proportions between them, performance objectives for fund managers, socially responsible investment standards to be applied, and corporate governance matters to be exercised relating to the Fund's shareholding interests. A copy of the current SIP is included within this report.

The Fund appointed three new specialist managers in April 2007, with a UK Equity, Global Equity and UK Corporate Bond mandate. The allocation to the various asset classes as at the end of 2013/14 is as outlined below:



The chart below sets out how the distribution across the various asset classes has moved between the end of the previous financial year, March 2013, and the end of the current financial year, March 2014. As can be seen from the chart, there has been little change in the weightings of asset classes during the year.



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

Manager	Mandate	% of Fund Under Management at 31/3/14
Lazard	UK Equities	38%
Allianz	Global Equities	33%
RLAM	UK Corporate Bonds	27%
Lothbury	UK Pooled Property	1%
Standard Life	UK Pooled Property	1%

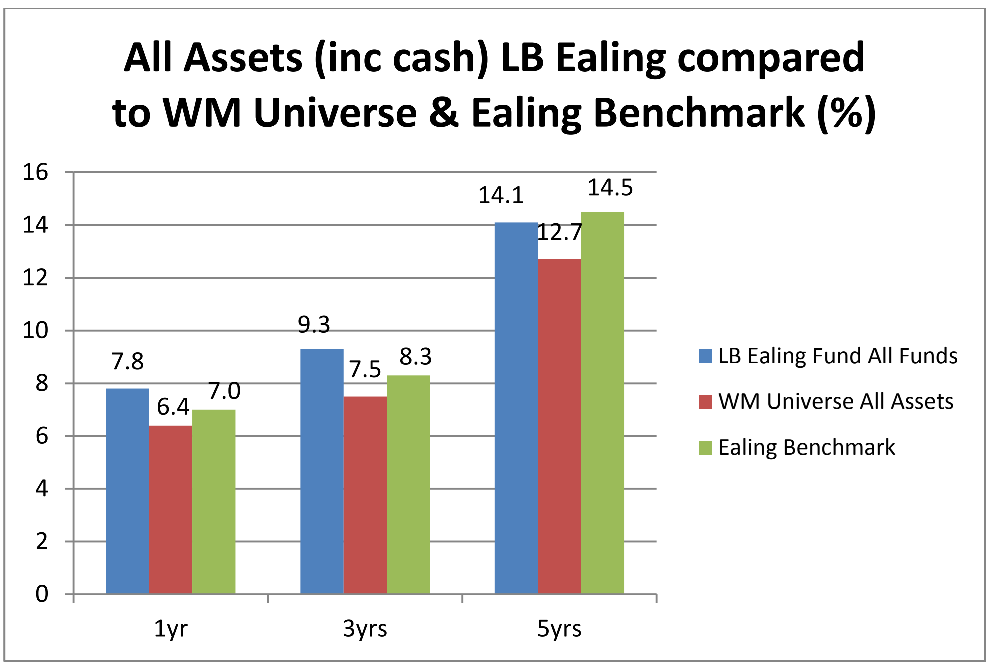
Top fifteen holdings by Market Value as at 31st March 2014

Top 15 Holdings at 31st March 2014	Market Value (£000)
HSBC HOLDINGS PLC	21,793
BP PLC	16,382
ROYAL DUTCH SHELL PLC	15,206
RBS GLOBAL	13,571
PRUDENTIAL PLC	13,125
BRITISH AMERICAN TOBACCO	11,342
VODAFONE GROUP	11,336
SHIRE PLC	11,117
RIO TINTO PLC	10,813
DIAGEO	10,803
LLOYDS BANKING GROUP PLC	10,214
LOTHBURY PROPERTY FUND	9,834
GLAXOSMITHKLINE	9,831
UNILEVER PLC	8,962
BG GROUP PLC	8,687

Performance of Fund

The investment strategy and performance of the Fund is reported on a quarterly basis to the Pension Fund Panel with Fund Managers alternating to present to Members. The investment performance of the Fund is measured by the WM Company against a customised benchmark.

As set out in the graph below, the fund has returned 7.8% for 2013/14, and an average of 9.3% and 14.1% for the three years and five years respectively to 31 March 2014.



In 2013/14 the Ealing Fund return of 7.8% outperformed the benchmark of 7.0% with a relative return of +0.8%. It also outperformed the WM Local Authority Universe which achieved 6%. This positive performance against the Ealing benchmark arose mainly from good stock selection in UK equities.

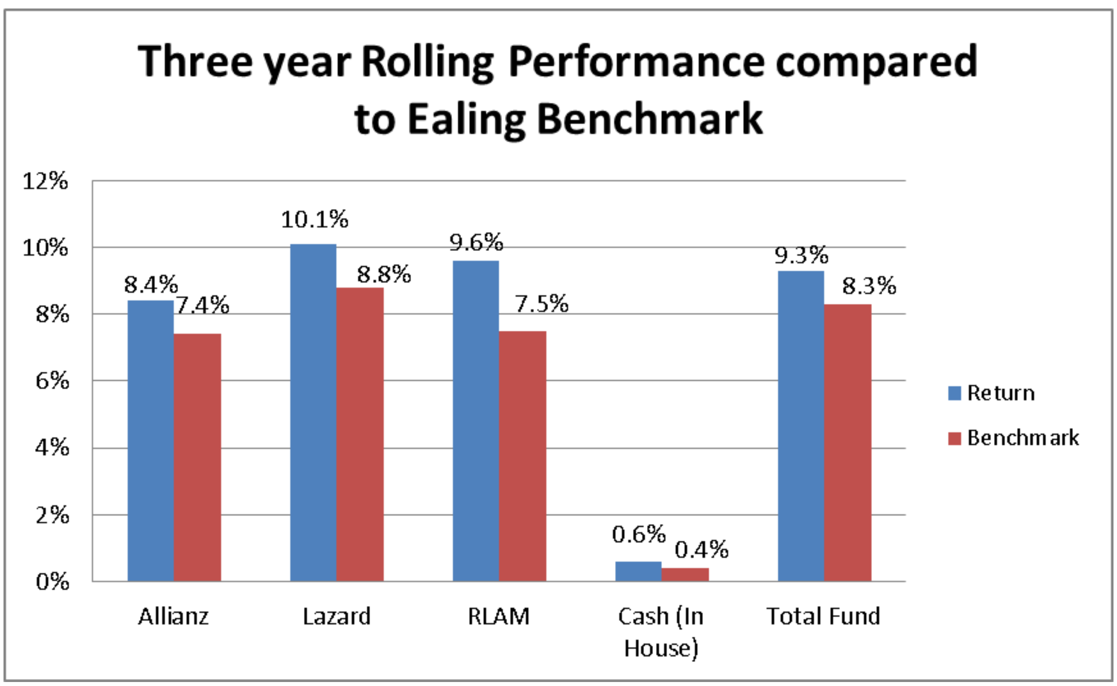
The table below details the performance for the year to March 2014 for each of the fund managers and the combined fund in relation to the Ealing Specific Benchmark. The fund was ranked in the 28th percentile in the WM Local Authority Universe (the lowest rank being the 100th percentile). Over 3 and 5 years, the fund is ranked in the 18th percentile.

	Return	**LB Ealing Benchmark**	**Relative Performance**	**Relative Performance**
	Year to 31 March 2014	Year to 31 March 2014	2013/14	2012/13
	%	%	%	%
Allainz	7.8	7.9	-0.1	-1.1
Lazard	10.8	8.8	1.8	0.5
RLAM	4.3	1.6	2.6	3.1
Cash (In House)	0.7	0.4	0.3	0.2
Total Fund	**7.8**	**7.0**	**0.8**	**0.2**

As illustrated in the table above, both Lazard and RLAM, who manage the UK equities and corporate bond mandates, outperformed their benchmarks. Outperformance in both cases was due to sound stock selection decisions.

At the overall portfolio level, the Fund outperformed the composite benchmark return during the year 2013/14 by 0.8%.

Long-term 3 year rolling performance analysis of the fund managers to March 2014 shows that Allianz, Lazard and RLAM have outperformed their benchmarks.



Investment Management Expenses

The investment management expenses for the year to 31 March 2014 were £2,513k, up from the previous year figure of £2,283k, mainly due to increases in fund management fees as a result of the rising market value of assets.

ADMINISTRATION

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

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

Ealing Pension Team
London Pensions Fund Authority
Dexter House
2 Royal Mint Court
London
EC3N 4LP

Telephone:	020 7369 6115
Text Telephone:	020 7369 6119
Email:	ealing@lpfa.org.uk

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

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

Administration Expenses

The relative costs of administering the Fund over the financial year 2013/14 amounted to £1,016k (£890k in 2012/13). The administration expenses cover the costs involved in administering the Pension Scheme, including actuarial costs, audit, payroll and pension administration.

Administration Performance
The performance of LPFA is measured against four criteria:

Accuracy – Whether the figures provided have been accurately computed.

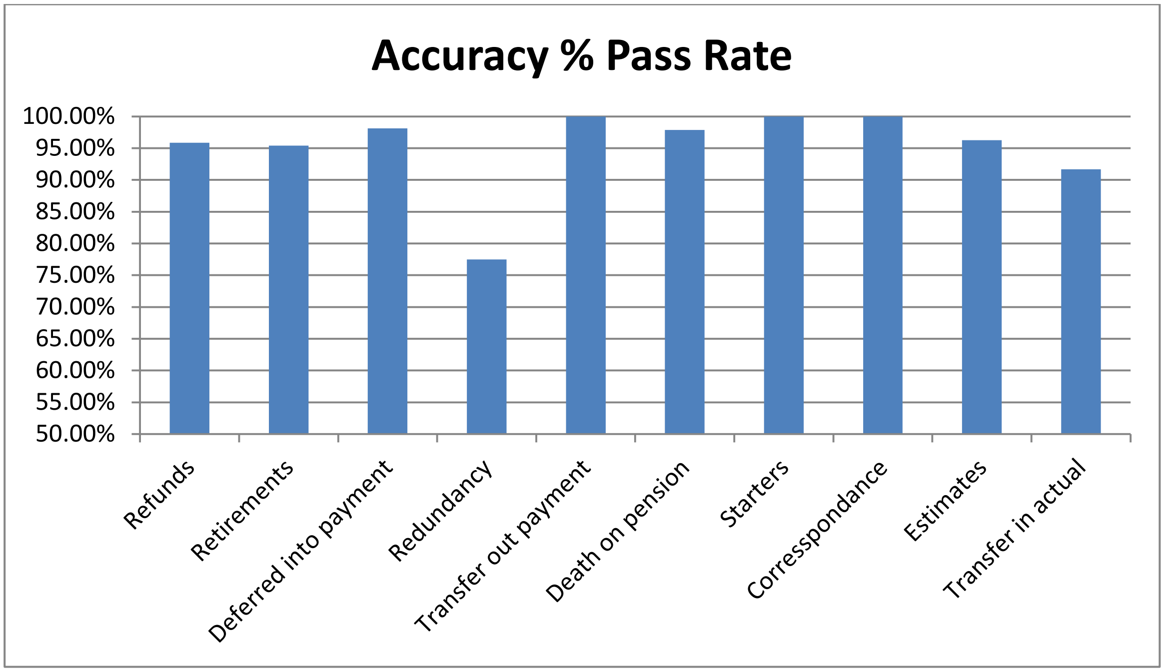
Timeliness – Have cases been processed in a timely manner.

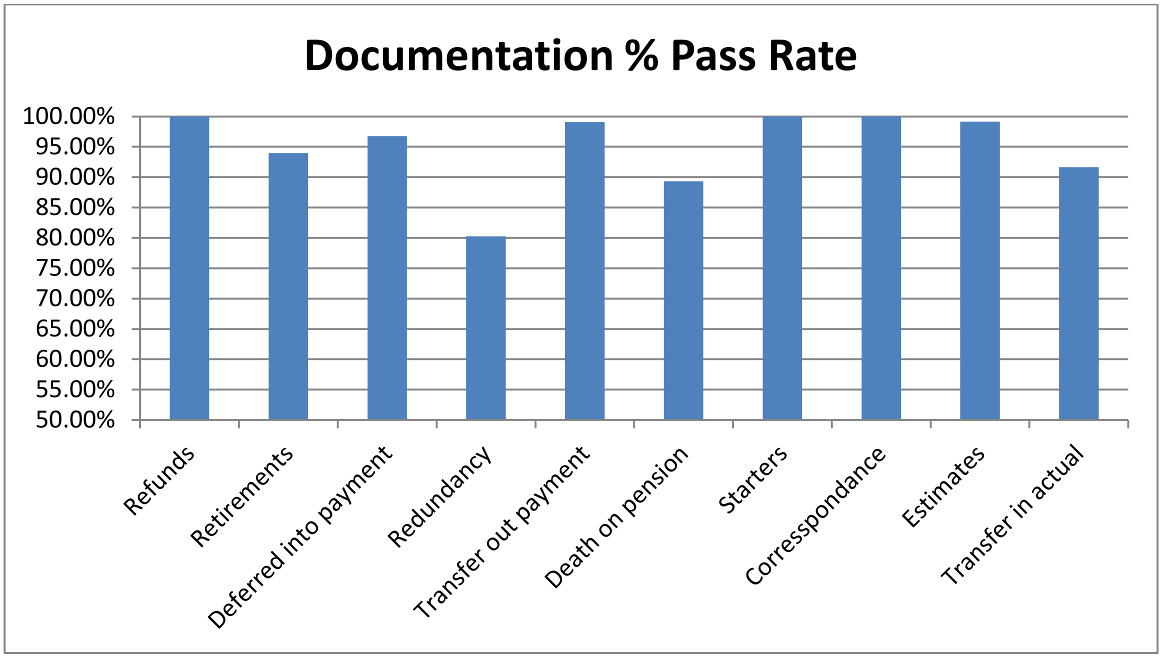
Documentation – Has the correct documentation been attached to members' files.

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

Ealing's in house pension team take monthly samples of work untaken by LPFA and assesses it against these criteria. Any 'fails' accrue resource credits to be used towards the Ealing contract. Performance statistics are reported to the Pension Fund Panel on a quarterly basis.

Below are performance graphs showing the pass rate LPFA achieved for 2013/14 across some of the most common and active areas within LPFA's remit.




Documentation % Pass Rate
100.00%
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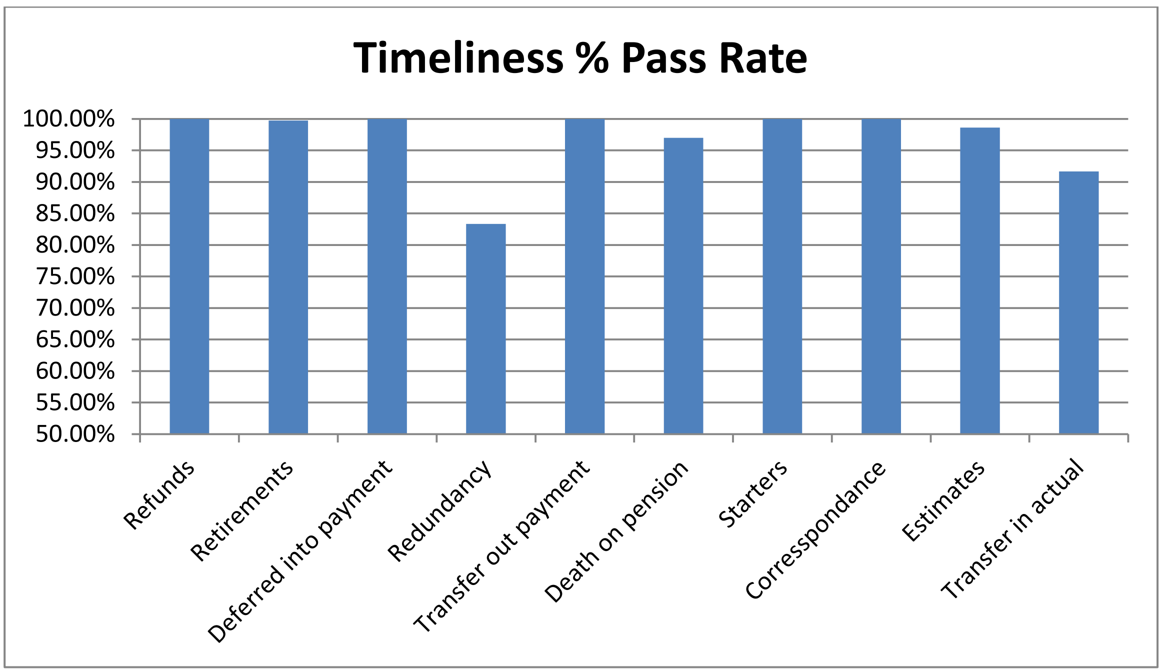
Retirements
Deferred into payment
Redundancy
Transfer out payment
Death on pension
Starters
Corresspondance
Estimates
Transfer in actual


Timeliness % Pass Rate
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Death on pension
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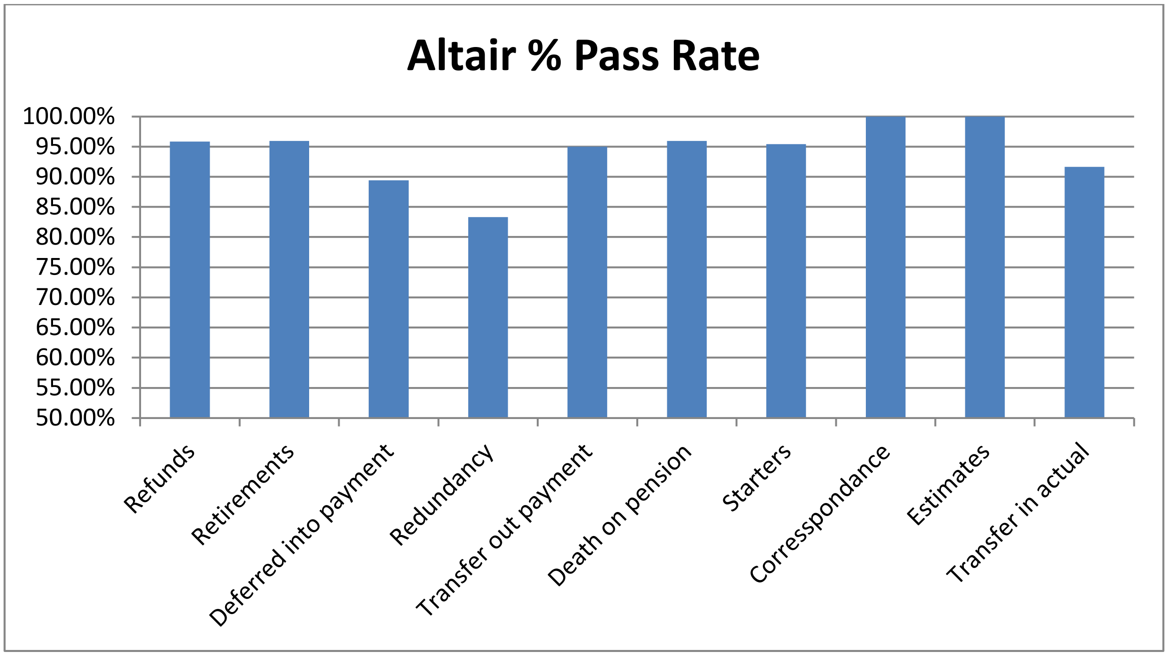
Transfer in actual



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 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 Deciding Officer to consider the matter under dispute. The Stage 2 Deciding Officer is David Veale, Assistant Director of HR, Ealing Council.

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

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

Self-Service

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

LPFA has also launched a new pensions administration system with a new look member self-service system. The system has improved functionality which will gradually be rolled out. This replaces the axis online system.

Current users of PIN: Members who currently hold a PIN to access member self-service will need to go through a simple re-registration process to set yourself a password and username. This is only a couple of screens and there is a Re-registration option as you enter member self-service. If you had bookmarked the previous online site this will no longer be valid and you will need to bookmark the next screen instead.

https://axise.yourpension.org.uk

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

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

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

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

If you require assistance with this system please contact one of our administration teams on enquiries@lpfa.org.uk or 0207 369 6118.

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

Notification of Change of Address

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

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

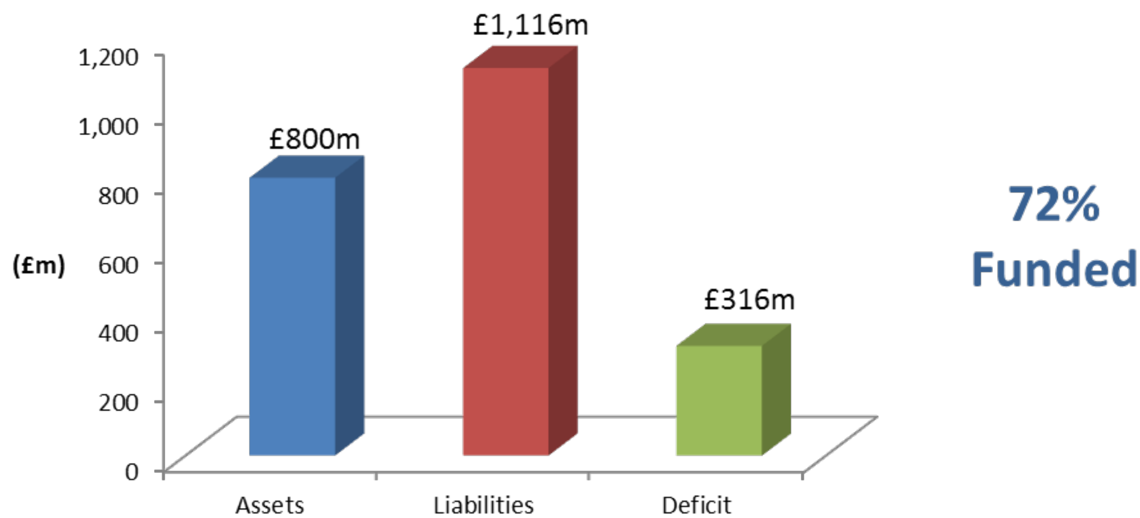
Please send written notification of any change of address you may have to the LPFA at the address shown above.

STATEMENT OF 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 2013 to determine the contribution rates for the period 1 April 2014 to 31 March 2017.

On the basis of the assumptions adopted, the Fund's assets of £800 million represented 72% of the Fund's past service liabilities of £1,116 million (the "Funding Target") at the valuation date. The deficit at the valuation date was therefore £316 million.



The valuation also showed that a common rate of contribution of 13.5% of pensionable pay per annum was required from employers. The common 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. It allows for the new LGPS benefit structure effective from 1 April 2014.

After the valuation date, there were significant changes in financial markets. In particular there was an increase in gilt yields, which underpin the liability assessment. This improved the funding position materially to 76% with a resulting deficit of £252 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average across the Fund, the updated deficit would be eliminated by a contribution addition of £16m per annum increasing at 4.35% per annum (equivalent to approximately 11.6% of projected Pensionable Pay at the valuation date) for 17 years if all assumptions are borne out in practice.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

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

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

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

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	4.6% per annum	5.6% 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 Guaranteed Minimum Pension)	2.6% per annum	2.6% per annum

* allowance was also made for short-term public sector pay restraint over a 6 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2014 (the 31 March 2013 assumptions are included for comparison):

	31 March 2013	31 March 2014
Rate of return on investments (discount rate)	4.2% per annum	4.4% per annum
Rate of pay increases	4.15% per annum	4.15% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.4% per annum

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

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year, corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.4% p.a. versus

4.2% p.a.). The pay increase assumption at the year end has also changed to allow for a short-term public sector pay restraint as detailed in the actuarial valuation.

The value of the Fund’s promised retirement benefits for the purposes of IAS26 as at 31 March 2013 was estimated as £1,236 million. The effect of the changes in actuarial assumptions between 31 March 2013 and 31 March 2014 as described above is to decrease the liabilities by c£68 million. Adding interest over the year increases the liabilities by c£52 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another c£2 million (including any increase in liabilities arising as a result of early retirements/augmentations). Finally, allowing for actual vs expected membership experience, which emerged at the 2013 valuation, gives a reduction in liabilities of c£38 million.

The net effect of all the above is that the estimated total value of the Fund’s promised retirement benefits as at 31 March 2014 is therefore £1,184 million.

Ian Kirk
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
June 2014

GOVERNANCE POLICY AND COMPLIANCE STATEMENT

Governance Policy Statement

Introduction

This Statement is prepared in compliance with the Local Government Pension Scheme (Amendment) (No 2) Regulations 2005. 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 manages 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)
- Treasury Risk & Investment Board (TRIB)
- Officers of the Council; and
- Professional Advisors

Delegation of Function

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

Meetings

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

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

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

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

Training

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

Pension Fund Panel Terms of Reference

The Terms of Reference of the PFP is as follows:

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

Review of this Policy Statement

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

London Borough of Ealing's Current Compliance Position

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

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

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

REQUIREMENT	COMPLIANCE	COMMENT
Structure		
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Compliant	The Council Constitution clearly sets out that responsibility for the management of the Pension Fund resides with Pension Fund Panel.
That representatives of participating LGPS employers, admitted bodies 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 admitted bodies e.g. University of West London are invited to participate on the Pension Fund Panel and trade union representatives sit on the panel as observers.
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliant	The Council does not have a secondary Committee or Panel, however PFP are supported by the Treasury Risk and Investment Board (TRIB). TRIB ensure the implementation of PFP policies operates smoothly in between quarterly PFP meetings. Good communications flows have been established between this board and the PFP and officers from this board also sit on the PFP.
That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Partly Compliant	The Council does not have a secondary Committee or Panel. However, they are supported by the TRIB, and at least two members from this body also attend the PFP meetings.
Representation		
That all key stakeholders are afforded the opportunity to be represented within the main or secondary	Partially Compliant	Representation on the Pension Fund Panel is open to the larger admitted bodies

REQUIREMENT	COMPLIANCE	COMMENT
committee structure. These include :- • employing authorities (including non-scheme employers, e.g. admitted bodies), • scheme members (including deferred and pensioner scheme members), • independent professional observers, • expert advisors (on an ad-hoc basis).		and two trade union representatives sit on the panel. The Panel has not appointed an independent professional observer but has appointed expert advisors who can attend Panel meetings when required.
That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Compliant	Committee papers are published prior to the meeting and where issues affect other employers or scheme members information is provided and opportunities for consultation exist within the current framework.
Selection & Role Of Lay Members		
That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Compliant	Members are aware of their roles and responsibilities as members of the Pensions Fund Panel, their terms of reference are set out in the constitution.
Voting		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Not Compliant	The constitution does not provide for non-Councillor members to be given voting rights.
Training/Facility Time/Expenses		
That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Compliant	Training is provided to members of the Pension Fund Panel to assist with the decision making process. All members have the opportunity to attend particular training meetings and there is a training budget to fund these.
That where such a policy exists, it applies equally to all members of	Compliant	Training sessions are conducted at PFP meetings

REQUIREMENT	COMPLIANCE	COMMENT
committees, sub-committees, advisory panels or any other form of secondary forum.		to enable all Panel members to obtain training on topical issues.
Meetings (Frequency/Quorum)		
That an administering authority's main committee or committees meet at least quarterly.	Compliant	Pension Fund Panel meets at least once a quarter.
That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Partly Compliant	No secondary committee., but the supporting body meet monthly.
That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Compliant	There are two lay representatives on the panel. Consultation with key stakeholders takes place and there is an AGM to which all members are invited.
Access		
That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Compliant	Panel meeting papers have to be sent to Members at least 7 days prior to the meeting. All members invited to the Panel have equal access to papers, documents and advice.
Scope		
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Compliant	The Panel already considers a wider range of Pension Fund issues outside of investment.
Publicity		
That administering authorities have published details of their governance arrangements in such a way that 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.

LONDON BOROUGH OF EALING PENSION FUND ACCOUNTS

INTRODUCTION TO THE FUND, ACCOUNTING POLICIES AND PRINCIPLES

Introduction

1. The London Borough of Ealing Pension Fund is part of the Local Government Pension Scheme (LGPS), which is a statutory, funded pension scheme. The LGPS benefits are defined and set out in law. There were no significant changes to the LGPS scheme in the year 2013/14.

2. However changes to the LGPS scheme came into effect from 1 April 2014. The main points to note are:

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

Further details can be found at http://lgps2014.org/.

3. The objective of the London Borough of Ealing Pension Fund's financial statements is to provide information about the financial position, performance and financial adaptability of the Fund, as well as to show the results of the stewardship of management.

4. The Fund is operated under regulations made by the Department of Communities and Local Government under Section 7 of the Superannuation Act 1972. The rules of the scheme are set out in LGPS (Benefits, Membership and Contributions) Regulations 2007, the LGPS (Administration) Regulations 2008 and the LGPS (Investment and Management of Funds) Regulations 2009, as amended. New

governance arrangements have been introduced from 1 April 2014 under regulations made under the Public Service Pensions Act 2013.

5. Membership of the fund consists of contributing members, deferred members, pensioners, widows and dependants as shown below.

	31 March 2014	31 March 2013
Contributing members	6,565	6,428
Deferred members	7,232	6,927
Pensioners, widows and dependants	6,511	6,290
Total	**20,308**	**19,645**

The Council is the administering authority of the scheme and has the major share of contributors and pensioners. There are now 8 contributing scheduled bodies and 8 admitted bodies. All of the bodies shown below contribute to the Fund.

FUND EMPLOYERS as at 31 March 2014	
Scheduled Bodies	**Admitted Bodies**
Alex Reed Academy (previously West London Academy)	Carillion
Ark Priory Primary Academy	Compass Group
Brentside Primary	EC Harris
Drayton Manor High	Greenwich Leisure
Featherstone High	NSL Parking
Twyford CE Academy Trust	Serco
University of West London	SLM
Wood End Academy	Viridian Housing

6. Investments are managed under segregated mandates by external fund managers: Lazard Asset Management Ltd for UK Equities, Allianz Global Investors (previously RCM Ltd) for Global Equities and Royal London Asset Management Ltd for Corporate Bonds. In addition, there are currently two pooled property funds managed by Lothbury Investment Management and Standard Life Investment Management.

Accounting Policies

7. The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2013/14 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The accounting policies contained in the Code apply International Financial Reporting Standards as adapted or interpreted for the public sector. IAS19 Employee Benefits and IAS26 Accounting and Reporting by Retirement Benefit Plans are of particular relevance to these statements. Where IAS26 is less detailed in its reporting requirements and this leads to lack of clarity then due to the hierarchy of standards recourse is to UK

GAAP and thus the Pension Statement of Recommended Practice (SORP). The fund accounts are not consolidated with the accounts of the authority.

8. Pension benefits, expenses, contributions from employees and employers and transfers in and out of the fund are accounted for on an accruals basis i.e. income/expenditure is recognised in the period it is earned/incurred, rather than when the cash is received.

9. Investment income is also accounted for on an accruals basis for all securities.

10. Both the costs of the investment management arrangements and Pension Fund administration expenses are charged to the Fund.

11. As per the Code cash balances, as well as consisting of cash in hand, also may include fixed term deposits, certificates of deposit, floating rate notes and other cash instruments.

12. Apart from the actuarial valuation there are no estimated figures that can have a significant risk of materially adjusting assets or liabilities within the next financial year.

13. The 2012/13 accounts have been restated to reclassify “other income” arising from dealings with members to more accurately reflect the substance of those transactions:

	Original 3 March 2013	**Adjustment**	**Restated 31 March 2013**
Category	**£000**	**£000**	**£000**
Other income	(815)	815	-
Employer contributions	(27,572)	(714)	(28,286)
Interest on cash deposits	(40)	(86)	(126)
Investment income - other	-	(15)	(15)

Actuarial Valuation

14. The Fund is valued by an independent actuary every 3 years. An independent valuation was carried out by Mercer Limited as at 31 March 2013 to determine the contribution rate from 1 April 2014 to 31 March 2017. The Actuary used a "market value" basis for the valuation of the Fund at 31 March 2013. Assets amounted to £800m and accrued liabilities to £1,116m, resulting in a funding deficit of £316m (a funding level of 72%).

15. Contributions to the Scheme by employers are set at rates determined by the Scheme’s Actuary and approved by the London Borough of Ealing Pension Fund Panel. The Council is meeting the fund’s liabilities by a recovery plan that has been certified by the Actuary for the next three years. The 2013 Actuarial Valuation report

is available on the Council's website.

16. In accordance with IAS26 the actuarial present value of promised retirement benefits are shown in the attached report by the Actuary, Appendix A. This report also details the discount rates used and other financial assumptions in assessing the liabilities of the fund.

Basis for Valuation

17. Investments are shown in the accounts at market value, which is determined as follows:

    17.1. All valuations for investments at 31 March 2014 and transactions during 2013/14 financial year are obtained from the accounting records of the Custodian Bank of New York Mellon (BNYM). This is the same principle as applied in the 2012/13 accounts.

    17.2. All UK investments are valued using an official vendor feed, usually International Data Corporation (IDC), but data from other vendors is used as appropriate in line with the Custodian BNYM Global Pricing Guidelines.

    17.3. All Fund investments (excluding cash) have their fair value derived from unadjusted quoted prices in active markets. Actively traded investments are valued on the basis of bid market prices.

    17.4. Unit trust and other pooled funds are valued according to the pricing structure applicable to them – dual price funds based on the bid price, single price funds based on that single price and where the value of underlying assets of a fund are based on valuation techniques then the net asset value per unit is used.

    17.5. Overseas investments are valued using official vendor feeds in accordance with BNYM's Global Pricing Guidelines and translated into sterling at the rate prevailing on 31st March 2014. IDC is usually used for foreign equities except US equities that are typically priced using Interactive Data Pricing and Reference Data Inc (IDSI).

    17.6. Dividends received from foreign investments during the year are accounted for in sterling at the foreign exchange rate prevailing on the day of receipt.

18. The Custodian BNYM completes a monthly reconciliation of its portfolio valuation to external fund manager at a line-by-line security level. The custodian works to the following tolerances

Nominal Value:	Zero tolerance
Market Value:	200 basis points at an individual line level
	20 basis points at a portfolio level
Accruals:	1,000 currency units per line

Statement of Investment Principles

19. The Statement of Investment Principles for Ealing Pension Fund was reviewed in 2011/12 and updated to incorporate an allocation to property. The SIP is published on Ealing Council's website and is available to any interested party.

PENSION FUND - FUND ACCOUNT

	Notes	2013/14 £000	2012/13 (restated) £000
Dealings with members, employers and others directly involved in the scheme			
Contributions	4	(48,533)	(37,318)
Transfers in from other pension funds		(2,681)	(3,557)
		(51,214)	(40,875)
Benefits	5	39,816	37,359
Payment to and on account of leavers	6	2,780	3,212
Administrative expenses	7	1,016	890
		43,612	41,461
Net (additions) / withdrawals from dealings with members		(7,602)	586
Returns on investments			
Investment Income	8	(31,882)	(26,835)
Taxes on Income		1,149	1,060
Profit and losses on disposal of investments and changes in value of investments	10	(31,580)	(85,514)
Investment management expenses	9	2,513	2,283
Net returns on investments		(59,800)	(109,006)
(Surplus) / deficit of the fund for the year		**(67,402)**	**(108,420)**

PENSION FUND - NET ASSETS STATEMENT

	Notes	2013/14 £000	2012/13 (restated) £000
Investment assets	10	839,189	779,226
Cash deposits	10	30,764	26,090
		869,953	805,316
Investment liabilities	10	(2,062)	(4,894)
		867,891	800,422
Current assets	12	391	445
Current liabilities	13	(928)	(915)
Net Assets of the fund available to pay benefits at year end		867,354	799,952

NOTES TO THE ACCOUNTS

NOTE 1. MANAGEMENT OF INVESTMENTS

In 2006/07 the Pension Fund Panel appointed Allianz (formerly RCM) to manage global equities, Lazards for UK equities and Royal London Asset Management (RLAM) for fixed interest securities and the transition to the new arrangements was completed in April 2007. The three specialised managers were set out-performance targets of 2.0% pa for Lazard and Allianz and 1.0% pa for RLAM against their selected benchmarks. In January 2011 the Pension Fund Panel approved an allocation to property via pooled investment vehicles of up to 10% of the Fund. The Statement of Investment Principles was updated to reflect revised target allocations for the existing managers as shown below.

MANAGER	Mandate	FUNDS UNDER MANAGEMENT 2013/14 £m	2013/14 %	2012/13 £m	2012/13 %	Target Allocation
Lazard	UK Equities	330	38%	298	38%	37%
Allianz	Global Equities	278	33%	258	33%	28%
RLAM	Fixed Interest	231	27%	232	29%	25%
Lothbury	UK Property	10	1%	-	0%	10%
Standard Life	UK Property	5	1%	-	0%	
Total		**854**	**100%**	**788**	**100%**	**100%**

NOTE 2. INVESTMENT TRANSACTION COSTS

Investment transactions costs for the Fund amounted to £1.014m in 2013/14 (£0.844m in 2012/13). These transaction costs are included in the cost of purchases and in the proceeds from sales. Transaction costs charged directly to the scheme include fees, commissions, stamp duty and other levies. In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on tradeable investments including within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

NOTE 3. SECURITES ABOVE 5% OF AN ASSET CLASS

Asset Class / Security	2013/14 £000	% of Asset Class	2012/13 £000	% of Asset Class
Property:				
Lothbury property trust	9,834	66%	-	-
Standard Life long lease property fund	5,035	34%	-	-

There are no securities which exceed 5% of net assets.

NOTE 4. CONTRIBUTIONS

	2013/14 £000	2012/13 (restated) £000
By category		
Employer contributions	(39,245)	(28,286)
Member contributions	(9,288)	(9,032)
	(48,533)	(37,318)
By authority		
Administering authority (LB Ealing)	(44,517)	(31,910)
Scheduled bodies	(3,476)	(5,243)
Admitted bodies	(540)	(165)
	(48,533)	(37,318)

NOTE 5. BENEFITS

	2013/14 £000	2012/13 £000
By category		
Pensions	32,700	30,934
Commutation of pensions & lump sum retirement benefits	6,580	5,512
Lump sum death benefits	536	913
	39,816	37,359
By authority		
Administering authority (LB Ealing)	37,957	34,258
Scheduled bodies	1,625	2,481
Admitted bodies	234	620
	39,816	37,359

NOTE 6. PAYMENT TO AND ON ACCOUNT OF LEAVERS

	2013/14 £000	2012/13 £000
Refunds of contributions	22	16
Transfers out to other schemes	2,758	3,196
	2,780	3,212

NOTE 7. ADMINISTRATIVE EXPENSES

	2013/14 £000	2012/13 £000
Actuarial expenses	82	38
Pension administration & payroll	802	761
External audit	19	21
Other administrative expenses	113	70
	1,016	890

NOTE 8. INVESTMENT INCOME

	2013/14 £000	2012/13 (restated) £000
Income from fixed interest securities	(12,099)	(11,656)
Dividends from equities	(19,266)	(14,711)
Pooled funds	(430)	(327)
Interest on cash deposits	(86)	(126)
Other	(1)	(15)
	(31,882)	(26,835)

NOTE 9. INVESTMENT MANAGEMENT EXPENSES

	2013/14 £000	2012/13 £000
Fund management	2,092	1,906
Custodian	108	87
Investment consultancy	3	18
Administering authority (LB Ealing)	291	254
Other Investment expenses	19	18
	2,513	2,283

NOTE 10. INVESTMENTS

	Notes	2013/14 £000	2012/13 £000
INVESTMENT ASSETS			
Fixed Interest Securities		220,839	220,624
Equities		590,172	546,056
Pooled Investment Vehicles		20,475	5,087
Cash Deposits		30,764	26,090
Other Investment Balances		7,703	7,459
Total Investment Assets		869,953	805,316
INVESTMENT LIABILITIES			
Other Investment Balances		(2,062)	(4,894)
NET INVESTMENTS		867,891	800,422

NOTE 10a. RECONCILIATION OF MOVEMENTS IN INVESTMENTS

	Net Assets of Scheme 31/03/2013 £000	Purchases of Investments and cash deposits £000	Sales of Investments and cash withdrawals £000	Change in Market Value during year £000	Net Assets of Scheme 31/03/2014 £000
Fixed Interest Securities	220,624	54,581	(51,710)	(2,656)	220,839
Equities	546,056	266,069	(256,025)	34,072	590,172
Pooled Investment Vehicles	5,087	15,054	-	334	20,475
Cash Deposits	26,090	638,714	(633,870)	(170)	30,764
	797,857	974,418	(941,605)	31,580	862,250
Other Investment Assets	7,459				7,703
Other Investment Liabilities	(4,894)				(2,062)
NET INVESTMENT ASSETS	**800,422**			**31,580**	**867,891**

	Net Assets of Scheme 31/03/2012 £000	Purchases of Investments and cash deposits £000	Sales of Investments and cash withdrawals £000	Change in Market Value during year £000	Net Assets of Scheme 31/03/2013 £000
Fixed Interest Securities	190,987	48,124	(37,053)	18,566	220,624
Equities	463,467	162,419	(146,059)	66,229	546,056
Pooled Investment Vehicles	4,191	328	-	568	5,087
Cash Deposits	29,206	432,906	(435,953)	(69)	26,090
	687,851	643,777	(619,065)	85,294	797,857
Other Investment Assets	8,439			220	7,459
Other Investment Liabilities	(3,721)				(4,894)
NET INVESTMENT ASSETS	**692,569**			**85,514**	**800,422**

NOTE 10B. ANALYSIS OF INVESTMENTS

		Notes	2013/14 £000	2012/13 (restated) £000
INVESTMENT ASSETS				
Fixed Interest Securities				
UK	Corporate		219,763	220,624
	Public Sector		481	-
Overseas	Corporate		595	-
Equities				
	UK		312,946	275,363
	Europe		138,036	131,027
	North America		90,897	80,661
	Japan		21,524	19,893
	Pacific		8,387	22,057
	Emerging Markets		10,518	11,764
	Other		7,864	5,291
Pooled Investment Vehicles				
	Property		14,868	-
	Fixed Interest		5,607	5,087
Cash Deposits				
	Cash held by Administering Authority		13,205	12,742
	Cash held by Custodian		3,989	1,264
	Money market instrument		13,570	12,084
Other Investment Balances				
Debtors				
	Interest due		4,370	4,394
	Dividends due		2,506	2,298
	Recoverable tax		424	586
	Unsettled sales		206	7
	Other income receivable		197	174
Total Investment Assets			869,953	805,316
INVESTMENT LIABILITIES				
Other Investment Balances				
Creditors				
	Unsettled purchases		(1,868)	(4,640)
	Taxes payable		(194)	(200)
	Other payables		-	(54)
NET INVESTMENTS			867,891	800,422

NOTE 11. FINANCIAL INSTRUMENTS

	2013/14 Fair value through profit and loss	2013/14 Loans and receivables	2013/14 Financial liabilities at amortised costs	2012/13 Fair value through profit and loss	2012/13 Loans and receivables	2012/13 Financial liabilities at amortised costs
	£000	£000	£000	£000	£000	£000
Financial Assets						
Fixed Interest Securities	220,839			220,624		
Equities	590,172			546,056		
Pooled Investment Vehicles						
- Property	14,868					
- Fixed Interest	5,607			5,087		
Cash Deposits:						
- Cash held by Administering Authority		13,205			12,742	
- Cash held by Custodian		3,989			1,264	
- Money market instrument	13,570			12,084		
Other Investment Balances	7,703			7,459		
Current Assets		391			445	
Total Financial Assets	**852,759**	**17,585**	**-**	**791,310**	**14,451**	**-**
Financial Liabilities						
Other Investment Balances	(2,062)			(4,894)		
Current Liabilities			(928)			(915)
Total Financial Liabilities	**(2,062)**	**-**	**(928)**	**(4,894)**	**-**	**(915)**
Net Financial Assets	**850,697**	**17,585**	**(928)**	**786,416**	**14,451**	**(915)**

Note that the valuation of financial instruments are classed into 3 levels according to the quality and reliability of the data used to determine fair values. All assets shown above carried at fair value apart from pooled property funds are valued at Level 1 where the fair values are derived from unadjusted quoted prices in an active market. The pooled property funds are valued at Level 2 as the prices of the underlying assets are derived from independent valuation techniques.

NOTE 11A. Nature and extent of risks arising from Financial Instruments

11.1. The Pension Fund activities expose it to a variety of financial risks:

- Credit risk - the possibility that other parties might fail to pay amounts due to the Fund.

- Liquidity risk - the possibility that the Fund might not have funds available to meet its commitments, in particular pension benefits.
- Market risk - the possibility that financial loss might arise for the Fund as a result of changes in interest rates and stock market movements.

Credit Risk

11.2 The entire Pension Fund investment portfolio is exposed, to a greater or lesser degree, to credit risk. This risk is minimised through the Statement of Investment Principles and the Funding Strategy Statement. The Fund also appoints Fund Managers on an active mandate, which helps to manage this risk by looking at company fundamentals rather than broad sector movements.

11.3 The fixed interest securities mandate allows investment in a range of bonds with a minimum of 70% in investment grade corporate bonds and specified maximum limits for other categories. The bond manager has a comprehensive set of risk controls against which all portfolios are measured and monitored. Portfolio risk is evaluated using UBS Delta allowing them to Value At Risk (VAR). Portfolios are monitored on a live basis on a fund management system, 'ThinkFolio', where applicable mandate guidelines are built in.

11.4 From 1st April 2011, Pension Fund cash has been managed separately from the council's in a separate bank account. Under the current strategy, the Pension Fund is only permitted to invest in nationalised or part-nationalised UK banks and HSBC (AA rated by Fitch), thereby severely limiting credit risk.

11.5 Non-investment transactions go through Ealing Council's bank account and balances are transferred throughout the year. As Ealing Council is a local authority the Pension Fund's credit risk is considered negligible.

11.6 The table below highlights the credit risk exposure to internally managed Pension Fund cash as at 31st March 2014.

Counterparty	Fitch Long Term Rating	2013/14 £m	2012/13 £m
Lloyds TSB Bank plc	A	0	5
RBS Banking Group plc	A	10	6
HSBC Bank plc	AA-	0	0
London Borough of Ealing	N/A	3	2
Total		**13**	**13**

11.7 Payments are received from admitted and scheduled bodies in relation to employer and employee contributions for LGPS members. Based on experience of default and uncollectability over the last five financial years, the risk of default in the future is considered very low. Bond agreements are in place for Admitted Bodies to ensure liabilities would be met in the event a contractor were to be dissolved, wound-up, liquidated or cease to exist.

Liquidity Risk

11.8 The Pension Fund transactions are actioned through the Administering Authority's bank account and the monthly balance will be transferred between the authority and the fund throughout the year. The Pension Fund maintains the liquidity of its internal cash balances by investing in call accounts or short term deposits. This enables instant access to cash to meet expenditure liabilities as they fall due.

11.9 The Pension Fund internal cash position is kept under review and budgeting and forecasting exercises are carried out to monitor this situation. The Pension Fund could draw money down from the Fund managers' investment portfolios if internal cash balances reached very low levels, as the scheme is invested in highly marketable securities.

Market Risk

<u>Actuarial Risk</u>

11.10 The funding of defined benefits is by its nature uncertain. Funding of the Pension 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.

11.11 The Administering Authority has been advised by the 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 of gilts between successive valuations could diverge significantly from the overall 1.4% per annum currently required on the basis of the 2013 valuation assumptions.

<u>Price Risk</u>

11.12 The Fund invests in equity shares; consequently it is exposed to losses arising from movements in the prices of shares. The investment objective is to maximise investment returns over the long term within specified risk tolerances and in accordance with the LGPS investment regulations. The Pension Fund Panel has decided that, given the financial circumstances of the Fund, it can afford to take on some risk in the pursuit of incremental return particularly given the strong liquidity status of the fund i.e. being cash flow positive.

11.13 The Council seeks to diversify risk through having more than one investment management firm with different strategies and investment philosophies to manage the assets of the Fund. The investment policy is to appoint expert investment managers with clear performance benchmarks and to place maximum accountability for out performance against those benchmarks on the investment manager. Ealing has adopted an active specialist approach to investment management.

11.14 The individual managers' current activity and transactions are reported quarterly to the Pension Fund Panel who question and seek explanations from investment managers (when asked to attend Panel meetings) on their activities and performance. The investment performance of the managers is calculated independently by the WM Company. Performance is monitored against the benchmark and a peer group universe of other local authorities.

11.15 The Fund invests in fixed interest securities, which also exposes the Fund to losses arising from movements in price and creditworthiness. Bonds in general are considered less risky than stocks, because bonds carry the promise of their issuer to return the face value of the security to the holder at maturity.

11.16 The table below is a sensitivity analysis looking at the effect of market movements on the Total Net Asset Value. Potential price changes (calculated by our performance analysts The WM Company) are determined based on the observed historical volatility of asset class returns. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years.

Asset Type	2013/14 £000	% change	Increase £000	Decrease £000
UK Equities	312,946	13.4%	354,849	271,042
Overseas Equities	277,226	13.0%	313,321	241,131
Fixed Interest Securities	226,447	5.3%	238,358	214,535
Cash Deposits	30,764	0.0%	30,770	30,758
Pooled Property Funds	14,868	2.7%	15,275	14,461
Total Assets	862,251		952,573	771,927

Asset Type	2012/13 £000	% change	Increase £000	Decrease £000
UK Equities	275,363	14.4%	314,905	235,821
Overseas Equities	270,693	13.9%	308,373	233,013
Fixed Interest Securities	225,711	4.5%	235,936	215,486
Cash Deposits	26,090	0.0%	26,093	26,087
Total Assets	797,857		885,307	710,407

<u>Inflation Risk</u>

11.17 The Fund is invested in a broad range of assets, which have a stake in the real economy and will generally be expected to perform relatively well in an inflationary environment. The decision to diversify into property will provide an additional inflation hedge for the fund as lease agreements tend to stipulate long term inflationary linked cash flows from rental income.

Interest Rate Risk

11.18 Cash balances and fixed interest securities have a more direct exposure to interest rate movements than equities. The cash flows of the former and market value of the latter are influenced by movements in market interest rates. The sensitivity analysis below looks at the effect of a change in year of 0.50%, being a possible change in the UK base rate (previously a rate of 0.25% was used).

Asset Type	2013/14 £000	% change	Increase £000	Decrease £000
Fixed Interest Securities	226,446	0.50%	227,578	225,314
Cash deposits	30,764	0.50%	30,918	30,610
Total Assets	257,210		258,496	255,924

Asset Type	2012/13 £000	% change	Increase £000	Decrease £000
Fixed Interest Securities	220,624	0.50%	221,727	219,521
Cash deposits	26,090	0.50%	26,220	25,960
Total Assets	246,714		247,947	245,481

Foreign Exchange risk

11.19 Investments in non-sterling securities are subject to extra risk in the form of exchange rate risk. The Fund does not hedge against currency risk as the foreign exchange rates can lead to gains as well as loses. The fund diversifies its risk with foreign exchange by investing in securities in multiple currencies.

11.20 Within the global equities mandate the manager has been set a target allocation for each asset class, which the manager is assessed against in the performance figures. The mandate reduces the risk of the global manager investing in assets of one currency. The allocations in the mandate are:

UK Equities	9.1%
Europe ex UK Equities	31.8%
North American Equities	31.8%
Japanese Equities	10.9%
Asia Pacific ex Japan Equities	9.1%
Emerging Markets Equities	7.3%

11.21 The fixed interest securities mandate permits investments in the UK, Europe and North America, most of which is denominated in Sterling but may also include a maximum of 10% non-Sterling investments.

11.22 The table below analyses the effect of exchange rate changes on the Pension Fund. Typically, around 30% of the Fund is denominated in a foreign currency. Potential currency fluctuations were calculated by our performance analysts The WM Company.

Currency	2013/14 £000	% change	Increase £000	Decrease £000
Australian Dollar	8,527	9.8%	9,363	7,691
Brazilian Real	4,977	12.7%	5,609	4,345
EURO	58,075	6.3%	61,740	54,410
Japanese Yen	21,794	11.5%	24,309	19,279
Swedish Krona	4,236	7.0%	4,534	3,938
Swiss Franc	24,592	7.4%	26,417	22,767
US Dollar	114,054	8.1%	123,258	104,850
Total Assets	236,255		255,230	217,280

Currency	2012/13 £000	% change	Increase £000	Decrease £000
Australian Dollar	8,148	10.0%	8,959	7,337
Brazilian Real	6,263	11.6%	6,991	5,535
Danish Krone	3,869	7.7%	4,168	3,570
EURO	67,242	7.8%	72,487	61,997
Hong Kong Dollar	9,786	8.5%	10,622	8,950
Japanese Yen	20,120	11.8%	22,488	17,752
Swedish Krona	8,578	8.1%	9,275	7,881
Swiss Franc	8,000	9.4%	8,749	7,251
US Dollar	99,548	8.7%	108,248	90,848
Total Assets	231,554		251,987	211,121

NOTE 12. CURRENT ASSETS

	2013/14 £000	2012/13 £000
Debtors		
Contributions due from employers	384	423
Payments in advance	4	3
Other debtors	3	19
	391	445
Analysis of debtors		
Central government bodies	-	-
Local authorities	93	180
NHS bodies	-	-
Public corporations and trading funds	-	-
Other entities and individuals	298	265
	391	445

NOTE 13. CURRENT LIABILITIES

	2013/14 £000	2012/13 £000
Creditors		
Unpaid benefits	(308)	(264)
Accrued expenses	(620)	(651)
	(928)	(915)
Analysis of Creditors		
Central government bodies	(78)	-
Local authorities	(30)	(6)
NHS bodies	-	-
Public corporations and trading funds	-	-
Other entities and individuals	(820)	(909)
	(928)	(915)

NOTE 14. Additional Voluntary Contributions

14.1 The Fund provides an Additional Voluntary Contribution (AVC) scheme for its contributors, the assets of which are invested and accounted for separately from the Fund, in accordance with regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998. The scheme providers are Scottish Widows and Equitable Life, where the sums saved are used to secure additional benefits on a money purchase basis for those contributors electing to pay additional voluntary contributions. Funds are invested across a range of Funds.

14.2 Employee contributions made into the AVC facilities during the year were:

- Scottish Widows £53,686, 1st April 2013 – 31st March 2014
  (£76,441, 1st April 2012 – 31st March 2013)
- Equitable Life £3,886, 1st November 2012 – 31st October 2013
  (£4,152, 1st November 2011 – 31st October 2012)

14.3 The latest available fund valuations are as follows:

	2013/14 £000	2012/13 £000
Scottish Widows with Profits Fund (31st March 2014)	**700**	**662**
Equitable Life with Profits Fund	157	170
Equitable Life Unit Linked Fund	174	174
Equitable Deposit Account Fund	54	52
Total Value of Equitable Life Funds (31st October 2013)	**384**	**396**
Total All Funds	**1,084**	**1,058**

NOTE 15. IAS 24 Related Party Transactions

15.1 The London Borough of Ealing is the administering authority of the London Borough of Ealing Pension Fund. The Council charged the Pension Fund £0.776m for expenses incurred in administering the fund in 2013/14 (£0.739m 2012/13). The total cash balance held by the Council at 31 March 2014 on behalf of the Pension Fund was £2.907m (£1.743m at 31 March 2013).

15.2 Members of the Pension Fund panel are required by law to declare certain interests when they become a Councillor and a full register is kept by the Head of Democratic Services and published on the Council's website. Below is a summary of each Pension Fund Panel member's relevant interests:

Pension Fund Panel member	Relevant interests
Yvonne Johnson (Chair)	Portfolio holder for Finance & Performance at Ealing Council.
Anthony Young (Deputy)	Contributing member of the Pension Fund.
John Cowing	None.
Shital Manro	Governor of Greenford High School (part of the Administering Authority). Contributing member of Ealing's Pension Fund.
Mik Sabiers	None
Andrew Steed	None.

15.3 All Council employees acting as officers of the Pension Fund were contributing members of the Pension Fund during 2013/14.

15.4 No senior officers responsible for the administration of the Fund have entered into any contract, other than their contract of employment with the Council, for the supply of goods or services to the Fund.

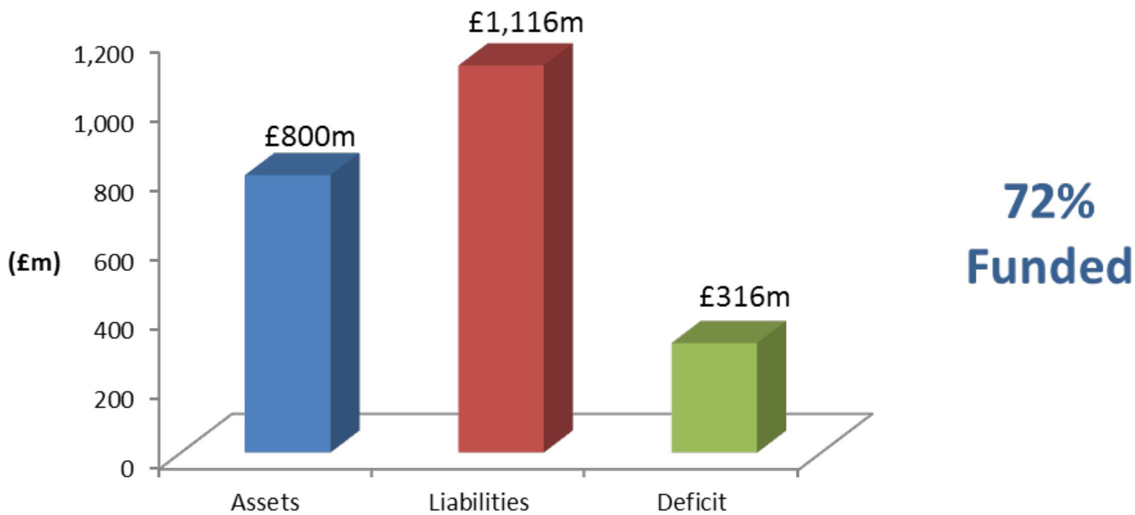
Accounts for the year ended 31 March 2014

- 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 2013 to determine the contribution rates for the period 1 April 2014 to 31 March 2017.

On the basis of the assumptions adopted, the Fund's assets of £800 million represented 72% of the Fund's past service liabilities of £1,116 million (the "Funding Target") at the valuation date. The deficit at the valuation date was therefore £316 million.



The valuation also showed that a common rate of contribution of 13.5% of pensionable pay per annum was required from employers. The common 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. It allows for the new LGPS benefit structure effective from 1 April 2014.

After the valuation date, there were significant changes in financial markets. In particular there was an increase in gilt yields, which underpin the liability assessment. This improved the funding position materially to 76% with a resulting deficit of £252 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average across the Fund, the updated deficit would be eliminated by a contribution addition of £16m per annum increasing at 4.35% per annum (equivalent to approximately 11.6% of projected Pensionable Pay at the valuation date) for 17 years if all assumptions are borne out in practice.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

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

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

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

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	4.6% per annum	5.6% 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 Guaranteed Minimum Pension)	2.6% per annum	2.6% per annum

* allowance was also made for short-term public sector pay restraint over a 6 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2014 (the 31 March 2013 assumptions are included for comparison):

	31 March 2013	31 March 2014
Rate of return on investments (discount rate)	4.2% per annum	4.4% per annum
Rate of pay increases	4.15% per annum	4.15% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.4% per annum

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

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year, corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.4% p.a. versus 4.2% p.a.). The pay increase assumption at the year end has also changed to allow for a short-term public sector pay restraint as detailed in the actuarial valuation.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2013 was estimated as £1,236 million. The effect of the changes in actuarial assumptions between 31 March 2013 and 31 March 2014 as described above is to decrease the liabilities by c£68 million. Adding interest over the year increases the liabilities by c£52 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another c£2 million (including any increase in liabilities arising as a result of early retirements/augmentations). Finally, allowing for actual vs expected membership experience, which emerged at the 2013 valuation, gives a reduction in liabilities of c£38 million.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2014 is therefore £1,184 million.

Ian Kirk
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
June 2014

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 Executive Director of 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 Executive Director of Corporate Resources

The Executive Director of 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 Executive Director of 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 Executive Director of Corporate Resources has:

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

Responsible Financial Officer's Certificate:

I certify that the Accounts set out below have been prepared in accordance with proper practices and present fairly the transactions of the London Borough of Ealing Pension Fund for the year ended 31st March 2013 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.

Ian O'Donnell

Executive Director of Corporate Resources

AUDIT OPINION

The audit opinion for these accounts is given in conjunction with the Council's main statement of accounts which can be found on the Ealing website at: www.ealing.gov.uk

FUNDING STRATEGY STATEMENT (FSS)

This Funding Strategy Statement (FSS) has been prepared by Ealing Council (the Administering Authority) to set out the funding strategy for the London Borough of Ealing Pension Fund (the LBEPF), in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the guidance papers issued in March 2004 and November 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

Introduction

The Local Government Pension Scheme (Administration) Regulations 2008 (as amended) ("the Regulations") provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement. The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the fund the administering authority will prepare and publish their funding strategy;
- In preparing the FSS, the administering authority must have regard to :-
  - the guidance issued by CIPFA for this purpose; and
  - the Statement of Investment Principles (SIP) for the LBEPF published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

Benefits payable under the LBEPF are guaranteed by statute and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

The LBEPF is a defined benefit final salary scheme under which the benefits are specified in the governing legislation (the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended)). Changes to the benefits under the Scheme took place from April 2008. The required levels of employee contributions are also specified in the Regulations.

Employer contributions are determined in accordance with the Regulations (principally Regulation 36) which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate. Contributions to the LBEPF should be set so as to "secure its solvency", whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

Purpose of the FSS in policy terms

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

The purpose of this Funding Strategy Statement is:

- **to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;**

- **to support the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and**

- **to take a prudent longer-term view of funding those liabilities.**

The intention is for this strategy to be both cohesive and comprehensive for the LBEPF 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.

Aims and purpose of the LBEPF

The aims of the fund are to:

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies

- manage employers' liabilities effectively

- ensure that sufficient resources are available to meet all liabilities as they fall due, and

- maximise the returns from investments within reasonable risk parameters.

The purpose of the fund is to:

- receive monies in respect of contributions, transfer values and investment income, and

- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses,

as defined in the Local Government Pension Scheme Regulations 1997 (as amended) and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended).

Responsibilities of the key parties

The Administering Authority should:

- collect employer and employee contributions
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- manage the valuation process in consultation with the LBEPF's actuary
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties, and
- monitor all aspects of the LBEPF's performance and funding and amend the FSS/SIP as and when appropriate.

The Individual Employer should:

- deduct contributions from employees' pay correctly
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- exercise discretions within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and
- notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding.

The Fund actuary should:

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters, and
- advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the SIP.

The funding objective

To meet the requirements of the Regulations the Administering Authority's long term funding objective is for the LBEPF to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "funding target") assessed on an ongoing basis including allowance for projected final pay.

Determination of the funding target and recovery period

The principal method and assumptions to be used in the calculation of the funding target are set out in the Appendix.

Underlying these assumptions are the following two tenets:

- that the Scheme 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.

As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer (or employer grouping), following a principle of no cross-subsidy between the various employers in the Scheme. In attributing the overall investment performance obtained on the assets of the Scheme 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 Scheme as a whole.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2010 actuarial valuation:

- A grouped approach will be adopted for certain employers in the LBEPF, namely the LEA schools and certain other employers within the Fund have been grouped with Ealing Council.

- A maximum deficit recovery period of [20] years will apply for scheme employers and [20] years for admitted bodies. Shorter periods will also apply for employers who have a limited participation in the Fund or are closed to new members. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan below).

- Where increases in employer contribution rates are required from 1 April 2011, following completion of the 2010 actuarial valuation, the increase from the rates of contribution payable in the year 2010/11 may be implemented in steps, over a maximum period of 3 years.

- On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer.

Deficit Recovery Plan

If the assets of the scheme relating to an employer are less than the funding target at the effective date of any actuarial valuation, a recovery plan will be put in place, which requires additional contributions from the employer to meet the shortfall.

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

- the responses made to the consultation with employers on the FSS principles
- the size of the funding shortfall;
- the business plans of the employer;
- the assessment of the financial covenant of the Employer;
- any contingent security available to the LBEPF or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.
- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose;

- the Administering Authority's views on the strength of the participating employers' covenants, and security of future income streams, in achieving the objective.

In certain instances, and in particular for LBEPF employers which are considered by the Administering Authority to provide a high level of financial covenant, an allowance may be made as part of the Recovery plan for investment performance at a higher level than that assumed for assessment of the funding target. This higher level of return assumed will, in particular reflect the actual investment strategy of the LBEPF, on the basis that this is to be maintained over the entire recovery period. The assumptions to be used in these Recovery Plan calculations are set out in the Appendix.

Employer Contributions

In current circumstances, as a general rule, the Fund does not believe it appropriate for contribution reductions to apply where substantial deficits apply. As a result, in addition to the maximum deficit recovery period of [20] years, the Fund will operate a default deficit recovery period. This will be set at the remainder of an employer's 2007 recovery period, both for scheduled and resolution bodies and also for non Transferee admission bodies at the 2010 valuation e.g. 14 years for a 2007 recovery period of 17 years. All employers in deficit will be required to adopt a deficit recovery period in line with the default period (or shorter) before any reduction in overall contributions would be allowed.

With effect from April 2011, employer contributions will be expressed and certified as two separate elements:

- a percentage of payroll in respect of future accrual of benefits
- a schedule of £s amounts over 2011/14, building in an allowance for indexing annually in line with the valuation funding assumption for pay growth.
- [Employers may be allowed to phase in the indexed lump sums at the discretion of the Administering Authority.]

The above rate will be subject to review from April 2014 based on the results of the 2013 actuarial valuation.

Where an employer is in a surplus position at the valuation date, the fixed amount deduction from the future service rate will be subject to a threshold of £1,000, below which no deduction will be made.

The normal cost of the scheme (future service contribution rate)

In addition to any contributions required to rectify a shortfall of assets below the funding target contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the "normal cost"). The method and assumptions for assessing these contributions are also set out in the Appendix.

Link to investment policy set out in the Statement of Investment Principles

The results of the 2010 valuation show the liabilities to be 70.00% covered by the current assets, with the funding deficit of 30.0% being covered by future deficit contributions due from employers.

In assessing the value of the LBEPF's liabilities above, allowance has been made for asset out-performance as described in Section 5, taking into account the investment strategy adopted by the LBEPF, as set out in the SIP.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts.

Investment of the LBEPF's assets in line with the least risk portfolio would minimise fluctuations in the LBEPF's ongoing funding level between successive actuarial valuations.

If, at the valuation date, the LBEPF had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to make any allowance for out-performance of the LBEPF investments. On this basis of assessment, the assessed value of the LBEPF's liabilities at the 2010 valuation would have been significantly higher, by approximately 31% and the declared funding level would be correspondingly reduced to approximately 54%.

Departure from a least risk investment strategy, in particular to include equity investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The overall investment strategy of the Fund is to broadly target 65-68% in equities, 25% in bonds, with an additional 7-10% in Property agreed by the Pensions Committee for future implementation.

The Council seeks to diversify risk through having more than one investment management firm manage the assets of the Fund. Currently, there are three investment managers, with an additional investment manager being appointed during 2011 to manage the property investment. The investment policy is to appoint expert investment managers with clear performance benchmarks and to place maximum accountability for performance against those benchmarks on the investment manager. Ealing has adopted an active specialist approach to investment management. The managers are paid on the basis of a standard fee i.e. not performance related. The intended mandates for each manager are as follows:

Name of Investment Manager	**Mandate Type**	**Target Allocation of Fund**	**Benchmark Index**	**Tracking Error band**	**Target Gross outperformance, %pa (rolling 3 years)**
Lazard Asset Management	UK Equities	**37%**	FTSE ALL SHARE (TR)	2% to 5.5%	2%pa
RCM	Global Equities (inc UK)	**28%**	See below	3.5% to 6%	2%pa
Royal London Asset Management	UK Corporate Bonds	**25%**	ML Sterling Non-Gilts (TR)	Up to 3%	1%pa
Property Investment	UK Commercial Property	**10%**	IPD All Balanced Funds	N/A	0.5%pa
Total		**100%**			

The benchmark index allocation within the global equities mandate is as follows:

Asset Class	**Target Allocation of Mandate**	**Benchmark Index**
UK Equities	9.1%	FTSE All Share (TR)
Europe ex UK Equities	31.8%	FTSE AW Developed Europe ex-UK (TR)
North American Equities	31.8%	FTSE AW North America (TR)
Japanese Equities	10.9%	FTSE AW Japan (TR)
Asia Pacific ex Japan Equities	9.1%	FTSE AW Developed Asia Pacific ex Japan (TR)
Emerging Markets Equities	7.3%	FTSE AW All Emerging (TR)
Total	**100%**	

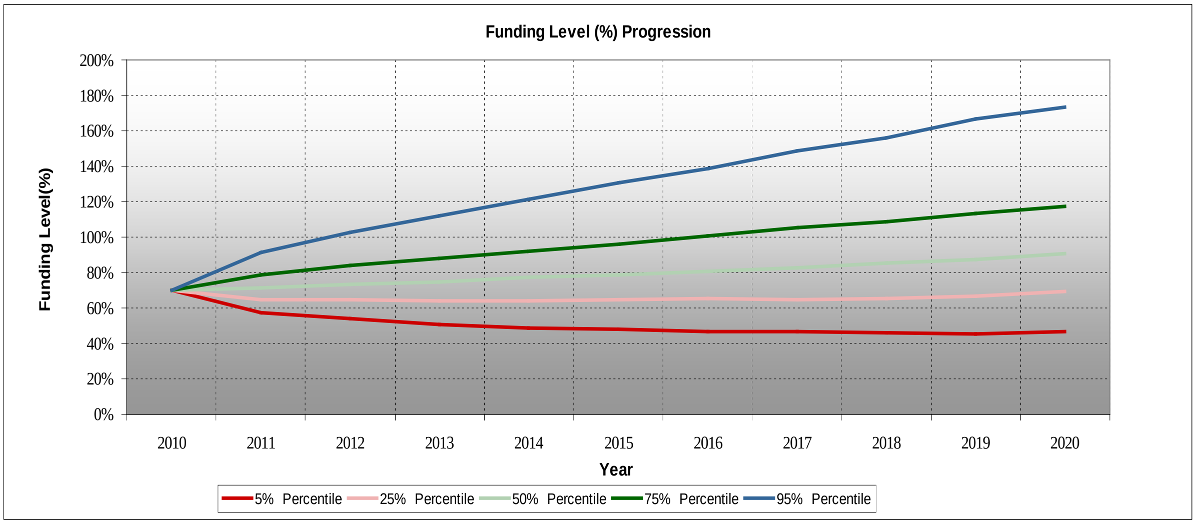
The funding strategy adopted for the 2010 valuation is based on an assumed asset out-performance of 2% in respect of liabilities pre-retirement, and 1% in respect of post-retirement liabilities. Based on the liability profile of the LBEPF at the valuation, this equates to an overall long-term asset out-performance allowance to keep pace with the liabilities of 1.4% p.a. The Administering Authority believes that this is a reasonable and prudent allowance for asset out-performance, based on the investment strategy adopted as set out in the SIP. The investment strategy will be reviewed by the Pensions Panel, working with the Fund's investment consultants, in early 2011.

Identification of risks and counter-measures

The funding of defined benefits is by its nature uncertain. Funding of the LBEPF 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 actuary that the greatest risk to the LBEPF's funding is the investment risk inherent in the predominantly equity-based strategy, so that actual asset out-performance between successive valuations could diverge significantly from the overall 1.4% per annum currently required on the basis of the 2010 valuation assumptions.

The chart below shows a "funnel of doubt" funding level graph, which illustrates the probability of exceeding a certain funding level over a 10 year period from the valuation date. For example, the top line shows the 95th percentile level (i.e. there is a 5% chance of the projected funding level at each point in time being better than the funding level shown and a 95% chance of the funding level being lower). The graph adopts the 2010 actuarial valuation results as a starting point, and allows for the expected contributions into the LEBPF assuming a 20 year recovery period. An overall out-performance of 3% p.a. over and above gilts yields during the recovery period has been assumed in line with best estimate market expectations, together with a continuation of the current investment strategy as outlined above.



The CIPFA guide identifies the following key risks:

Financial

- Investment markets fail to perform in line with expectations
- Market yields move at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Effect of possible increase in employer's contribution rate on service delivery and admitted/scheduled bodies

Demographic

- Longevity horizon continues to expand
- Deteriorating pattern of early retirement

Regulatory

- Changes to Regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees
- Changes to national pension requirements and/or HMRC rules

Governance

- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements)
- Administering Authority not advised of an employer closing to new entrants
- An employer ceasing to exist with insufficient funding or adequacy of a bond.

In relation to the overall governance of the Fund, the following structure is in place to facilitate decision making:

- A Fund Panel is in place to take decisions on the running of the LBEPF. This is made up of elected members, trade union representatives (non voting) and an admitted body representative (non voting).
- The Fund Panel meet on a quarterly basis as a minimum.
- Bespoke training is provided to the Panel regularly via the investment managers and other professional advisers.
- The Panel membership is agreed on an annual basis.
- All decisions are documented in written reports which are authorised by the Panel Chair.

[This section is likely to be reviewed in light of the new LGPS Governance requirements]

Monitoring and Review

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

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

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

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- if there have been significant changes to the LBEPF membership, or LGPS benefits
- if there 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
- if there have been any significant special contributions paid into the LBEPF

APPENDIX TO FSS

Actuarial Valuation as at 31 March 2010

Method and assumptions used in calculating the funding target

Method

The actuarial method to be used in the calculation of the 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 scheme 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, an alternative method is adopted (the Attained Age method), which makes advance allowance for the anticipated future aging and decline of the current closed membership group.

Financial assumptions

Investment return (discount rate)

A yield based on market returns on UK Government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the Scheme's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") of 2% p.a. for the period pre-retirement and 1% p.a. post-retirement.

The asset out-performance assumptions represent the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the Fund relative to the yields available on long dated gilt stocks as at the valuation date. The allowance for this out-performance is based on the liability profile of the Scheme, with a higher assumption in respect of the "pre-retirement" (i.e. active and deferred pensioner) liabilities than for the "post-retirement" (i.e. pensioner) liabilities. This approach thereby allows for a gradual shift in the overall equity/bond weighting of the Fund as the liability profile of the membership matures over time.

Individual Employers

Having determined the AOAs as above for the Fund overall, it is important to consider how the financial assumptions in particular impact on individual participating employers. As employers in the Fund will have different mixes of active, deferred and pensioner members, adopting a different pre/post retirement investment return approach is equivalent to hypothecating a different equity/bond mix investment strategy for each employer. Such an approach would be inconsistent with the Fund practice, as set out in the FSS, of allocating investment performance pro rata across all employers based on a "mirror image" investment strategy to the whole Fund. In completing the calculations for individual employers therefore, a single, composite, pre and post retirement asset out-performance assumption of 1.4% p.a. has been calculated which, for the Fund as a whole, gives the same value of the funding target as the separate pre and post retirement AOAs.

Price Inflation (Consumer Prices Index)

The rate of price inflation applies primarily to pensions in payment and the assumption incorporates an adjustment to allow for supply/demand distortions in the bond market which is used to derive the market implied rate as at the valuation date. The rate of price inflation is important as retirement pensions are increased each April by the Consumer Price Index applying in the previous September. This is a departure from the historic approach based on the Retail Price Index and was announced by the Chancellor in his Emergency Budget in June 2010 and will apply from April 2011. The assumption for the 2010 valuation for price inflation makes due allowance for this revised basis of indexation as advised by the Actuary and as shown in the summary on page 15

Salary increases

The assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.75% p.a. over the inflation assumption as described above. This includes allowance for promotional increases.

Pension increases

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. Guaranteed Minimum Pensions in respect of service prior to April 1997).

Demographic assumptions

Mortality, Ill-Health and Proportions Married

The 2010 valuation takes into account modified longevity, ill-health and proportions married assumptions compared to that adopted at the previous valuation following an analysis of Fund experience carried out by the Fund Actuary. It also assumes that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, builds in a minimum level of longevity “improvement” year on year in the future.

For retirements in good health the mortality tables used are those in line with SAPS P tables (weighted to be specific to the LBEPF membership). For future improvements in life expectancy , an allowance has been made in line with the CMI model released in 2009, with minimum long-term improvements of 1% per annum.

Commutation

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

Early Retirement

Some members are entitled to receive their benefits (or a part of their benefits), accrued prior to 1 April 2008, unreduced from an age prior to the Fund’s normal pension age under the “Rule of 85” provisions of the Regulations. This age will be at some point between ages 60 and 65, depending on the length of a member’s pensionable service. The calculations in respect of past service prior to 1 April 2008 allow for a proportion of the active membership to retire in normal health prior to age 65.

For service post 31 March 2008, and for future service the situation is different since the “Rule of 85” was removed for service from 1 April 2008 (October 2006 for new entrants to the Scheme).

For these service tranches, we have assumed the earliest age at which unreduced benefits become an entitlement is 65 except for those members who have protected status under the transitional provisions.

No allowance has been made for non ill-health early retirements prior to age 60. Additional capital contributions will be paid by employers in respect of the cost of these retirements normally over a period of 3 years.

Method and assumptions used in calculating the cost of future accrual

The cost of future accrual (normal cost) will be calculated using the same actuarial method and assumptions as used to calculate the funding target except that the financial assumptions adopted will be as described below.

The financial assumptions for assessing the future service contribution rate should take account of the following points:

- contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the valuation, and which are not directly linked to market conditions at the valuation date; and
- the future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities.

The financial assumptions In relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of 3.75% per annum, with a long term average assumption for price inflation of 3%% per annum. These two assumptions give rise to an overall discount rate of 6.75% p.a.

Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the “Common Rate” of contributions (the assumed real rate of return for the 2010 valuation being consistent with that for the 2007 valuation). In market conditions at the effective date of the 2010 valuation this approach gives rise to a somewhat more optimistic stance (i.e. allows for a higher AOA) in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of the funding target.

At each valuation the cost of the benefits accrued since the previous valuation will become a past service liability. At that time any mismatch against gilt yields and the asset out-performance assumptions used for the funding target is fully taken into account in assessing the funding position.

Summary of key whole Fund assumptions used for calculating funding target and cost of future accrual (the "normal cost") for the 2010 actuarial valuation

Long-term gilt yields		
Fixed interest	4.5% p.a.	
Index linked	0.7% p.a.	
Market Implied RPI price inflation	3.8% p.a.	
Inflation Adjustment	(0.8%) p.a.	
Implied CPI price inflation	3.0% p.a.	
Past service Funding Target financial assumptions		
Investment return pre-retirement	6.5% p.a.	
Investment return post-retirement	5.5% p.a.	
Salary increases	4.75% p.a.	
Pension increases	3.0% p.a.	
Future service accrual financial assumptions		
Investment return	6.75% p.a.	
CPI price inflation	3.0% p.a.	
Salary increases	4.75% p.a.	
Pension increases	3.0% p.a.	
Demographic assumptions - Mortality		
	Table	Adjustment
Male normal health pensioners	S1PMA CMI_2009_M [1%]	104%
Female normal health pensioners	S1PFA CMI_2009_M [1%]	96%
Male ill-health pensioners	As for male normal health pensioners + 3 years	
Female ill-health pensioners	As for female normal health pensioners + 3 years	
Male dependants	S1PMA CMI_2009_M [1%]	133%
Female dependants	S1DFA CMI_2009_M [1%]	108%
Male future dependants	S1PMA CMI_2009_M [1%]	111%
Female future dependants	S1DFA CMI_2009_M [1%]	102%
Demographic assumptions - Other		
Proportions Married	Based on analysis of LGPS experience	
Ill-Health Retirement	Based on analysis of LGPS experience	
Other demographics	As for 2007 Valuation	

Assumptions used in calculating contributions payable under the recovery plan

The contributions payable under the recovery plan are calculated using the same assumptions as those used to calculate the funding target, with the exception that, for certain employers, the required contributions are adjusted to allow for the following variation in assumptions during the period of the recovery plan:

Investment return on existing assets and future contributions

A maximum overall return effective as at the valuation date of 7.5% p.a. reflecting the underlying investment strategy of the scheme and, in particular, including the assets of the scheme that underlie the pensioner as well as the non-pensioner liabilities.

The investment return assumed for the contributions under the recovery plan is taken to apply throughout the recovery period. As a result, any change in investment strategy which would act to reduce the expected future investment returns could invalidate these assumptions and therefore the funding strategy.

The above variation to assumptions in relation to the recovery plan can only be applied for those employers which the Administering Authority deems to be of sufficiently high financial covenant to support the anticipation of investment returns, based on the current investment strategy, over the entire duration of the recovery period. No such variation in the assumptions will apply in any case to any employer which does not have a funding deficit at the valuation (and therefore for which no recovery plan is applicable). Where a funding deficit exists the additional return over and above that built into the funding target assumptions will be limited so that the funding target contribution rate emerging from the 2010 valuation will be no less than either the current level of contributions payable by the employer or the Future Service Rate (if higher).

STATEMENT OF INVESTMENT PRINCIPLES

Introduction

The Local Government Pension Scheme (LGPS) (Management and Investment of Funds) (Amendment) Regulations 2009 requires administering authorities to prepare, maintain and publish a written Statement recording the investment policy of the pension fund. The purpose of this document is to satisfy that requirement.

There is now an additional requirement to state to what extent the administering authority has complied with the Secretary of State's guidance in this area. The Secretary of State's Guidance is in fact that provided by CIPFA called 'Investment Decision-Making and Disclosure in the Local Government Pension Scheme; A Guide to the Application of the Myners Principles' . This SIP has been produced in compliance with those guidelines.

Ealing Council has delegated the investment management of the scheme to the Pension Fund Panel who, acting as trustees, decide on the investment policy most suitable to meet the liabilities of the scheme. The ultimate responsibility for the investment strategy lies with them.

The Pension Fund Panel has obtained and considered written advice from the Director of Finance, its investment consultants and actuary, and has consulted all contributing authorities and Trade Union representatives.

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

The principles outlined in this document were approved by the Pension Fund Panel in draft on the 4th September 2012. The policies in this statement will be reviewed annually or as a result of any material policy change.

Investment Responsibilities

The Pension Fund Panel comprises five Councillors and two non-voting Trade Union representatives, and is advised by the Executive Director of Corporate Resources and Director of finance and an Investment Consultant. The Panel is responsible for setting investment policy, appointing persons to implement that policy and carrying out regular reviews and monitoring of investment performance. The Panel meets quarterly.

The Fund currently has three investment managers who have responsibility for the day-to-day management of the assets and the selection of individual investments subject to the investment guidelines and restrictions agreed with the Pension Fund Panel. The custodians have responsibility for the recording and safekeeping of the assets, the settlement of transactions as directed by the relevant investment manager and some administrative matters. The investment consultant provides advice to the Pension Fund Panel on strategic investment issues such as the long-term investment strategy (in conjunction with the Fund Actuary) and the appointment of the investment managers for the Fund. The Actuary provides advice on the financial position of the Fund and the nature and extent of its liabilities.

Liabilities

The Pension Fund is a defined benefit scheme, which provides main benefits related to final salary for members. 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 scheme. Full scheme benefit details are set out in the LGPS regulations.

Ealing Council and the other contributing authorities are responsible for meeting the balance of costs necessary to finance the benefits payable from the Scheme. This impacts on the Council's revenue budget (and therefore the Council Tax payer). Employers' contribution rates are determined every three years based on the advice of the Scheme's actuary and are subject to inter-valuation monitoring. The last actuarial review was on 31 March 2010 and the next review, based on the position of the Fund as at 31 March 2013, will be reported in autumn 2013.

The Council is responsible for the investment return achieved on the Fund's assets. The investment objective is to maximise investment returns over the long term within specified risk tolerances. Investment returns are defined as the overall rates of return (capital growth and income). The Pension Fund Panel 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 Panel 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.

The Council seeks to diversify risk through having three investment managers. The investment policy is to appoint expert investment managers with clear performance benchmarks and to place maximum accountability for performance against those benchmarks on the investment manager. Ealing has adopted an active specialist approach to investment management. The managers are paid on the basis of a standard fee i.e. not performance related. The mandates for each manager are as follows:

Name of Investment Manager	**Mandate Type**	**Target Allocation of Fund**	**Benchmark Index**	**Tracking Error band**	**Target Gross outperformance %pa (rolling 3 years)**
Lazard Asset Management	UK Equities	37%	FTSE All Share (TR)	2% to 5.5%	2.0%pa
RCM	Global Equities (inc UK)	28%	See below	3.5% to 6%	2.0%pa
Royal London Asset Management	UK Corporate Bonds	25%	ML Sterling Non-Gilts (TR)	Up to 3%	1.0%pa
Property Investment	UK Commercial Property	10%	IPD All Balanced Fund	N/A	0.5%pa
Total		**100%**			

The benchmark index allocation within the global equities mandate is as follows:

Asset Class	**Target Allocation of Mandate**	**Benchmark Index**
UK Equities	9.1%	FTSE All Share (TR)
Europe ex UK Equities	31.8%	FTSE AW Developed Europe ex-UK (TR)
North American Equities	31.8%	FTSE AW North America (TR)
Japanese Equities	10.9%	FTSE AW Japan (TR)

Asia Pacific ex Japan Equities	9.1%	FTSE AW Developed Asia Pacific ex Japan (TR)
Emerging Markets Equities	7.3%	FTSE AW All Emerging (TR)
Total	**100%**	**100%**

The Panel review the suitability of the investment strategy on a regular basis, typically around the triennial Actuarial Valuation. The Panel will be formally reviewing the strategy, with the assistance of the Fund's investment consultants, following the valuation in 2013.

The individual managers' current activity and transactions are reported quarterly to the Pension Fund Panel 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 WM Company.

Eligible Assets

Investment managers are required to determine a suitable asset mix (real assets, fixed interest and cash) for investment on behalf of the Pension Fund Panel having regard to the performance benchmark and target and any investment restrictions determined by the Pension Fund Panel. All investments are subject to the LGPS (Management and Investment of Funds Regulations 2009).

Acceptable Asset Classes are:

- UK Equities
- UK Fixed Interest
- UK Index Linked Gilts
- Overseas equities, major classes being:
  - North America
  - Japan
  - Europe
  - Far East/Pacific Rim
  - Other Emerging Markets
- Global Bonds
- Overseas Index Linked Stock
- Managed and Unitised Funds
- Real Estate

There are some Investment Restrictions:

- Stock lending is not permitted without the prior consent of the Director of Corporate Finance.
- Underwriting requires specific written approval.
- Physical assets (such as gold or any other commodity) are not permitted without specific written approval.

- Borrowing money on behalf of the Fund is not permitted except where necessary for transaction settlements.

Social, Environmental and Ethical Considerations

The Fund Managers invest on an index aware basis and as such the Council does not screen off/in either positively of negatively companies in which the Pension Fund invests. However the Council 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 Council joined the Local Authority Pension Fund Forum (LAPFF) a collaboration of over 52 Local Authority Pension Schemes which exists to promote the interest of the group and engage with companies to ensure that their views are taken into account in the management of the affairs of the companies in which they collectively invest.

The Pension Fund Panel, acting as trustee, has a duty of care to Fund beneficiaries when investing pension scheme assets. It is the Council's view that it is important to place priority on enhancing shareholder value because of the wider impact on both the Council Tax payer and potentially on employees by restricting the level of benefits. Thus while the Council expects its investment managers to take account of socially responsible investment issues, the financial interest of Fund stakeholders should remain paramount.

The Panel require the Fund's Investment Managers to have a formal policy on how they take social and environmental issues into account when investing on behalf of the Fund. The Panel 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.

Corporate Governance

The Council 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. In practice, investment managers have delegated authority to exercise the Funds' voting rights in this respect, subject to the Council's prerogative to give specific instructions to the investment managers to vote in accordance with Council's voting policies.

The Council'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.
- To protect and promote the interests of the Council and its residents and workforce.

Compliance

The Pension Fund Panel will monitor the Fund's performance both overall and at individual manager level.

The Director of Corporate Finance will monitor the managers' investment day-to day transactions and administration on behalf of the Pension Fund Panel.

The Government's response to the 'Review of Institutional Investment in the UK' undertaken by Paul Myners and published in 2001 has led to a proposed voluntary code 'Best Practice'. The LGPS (Management and Investment of Funds) (Amendment) Regulations 2002 issued on 9th August 2002, requires administering authorities to prepare and publish a revised SIP setting out the extent to which they comply with the ten investment principles contained in the Chartered Institute of Public Finance and Accounting (CIPFA) document, 'Principles for Investment Decision Making in the Local Government Pension Scheme in the UK'.

In 2008 the NAPF were charged with reviewing the extent to which trustees were applying the Myners recommendations and whether scheme governance had improved and any gaps needed to be addressed. Following this review the Myners Principles were revised with the introduction of six new, less prescriptive, principles.

The position in relation to the six principles has been evaluated and the current position is set out in the section Compliance with Myners Principles.

COMPLIANCE WITH MYNERS PRINCIPLES

Myners Updated Investment Principles – Compliance Statement

Updated Myners Principles were published in October 2008.

The SIP including the Myners Compliance Statement has to be attached to, or source referenced, in Pension Fund Report and Accounts. Administering authorities are still required to publish performance against the 6 new Myners Principles.

The new principles are less prescriptive and an industry led framework for the application of the principles will be the accepted code of best practice throughout the industry in investment decision-making and governance. It is expected that trustee boards will report against these on a voluntary 'comply or explain' basis.
'Best Practice Guidance' is intended to help trustees to apply the principles effectively. Trustees are not expected to implement every element of best practice. Rather trustees may use best practice examples where appropriate to help demonstrate whether compliance has been achieved.

Principle 1: Effective decision-making (Current Principles 1 and 4)
Principle
Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.
Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.
Best Principle Guidance

- The board has appropriate skills for, and is run in a way that facilitates, effective decision-making.
- There are sufficient internal resources and access to external resources for trustees and boards to make effective decisions.
- It is good practice to have an investment sub-committee, to provide the appropriate focus and skills on investment decision-making.
- There is an investment business plan and progress is regularly evaluated.
- Consider remuneration of trustees.
- Pay particular attention to managing and contracting with external advisers (including advice on strategic asset allocation, investment management and actuarial issues).

✓ **Full compliance. The fund has a dedicated Pension Fund Panel that is supported by suitably experienced officers and an independent adviser. All members of the Panel are offered training on appropriate topics at each of the Pension Fund Panel meetings. A Workplan is prepared annually which includes a timetabled programme of reviews and planned procurement exercises. Separate arrangements are in place for actuarial services and investment advice.**

The Funding Strategy Statement also serves as an investment risk business plan, and highlights useful triggers to ensure that risk mitigation measures are taken at the appropriate time.

Principle 2: Clear objectives (Current Principles 2, 5 and 7)
Principle
Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.
Best Practice Guidance

- Benchmarks and objectives are in place for the funding and investment of the scheme.
- Fund managers have clear written mandates covering scheme expectations, which include clear time horizons for performance measurement and evaluation.
- Trustees consider as appropriate, given the size of fund, a range of asset classes, active or passive management styles and the impact of investment management costs when formulating objectives and mandates.
- Consider the strength of the sponsor covenant.

✓ **Full compliance. The Fund's objectives are set out in the Statement of Investment Principles. Fund managers operate to detailed written mandates that give clear investment objectives and timescales for measurement (rolling three years) set out in their Investment Management Agreement. A number of benchmark indices have been set for each asset class. Control ranges are in place consistent with performance targets to which the fund managers should work.**
The fund has three specialist mandates. The fund considered the full range of asset classes when setting its strategic asset allocation in 2003. In doing so, it had regard to its objective of moving from a funding level of 68% in 2004 to 100% by 31st March 2024. Alternative asset classes are reviewed from time to time and researched as appropriate. Members have agreed to diversify their return seeking assets and invest in UK commercial property accessing this asset class via a pooled vehicle. It Is anticipated that property managers will be in place by 2013.
Management styles and the impact of investment management costs are considered at the time of the regular procurement exercises.

The Pension Fund Panel take comfort from the constitutional permanence of the Council and the strength of the employer covenant is not an issue.

Reviews are carried out of the strength of the admitted body employers from time to time.

Principle 3: Risk and liabilities (Current Principle 3)
Principle
In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities.
These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.
Best Practice Guidance

- Trustees have a clear policy on willingness to accept underperformance due to market conditions.
- Trustees take into account the risks associated with their liabilities' valuation and management.
- Trustees analyse factors affecting long-term performance and receive advice on how these impact on the scheme and its liabilities.
- Trustees have a legal requirement to establish and operate internal controls.
- Trustees consider whether the investment strategy is consistent with the scheme sponsor's objectives and ability to pay.

✓ **Full compliance. Asset allocation forms part of the customised benchmark proposed by the fund's actuary following an asset/liability study and consulted on by the fund's adviser and managers and recommended to the Panel. Fund managers have discretion to position the fund around the customised benchmark within agreed ranges set by the actuary consistent with the performance objectives of the fund. Whilst the fund's aspiration is that both balanced managers will out-perform the customised benchmark at all times, if investors buy into these philosophies, they have to make allowances for the firms to have periods of underperformance, while delivering good performance over the long term.**

Not applicable. The Council has a designated Pension Fund Panel.

Principle 4: Performance assessment (Current Principle 8)
Principle
Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers.
Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.
Best Practice Guidance

- There is a formal policy and process for assessing individual performance of trustees and managers.
- Trustees can demonstrate an effective contribution and commitment to the role (for example measured by participation at meetings).
- The chairman addresses the results of the performance evaluation.
- State how performance evaluations have been conducted.
- When selecting external advisers take into account relevant factors, including past performance and price.

✓ **Mostly Comply. The Panel review the suitability of the investment strategy on a regular basis, typically around the triennial Actuarial Valuation. Performance of the fund and fund managers is monitored quarterly with a more extensive annual review each in September. Monitoring of past performance and price of all external service providers and advisers is undertaken as part of the regular procurement exercises.**

The Council has commissioned the WM Company to carry out independent performance management evaluation of Fund Manager Performance against the Ealing benchmark and against the performance of the WM Universe which consists of some 87 Funds within the LGPS universe. The WM are also invited to the Panel meetings annually to update the Panel on the interpretation of the funds performance against the benchmark, its risk stance and its performance against the LA universe.

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Principle 5: Responsible ownership (Current Principle 6)

Principle

Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.

A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles.

Trustees should report periodically to members on the discharge of such responsibilities.

Best Practice Guidance

- Policies regarding responsible ownership are disclosed to scheme members in the annual report and accounts or in the Statement of Investment Principles.
- Trustees consider the potential for engagement to add value when formulating investment strategy and selecting investment managers.
- Trustees ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company.
- Trustees ensure that investment consultants adopt the ISC's Statement of Practice relating to consultants.

☐✓☐☐ **Full compliance. The Panel has adopted the fund managers' standard policies on activism and each has adopted the Institutional Shareholders' Committee Statement of Principles. All managers adopt a policy of engagement and constructive dialogue with companies. Policies regarding responsible ownership are disclosed to scheme members in the Statement of Investment Principles and the Annual Report.**

Trustees review the Exercise of voting rights are quarterly meetings.

Principle 6: Transparency and reporting (Current Principles 9 and 10)
Principle:
Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.
Trustees should provide regular communication to members in the form they consider most appropriate.
Best Practice Guidance:

- Reporting ensures that the scheme operates transparently and enhances accountability to scheme members and best practice provides a basis for the continuing improvement of governance standards.

✓ **Full compliance. Details of the Pensions Panel's communications policy is published on the Council's internet site, together with the actuarial valuation, annual report of the fund, funding strategy statement, governance compliance statement, governance policy statement, statement of investment principles and Myners compliance statement.**
A summary of the annual report is sent to all members of the fund.

COMMUNICATIONS POLICY STATEMENT

London Borough Of Ealing Pension Fund

Communications Policy Statement

Introduction

This Statement is prepared in compliance with the Local Government Pension Scheme (Amendment) (No 2) Regulations 2005. It sets out the Policy of London Borough of Ealing, as administering authority, in relation to its Communications responsibilities for the Local Government Pension Scheme (LGPS).

Communications Objectives

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

Stakeholders

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

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

Policy

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

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

Scheme members:

- Active Scheme members are communicated with through newsletters, intranet, monthly employees forum and Annual Benefits Statements as well as the Annual General meeting
- Retired Scheme members are communicated with via newsletters, the annual pensions increase advice. Also, individual queries are processed by Liberata, the 3rd party administrators and well as the Annual General Meeting.

- Deferred members are communicated with through Annual Benefits Statements. Also, individual queries are processed by Liberata, the 3rd party administrators. Deferred members are also invited to the Annual General Meeting.
- In addition, the PFP reports and minutes, and the pension fund annual report and accounts are available on the Council's website www.ealing.gov.uk

Scheme employers (Admitted and Scheduled Bodies) are communicated with through newsletters and regular employers forum. Also they are invited to the Pension Fund Annual General Meeting.

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

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

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

Review of this Communications Statement

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

GLOSSARY

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

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

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

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

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

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

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

Admitted bodies
Bodies whose staff can become members of an LGPS fund by virtue of an admission agreement between the administering authority and the relevant body.

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.

Fixed interest security
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.

Scheduled bodies
These are the organisations listed in the Local Government Pension Scheme (Administration) Regulations 2008 (Schedule 2, Part 1) and include county councils and district councils.

Securities
Investments in company shares, fixed interest 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.

Source CIPFA Tisonline Pensions June 2009