London Borough of Ealing Pension Fund

Annual Report & Accounts

2015/16

EALING COUNCIL

CONTENTS

CHAIR'S STATEMENT

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

It is my pleasure to once again present the London Borough of Ealing's Pension Fund annual report for the year ending 31 March 2016.

We administer your Local Government Pension Scheme (LGPS), a statutory funded scheme which means assets are set aside and invested towards meeting the cost of our future pension promise to you. Scheme member benefits are defined in statute, however employee contributions are currently fixed therefore any funding shortfall has to be met by the assets growing faster or the employer increasing their contribution. Your pension contributions are determined nationally and are therefore not within the Council's control. However, recent changes to the LGPS introduced 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. The cost of running our scheme currently remains comfortably within the indicated cost cap.

There were four panel meetings over the reporting year where members reviewed a broad range of strategic issues in addition to meeting and probing some of our fund managers on their rolling three year performance against which we set them an out performance target. Members of the panel also reviewed a range of investment opportunities, received training and debated and produced a collective response to a range of government consultations pertaining to the LGPS. Collaborating across LGPS schemes, knowledge improvement and resource sharing to reduce scheme cost remained high up on our agenda.

The global economy had been recovering steadily from the global financial crises of 2008, but the reporting year ushered in volatility which saw the Fund's value initially rising before falling by the year end for the first time in 6 years from £967.5m to £953.6m. A number of downside risks still persist, and at the time of writing one of the risks of Brexit will impact the UK economy and ultimately our portfolio of investments. Our fund returned -1.5% against our benchmark of -0.7% underperforming the benchmark by -0.8% in relative terms. However, as long term investors I was pleased to see that our fund performance ranked in the top 33% amongst our peer group of LGPS funds over a rolling five year period. The latest triennial valuation of the fund carried out on 31 March 2013 indicated the funding level of the fund was 72% compared to the last valuation when the funding level was 70%.

The Fund's investment mix is continually reviewed to ensure that we achieve the optimal returns to minimise the amount the Council needs to contribute as the scheme sponsor. Discussions are ongoing with the Fund's existing managers to assess the Fund's likely performance going forward and with our advisers to determine how best to tilt the portfolio to achieve better performance. We continue to review the governance arrangements and strive to offer and maintain a 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, meets monthly to actively assist the PFP in monitoring risk, and to generate new ideas on the full range of PFP issues as well as speeding up the implementation of strategic decisions taken by the PFP.

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 have previously updated you about the changes and proposed changes to the scheme's benefit, governance structure and investment arrangements

The Council set up a newly constituted body, The Pension Board in line with LGPS regulations brought on by the Public Sector Pensions Act 2013. The Board has been overseeing that the Fund is complying with relevant laws and regulations and ensuring that the Funds governance arrangements are effective and efficient. The Council duly established our new Pension Board within the regulatory timescale and their inaugural report is incorporated within this report.

I have previously informed you that we have been collaborating wherever possible with other funds to reduce the costs to the scheme. One such collaboration was an initiative launched across London LGPS Funds to jointly pool our investments to reduce fund management fees through achieving economies of scale. The Council were very early adopters and helped to set up the company and embraced the initiative long before the government announced that all LGPS schemes are required to move from investing separately across circa 89 funds to being compelled to pool all their investments within a handful of Funds commanding a minimum size of £25bln of assets under management. The government has requested pools to place greater emphasis on better governance and more infrastructure investments amongst other criteria. All Funds are expected to direct their investments through the pool from April 2018. The London pool called the London Collective Investment Vehicle (CIV) is far ahead of the curve and as a Council we have already migrated some of our investments through the pool and achieved substantial savings for the fund.

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 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. The Annual member engagement day was held on 23 February 2016 which took the form of one to one surgeries with individuals. Feedback from those who attended was excellent and next year we will once again be holding a full Annual General Meeting where presentations will be made to all scheme members from various experts.

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.

PENSION BOARD ANNUAL REPORT 2015-16

Purpose of the Report

To provide an update on the work undertaken by the Local Pensions Board during 2015-2016 and to meet the legislative requirement to produce an annual report.

Constitution, Representation Meetings and Attendance

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

Membership

Ealing Pension Board Membership 2015 /16

Member Representatives	Designation	Employer Representatives	Designation
Ian Potts (Chair)	*Ealing Pensioner and former elected member and sat of the Pension Fund Panel for several years*	**Cllr. Dr Patricia Walker** (replaced by Cllr. Sarfraz Khan as of 11 August 2016)	*Elected Member*
Mary Lancaster	*Unison Official*	**Richard Lane**	*Director of Finance (Twyford Academy)*

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

The Board met on four occasions during the year ending 31 March 2016 and all meetings were quorate.

- 6 July 2015
- 24 September 2015
- 16 December 2015
- 23 March 2016

Functions and Operation of the Board

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

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

It therefore has a monitor/assist /review purpose, rather than being a decision making body. It could be seen as being a critical friend. As such, the general approach of the Board is to seek assurances with evidence from the Fund that it is meeting its objectives set out above.

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

The establishment and initial meetings of the Board coincided with the period of greatest pressure on officers in the recent history of the LGPS, with the Administering Authority having to respond to the DCLG by 19 February 2016 on the critical consultation documents on both the proposed pooling of LGPS investments, and also on revised Investment and Management of Funds Regulations. These developments placed a relatively higher level of workload on the Fund during the first year of the board's existence.

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

Costs

There is a financial budget for the Board of £12.5k. The cost incurred in the creation and implementation of the Board has been minimal, having been incorporated within existing officer workloads. No independent external reviews were commissioned over the course of the year. The .costs of the course attendances were contained within the allocated budget.

The costs of running the Board are borne by the Pension Fund as part of it's overall budget. The costs have in fact minimal as forming and running the board have been incorporated within existing workloads. The Board has not commissioned any external consultants however there has been some expenditure on training as follows:

- LGPS Induction Session – Internal
- External Training on the role and purpose of the Board
- The chair attended a three day in depth course
- Triennial Valuation – Internal training and update provided by the Fund's Actuary.
- Cipfa Training – Local Pension Boards –One Year On
- Greater London Employment Forum – London CIV Update

Detailed Work of the Board

Scheme documents

Board members were provided with the range of scheme policies which were incorporated in the schemes Annual Report. The Board expects to take forward a detailed review of these policies going forward.

Risk management and register/key person risk officers and Members

Following enquiries from the Board, it was accepted that there were benefits to the reviewing the risk register that is exclusive to the Fund, as opposed to the integrated part of the policy and risk register of the Authority as a whole. This is a project in development.

Externalities

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

Pensions Regulator

Whist it is generally felt that the LGPS is comparatively well governed, nevertheless the Pensions Regulator is examining the Scheme on an ongoing basis and has, for example, highlighted delays by administering authorities in producing Annual Benefit Statements.

Reporting and Recording Breaches

The Board and its members, as with other players, all have a responsibility to report breaches of law to the Pensions Regulator. Training had provided in this area, and reporting and recording procedures are now being developed. A quarterly update template has been developed.

Scheme Advisory Board (SAB)

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

Training

Each Board member has to be conversant with the details of the Scheme, which translates as having a good working knowledge. The fund has offered a number of training opportunities for Board members where possible. External training was provided for Board members in collaboration with another fund on the role and purpose of the Board.

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

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

Work plan

The agenda for the first three meetings emerged naturally as the Board scanned the statutory documents, reports to the Pensions Panel, and reports, reviews and compliance requirements of both the Scheme Advisory Board and the Pensions Regulator.

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

- Meeting legislative requirement on pooling
- Improving data quality
- Ensuring strength in employer covenants
- Admission and Termination of other employers to the scheme
- Accounts
- Administration
- Audit and Risk Management
- Governance
- Triennial Valuation March 2016
- Training

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

The board have also requested a quarterly compliance checklist.

Appreciation

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

Chair of the Pension Board
Mr Ian Potts

HIGHLIGHTS 2015-16

- 65% of assets under management are held in equities, 24% in corporate bonds, and 8% in UK pooled property funds.
- The fund performed in the 33rd percentile against its peer group of other Local Authority Funds over a rolling five year period.
- Overall in 2015/16 the scheme again remained cash flow positive (when investment income is included), with income to the scheme (contributions and investment income) at £80.5m, 54% more than the outgoings of £52.4m, 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) and the Pensions Regulator.

The London Borough of Ealing is the Administering Authority for the London Borough of Ealing Pension Fund. The Pension Fund Panel has delegated responsibility for the management of the Fund and oversees the general framework within which the Fund is managed and sets investment policy on behalf of the Council and other employers in the Fund. The Panel Members operate in a quasi-trustee capacity and are selected to represent the political makeup of the Council. The 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 2015/16		Political Party
Councillors	Cllr Yvonne Johnson (Chair)	Labour
	Cllr Shital Manro	Labour
	Cllr Ahmed	Labour
	Cllr Swaran Padda	Labour
	Cllr Mik Sabiers	Labour
	Cllr Andrew Steed	Liberal Democrat
	Cllr Anthony Young	Conservative
Non-Voting Members		
	Sukhminder Kalsi	(Unison)

Contact Details for Pension Fund Panel

Committee Services (Perceval House)
Gordon Williams - Telephone: 0208 825 6588

Panel Member Training 2015/16

Topic
Fund Performance
Alternative Investments
Private Market Debt
Triennial Valuation 2016

Panel Voting Rights:

The voting rights for the panel are as follows:

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

STAFF, ADVISERS AND INVESTMENT MANAGERS

Company Name	Contact	Contact Details
Ealing Officers:		0208 825 5000
Executive Director, Corporate Resources	Ian O'Donnell	Perceval House 14-16 Uxbridge Road London W5 2HL
Director of Finance (Acting)	Ross Brown	Perceval House 14-16 Uxbridge Road London W5 2HL
Group Manager, Treasury & Investments	Bridget Uku	Perceval House 14-16 Uxbridge Road London W5 2HL
Consulting Actuaries:		
Mercer	Ian Kirk	1 Tower Place West Tower Place London EC3R 5BU
Auditors:		
KPMG	Neil Thomas	12th Floor, 15 Canada Square, Canary Wharf, London
Legal Advisers:		
In-House Team	Helen Harris – Director of Legal and Democratic Services	Perceval House 14-16 Uxbridge Road London W5 2HL
Pension Administration Services:		
In-House Team	Jenny Connet – Pensions Manager	Perceval House 14-16 Uxbridge Road London W5 2HL
London Pensions 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

Company Name	Contact	Contact Details
		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	Michelle Bailey	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
Hermes – UK Property Mandate	Geoffrey Reynolds	1 Portsoken Street, London, E1 8HZ
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 other scheme employers.

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

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

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

- A guaranteed pension based on salary and length of time in the scheme
- Tax free lump sum on benefit accumulated prior to 1st April 2008 and option to convert some of the pension into tax free lump sum on post 1st April 2008 service
- Life assurance cover 3x member yearly pay from the day of joining scheme
- Pensions for spouses/civil and 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 12.5%, 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 2015 to March 2016 were:

Full-time Pensionable Pay	% Contribution
£0 to £13,600	5.5%
£13,601 to £21,200	5.8%
£21,201 to £34,400	6.5%
£34,401 to £43,500	6.8%
£43,501 to £60,700	8.5%
£60,701 to £86,000	9.9%
£86,001 to £101,200	10.5%
£101,201 to £151,800	11.4%
Over £151,801	12.5%

The pay bands are 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.

LGPS 2014

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

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

SCHEME EMPLOYERS

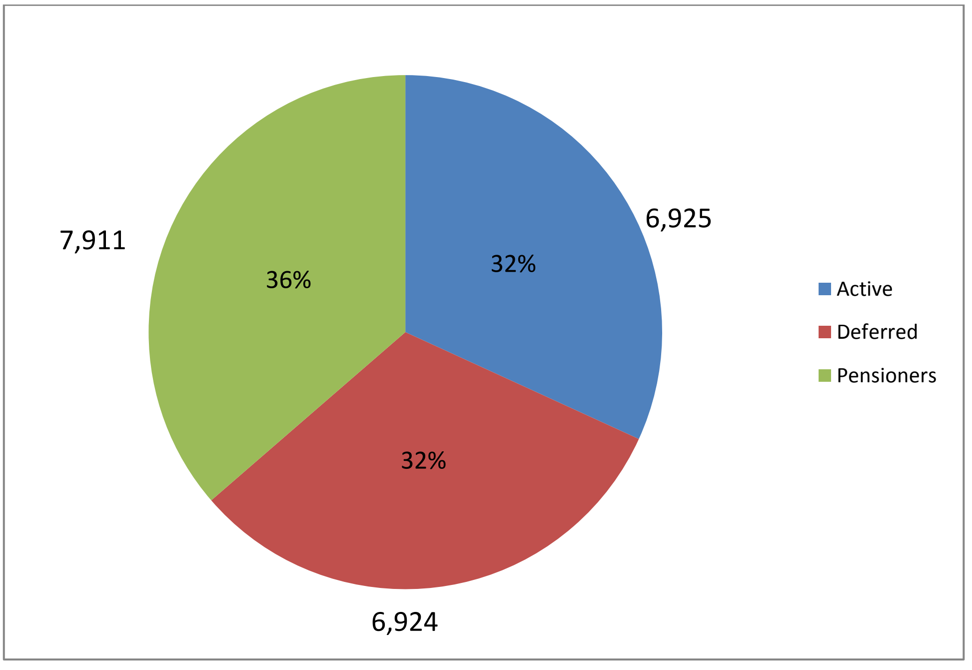
The Pension Fund had 31 employers in the Fund during the financial year 2015/16, including the London Borough of Ealing. These employers in the Fund are listed in the section Accounting Policies and Notes to the Accounts.

MEMBERSHIP OF THE FUND

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

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

BUDGETARY ESTIMATE REVIEW

The Pension Fund Panel reviews the budgetary estimate for the Pension Fund on an annual basis. In the table below income and expenditure for 2014/15 and 2015/16 is shown together with the agreed budget for 2016/17:

	Actual 2014/15 £m	Forecast 2015/16 £m	Actual 2015/16 £m	Variance		Budget* 2016/17 £m
Income						
Employer Contributions	31.3	29.5	36.9	22%	6.4	30.3
Employee Contributions	9.9	8.3	9.7	18%	1.5	8.6
Transfers In	3.2	2.7	2.5	178%	-0.2	0.9
Total Income	**44.4**	**40.5**	**49.1**	**21%**	**8.6**	**39.8**
Expenditure						
Pensions	33.8	34.2	35.8	5%	1.6	35.7
Lump sum retirement benefits	6.2	8.8	9.5	8%	0.7	9.3
Lump sum death grants	0.8	0.7	1.4	110%	0.7	0.9
Transfers out (Inc. refunds)	5.7	3.0	1.8	-41%	-1.2	1.6
Fund Management expenses	3.0	3.5	3.0	-13%	-0.4	3.3
Administration expenses	0.9	0.9	0.9	-2%	0.0	1.0
Total Expenditure	**50.4**	**51.9**	**52.4**	**1%**	**0.5**	**51.8**
Net Income/(Expenditure)	**(6.0)**	**(11.4)**	**(3.3)**	**-71%**	**8.2**	**(12.0)**
Investment Income generated by Fund Managers	31.0	32.5	31.5	9%	3.0	30.4
Total Income (inclusive of income held with Fund Managers)	**25.0**	**16.8**	**28.2**	**68%**	**11.4**	**18.4**

Overall the London Borough of Ealing Pension Fund achieved a net surplus for the year 2015/16 of £28.2m (£26.2m in 2014/15). This excludes the effect of the fall in market value of the Fund's investments which was £42.02m (£75.16m rise in 2014/15).

During 2015/16 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 2016/17, so withdrawal of cash from investments will be necessary to cover this shortfall.

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

A copy of the budgetary estimate report for 2015/16 can be obtained from the Council's website, or using the file path below.

http://ealing.cmis.uk.com/ealing/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/937/Committee/18/Default.aspx

The Pension Fund Panel approved the 2016/17 budgetary estimate report on 23 March 2016.

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

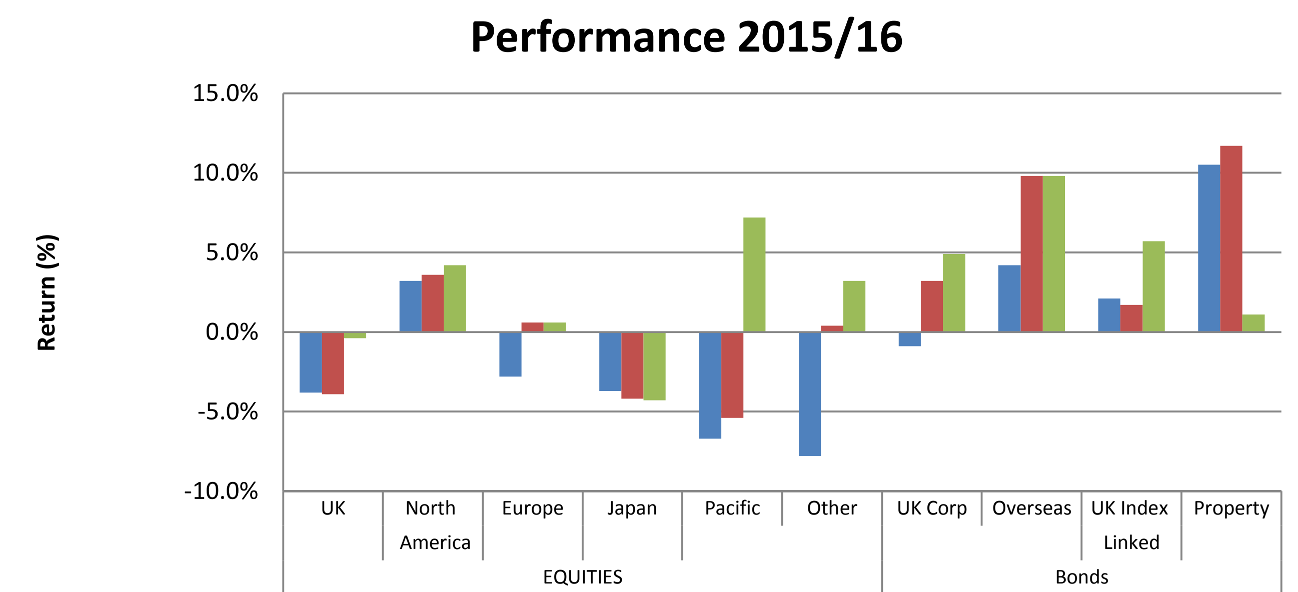
Although the above risks relate primarily to external risk, measures are in place to monitor and manage these risks. These include:

- 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 0.2% in 2015/16. The graph below shows the performance of 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	Property
WM Wtd Average	-3.8%	3.2%	-2.8%	-3.7%	-6.7%	-7.8%	-0.9%	4.2%	2.1%	10.5%
Ealing Fund Return	-3.9%	3.6%	0.6%	-4.2%	-5.4%	0.4%	3.2%	9.8%	1.7%	11.7%
Ealing Benchmark/Index	-0.4%	4.2%	0.6%	-4.3%	7.2%	3.2%	4.9%	9.8%	5.7%	1.1%

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

The average local authority pension fund return was just positive in 2015/16, the return being less than the income generated.

All equity markets, with the exception of North America, produced negative returns over the year. In spite of a surprise outright majority being returned in May's general election, domestic equities lost ground in the early part of the period. After rebounding to some extent in the December quarter, they ended the period down 4%, reflecting the high exposure to oil majors and commodities, which continued to suffer as oil prices fell.

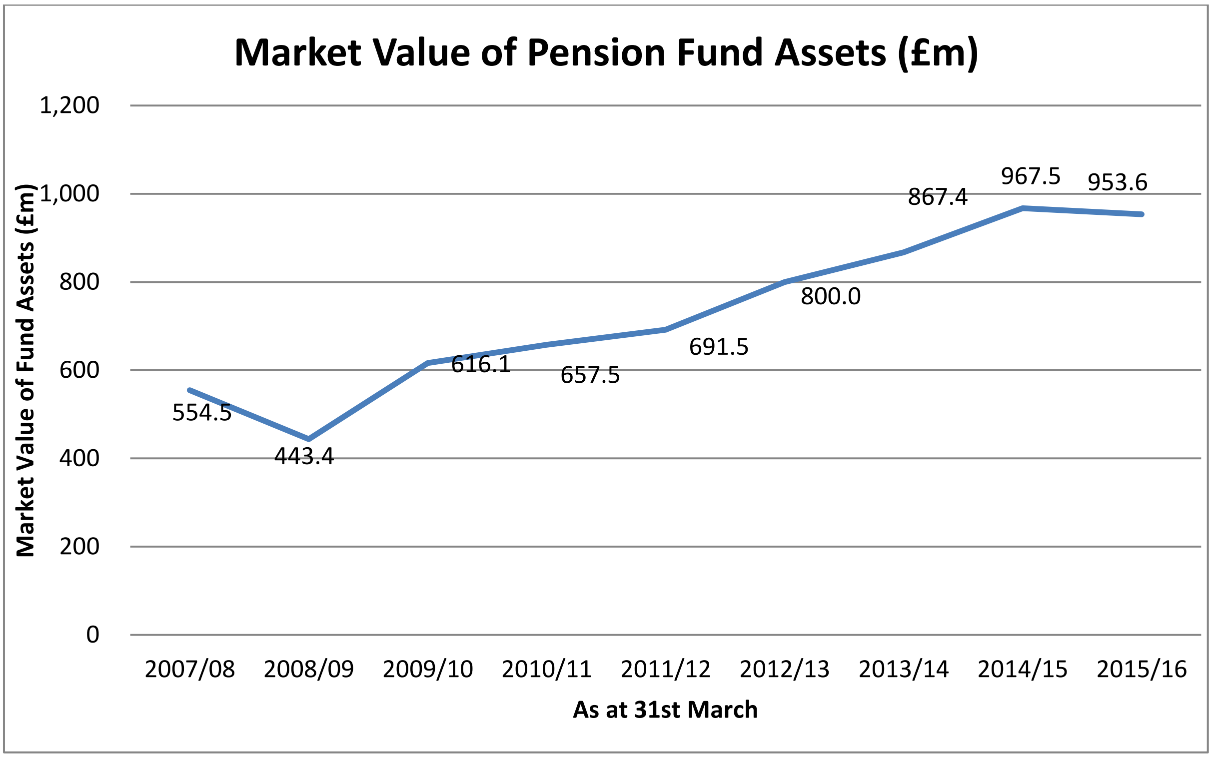
In sterling terms, North America was the strongest performing of the major overseas markets returning 3%. In contrast, the poorest performing areas were the emerging and lesser Asia Pacific markets which gave up between 7 and 8%. Elsewhere, Europe lost 3% and Japan 4%. Currency had a major influence on international equity returns with the weakness of sterling insulating UK investors against much lower base currency returns.

After the double-digit returns of the previous year, bond performance was much more subdued with an aggregate return in low single figures. Yields fell at the outset of the year and by Christmas, returns were looking quite negative. Central government comments and risk version generally in the closing quarter however saw yields pick up. Long dated bonds produced the best of the returns whilst corporate issues were marginally down over the period. Index-Linked gilts returned 2% and overseas bonds 4%

Alternative investments in aggregate enjoyed a good year, however fortune was mixed. Private equity returned 14%, whilst hedge fund performance was flat. Pooled multi-asset (diversified growth) investments had a disappointing year, returning -3%. Property continued its strong run, returning 11%.

Value of the Fund's Assets

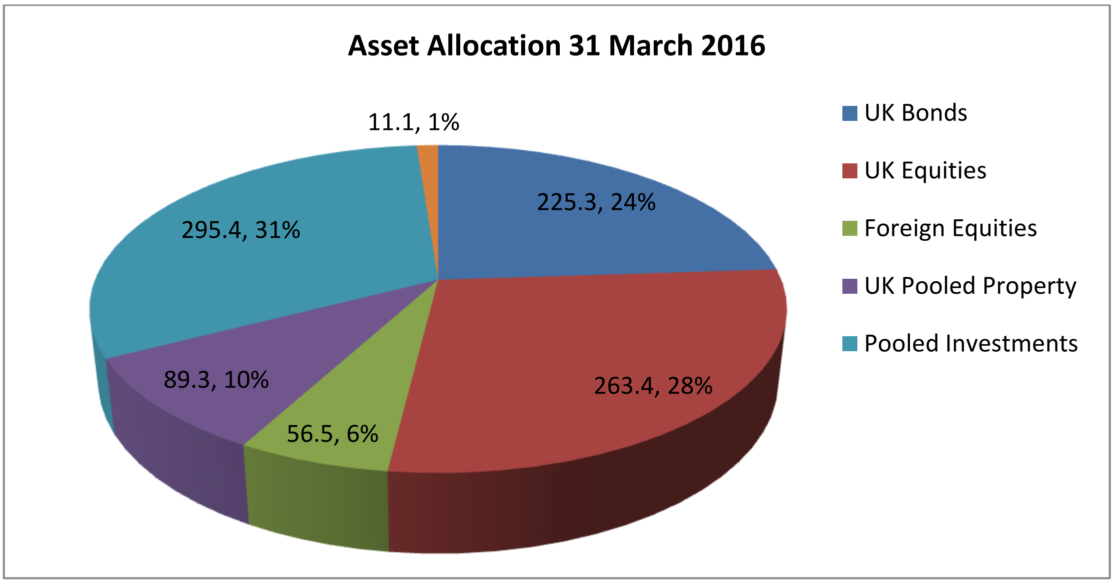
At the end of March 2016 the market value of the Pension Fund's total assets was £953.6m; a fall of 1.4% from the opening value of £967.5m. The graph below illustrates the progress of the Fund's assets over the last 9 years (as at the 31 March in each year).



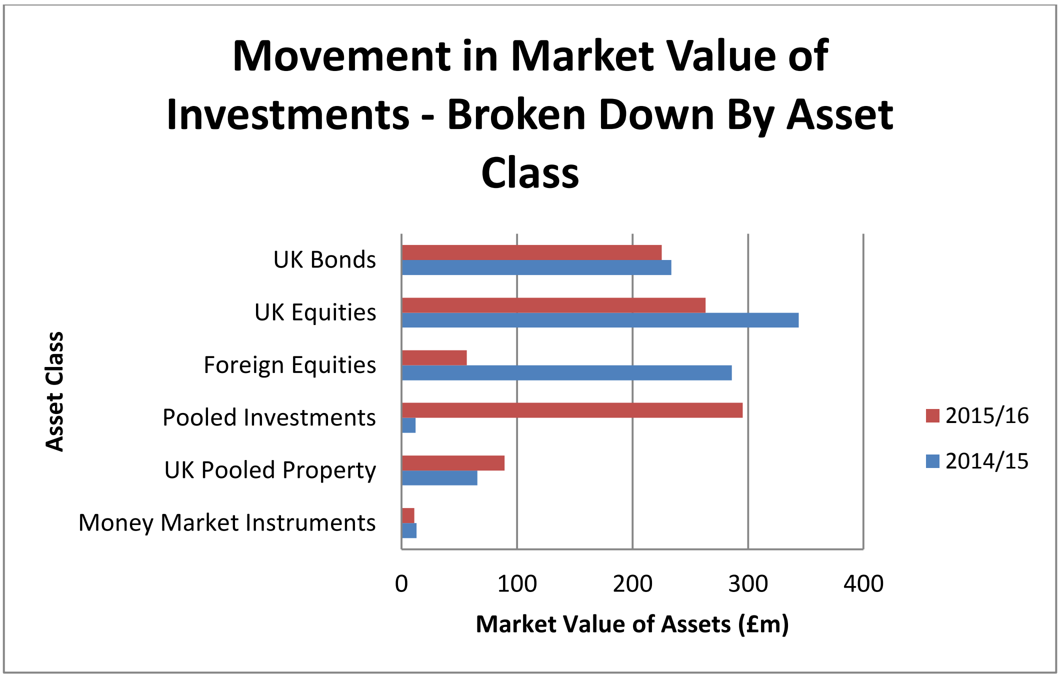
Investment Management

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 Regulations 2013 require 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 as appendix D this report.

The Fund appointed three new specialist managers in April 2007, with a UK Equity, Global Equity and UK Corporate Bond mandate, and in 2011 it was agreed to fund a new pooled property mandate. The allocation to the various asset classes as at the end of 2015/16 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 2015, and the end of the current financial year, March 2016. As can be seen from the chart, the main change has been the increased allocation to pooled investments.



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

Manager	Mandate	% of Fund Under Management at 31/3/16
Lazard	UK Equities	35%
Allianz	Pooled Equities	30%
RLAM	UK Corporate Bonds	25%
Lothbury	UK Pooled Property	4%
Standard Life	UK Pooled Property	3%
Hermes	UK Pooled Property	3%

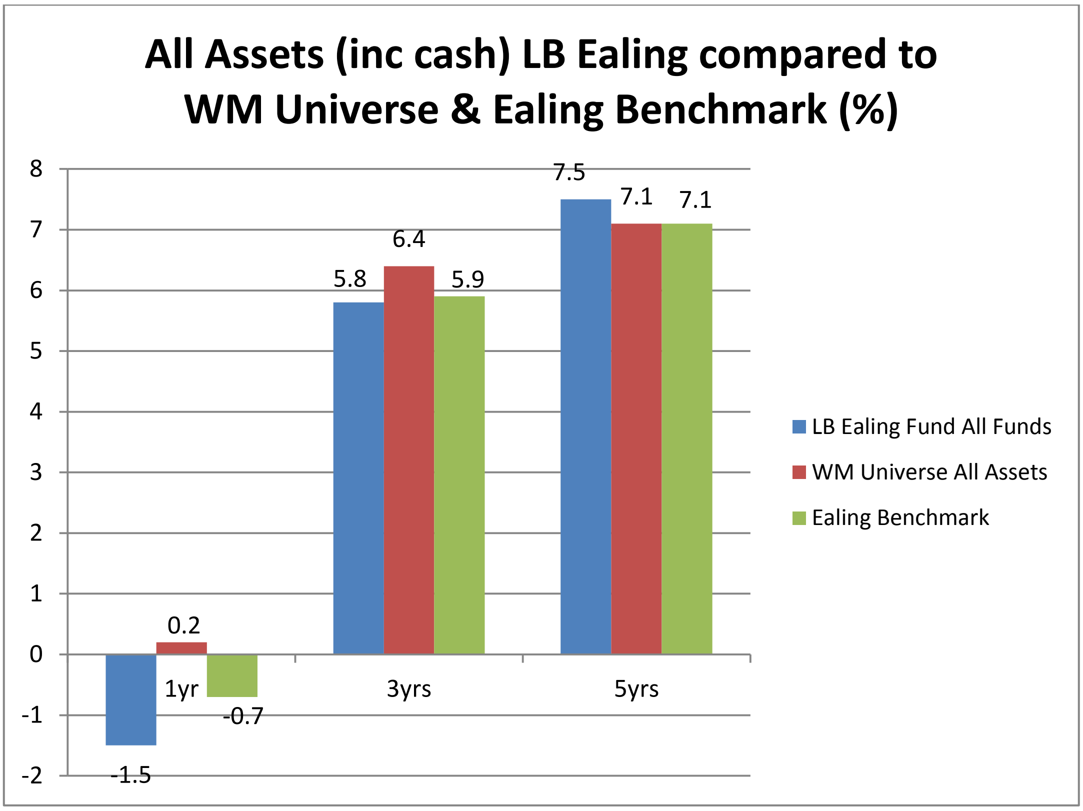
Top fifteen holdings by Market Value as at 31st March 2016

Top 15 Holdings at 31st March 2016	Market Value (£000)
LONDON LGPS CIV LT GLOBAL EQUITY HIGH ALPHA A	276,945
LOTHBURY PROPERTY FUND	36,747
STANDARD LIFE LONG LEASE PPTY FUN	27,698
ROYAL DUTCH SHELL PLC B SHS	26,302
HERMES PROPERTY UNIT TRUST	24,845
BRITISH AMERICAN TOBACCO PLC	18,682
DIAGEO PLC	12,710
GLAXOSMITHKLINE PLC	12,633
BP PLC	12,206
VODAFONE GROUP PLC	11,963
LLOYDS BANKING GROUP PLC	10,788
UNILEVER PLC	10,494
GOLDMAN SACHS GBP LIQ RES VALUE FD	9,729
BT GROUP PLC	9,576
ROYAL LONDON STERL EX Y BD-Z	8,782

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 -1.5% for 2015/16, and an average of 5.8% and 7.5% for the three years and five years respectively to 31 March 2016.



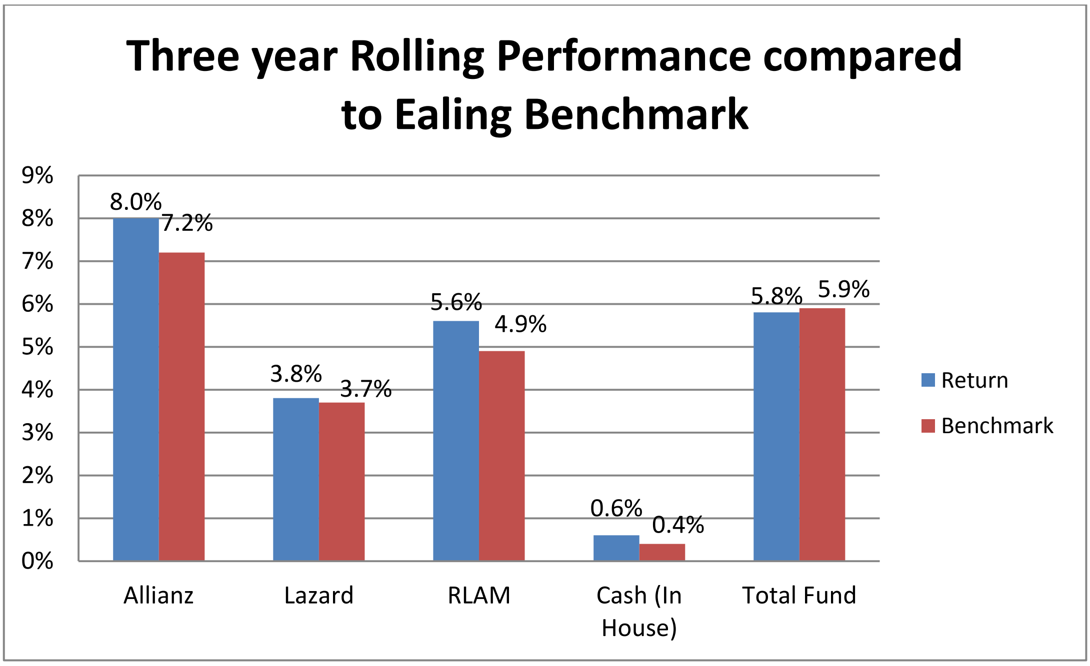
In 2015/16 the Ealing Fund return of 1.5% underperformed the benchmark of 0.7% with a relative return of -0.1%. It also underperformed the WM Local Authority Universe which achieved 0.2%. This underperformance was mainly attributable to poor stock selection by our fund managers. The table below details the performance for the year to March 2016 for each of the fund managers and the combined fund in relation to the Ealing Specific Benchmark.

	Return	LB Ealing Benchmark	Relative Performance*	Relative Performance*
	Year to 31 March 2016	Year to 31 March 2016	2015/16	2014/15
	%	%	%	%
Allianz	0.2	-1.9	-2.1	-0.5
Lazard	-5.9	-3.9	2.2	0.7
RLAM	2.4	3.0	-0.7	0.0
Cash (In House)	0.7	0.3	-2.3	0.1
Total Fund	**-1.5**	**0.2**	**-1.8**	**-0.2**

*relative performance is a geometric not arithmetic calculation

At the overall portfolio level, the Fund underperformed the composite benchmark return during the year 2015/16 by 1.8%.

Long-term 3 year rolling performance analysis of the fund managers to March 2016 shows that all three have outperformed their benchmarks.



Investment Management Expenses

The investment management expenses for the year to 31 March 2016 were £3.016m, as compared to the previous year figure of £3.002m.

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 costs of administering the Fund over the financial year 2015/16 amounted to £762k (£912k in 2014/15). 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.

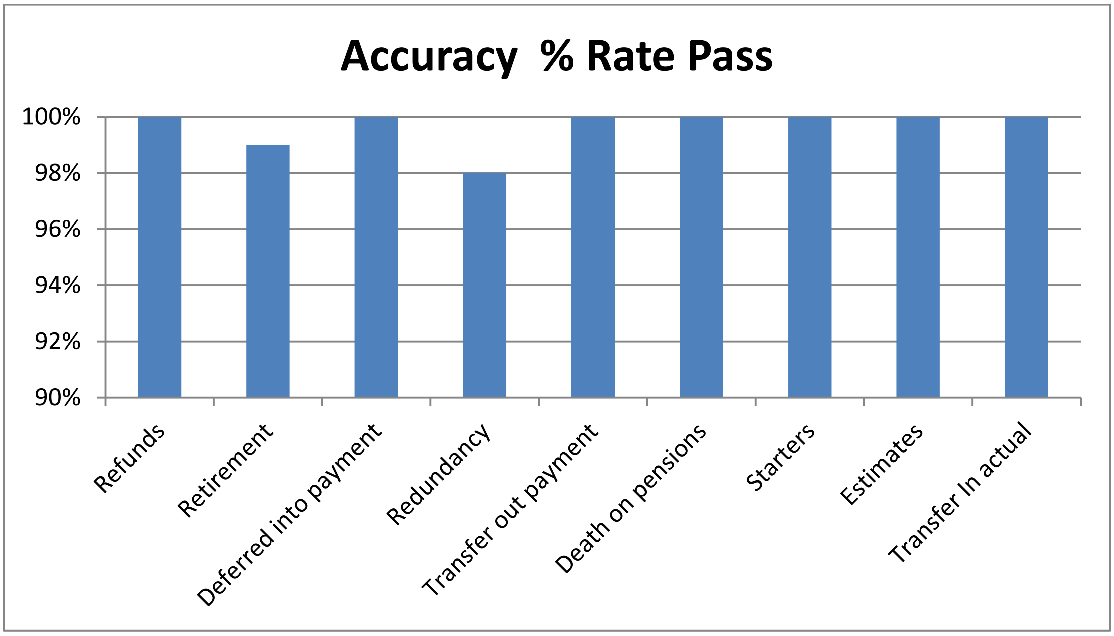
Timeliness – Have cases been processed in a timely manner.

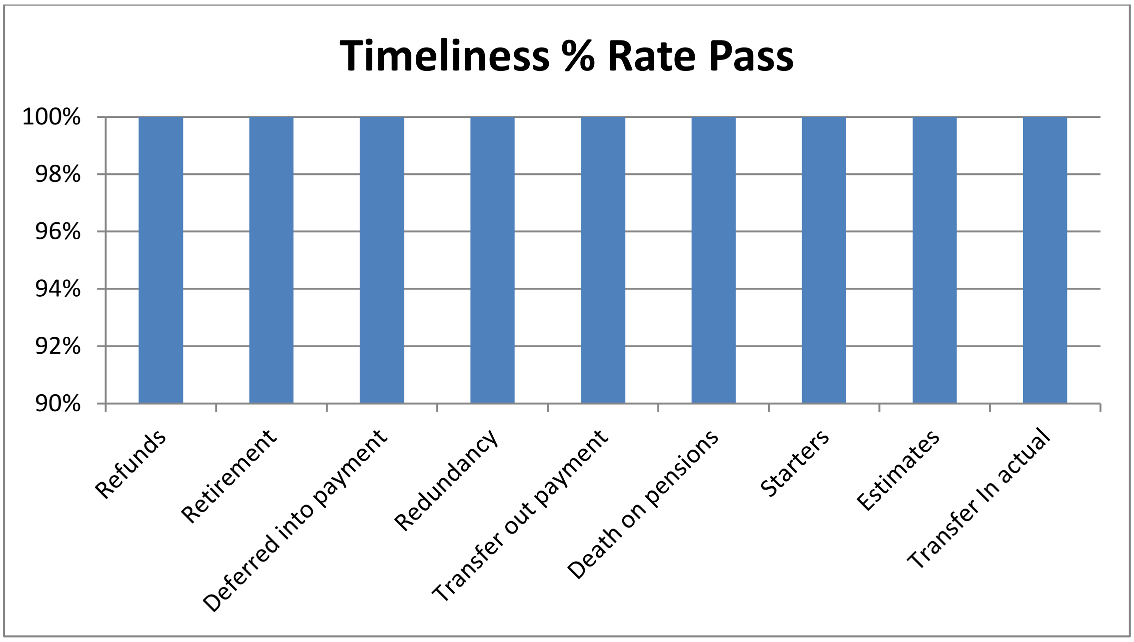
Documentation – Has the correct documentation been attached to members' files.

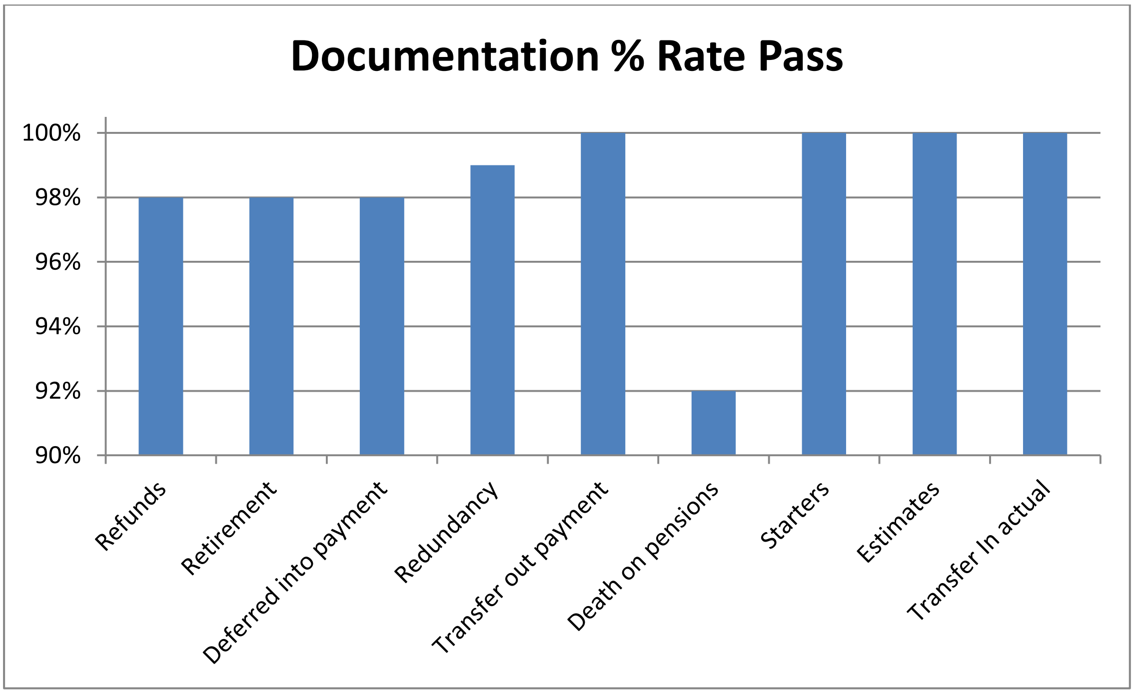
Altair – Does the pension administration system correctly reflect the activity processed.

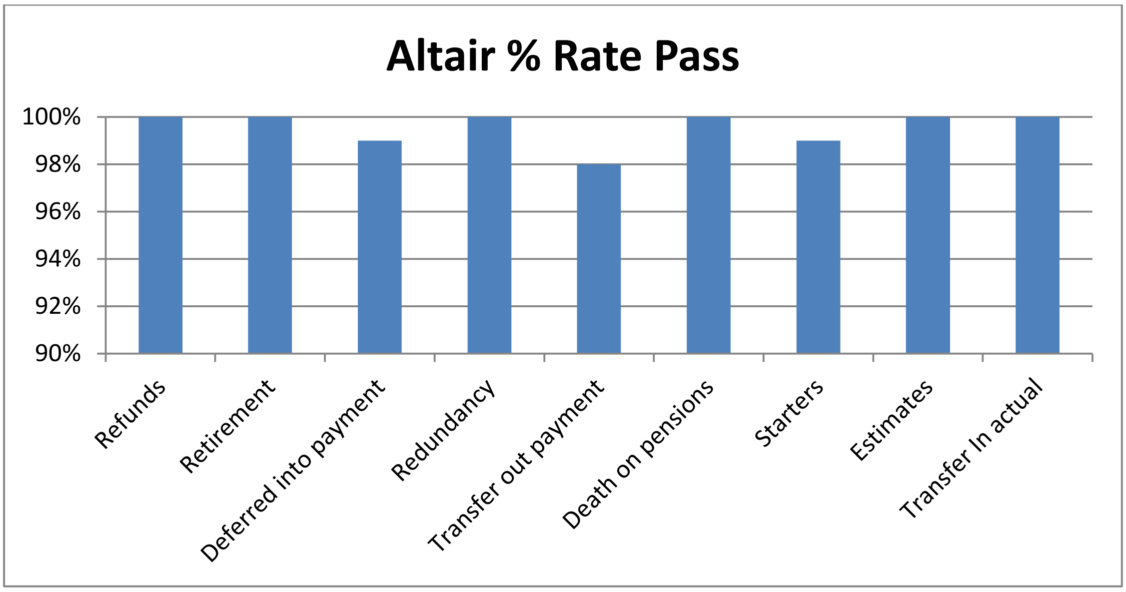
Ealing's in house pension team take monthly samples of work untaken by LPFA and assesses it against these criteria. Any 'fails' accrue resource credits to be used towards the Ealing contract. Performance statistics are reported to the Pension Fund Panel on a quarterly basis.

Below are performance graphs showing the pass rate LPFA achieved for 2015/16 across some of the most common and active areas within LPFA's remit.




Timeliness % Rate Pass
100%
98%
96%
94%
92%
90%
Refunds
Retirement
Deferred into payment
Redundancy
Transfer out payment
Death on pensions
Starters
Estimates
Transfer In actual


Documentation % Rate Pass
100%
98%
96%
94%
92%
90%
Refunds
Retirement
Deferred into payment
Redundancy
Transfer out payment
Death on pensions
Starters
Estimates
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 members and members with a frozen pension but not Ealing pensioners.

Notification of Change of Address

As statements are sent out on an annual basis showing the current value of your benefits it is vitally important that you notify the 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 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 2016 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

Independent auditor's report to the members of London Borough of Ealing on the pension fund financial statements published with the Pension Fund Annual Report & Accounts.

We have examined the pension fund financial statements for the year ended 31 March 2016 on pages 40 to 59.

Respective responsibilities of the Executive Director of Corporate Services and the auditor

As explained more fully in the Statement of Responsibilities, the Executive Director of Corporate Resources is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the Pension F
und Annual Report & Accounts with the pension fund financial statements included in the annual published statement of accounts of London Borough of Ealing, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

In addition, we read the information given in the Pension Fund Annual Report & Accounts to identify material inconsistencies with the pension fund financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Our report on the administering authority's annual published statement of accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included in the annual published statement of accounts of London Borough of Ealing for the year ended 31 March 2016 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
We have not considered the effects of any events between the date we signed our report on the full annual published statement of accounts, 29 July 2016 and the date of this report.

Matters on which we are required to report by exception

The Code of Audit Practice requires us to report to you if:

- the information given in the Pension Fund Annual Report & Accounts for the financial year for which the financial statements are prepared is not consistent with the financial statements; or

- any matters relating to the pension fund have been reported in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit.

We have nothing to report in respect of these matters.

Neil Thomas
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

September 2016

POLICY STATEMENTS AND ACCOUNTS

The following appendices contain various policy statements, and the 2015/16 pension fund accounts. The pension fund accounts contain the Actuary's statement for the year.

- Appendix A - Governance Policy and Compliance Statement
- Appendix B - Pension Fund Accounts
- Appendix C – Funding Strategy Statement
- Appendix D – Statement of Investment Principles
- Appendix E – Compliance with Myners Principles
- Appendix F – Communications Policy Statement

GOVERNANCE POLICY AND COMPLIANCE STATEMENT

Governance Policy Statement

Introduction

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

Governance Framework

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

The governance framework is supported by:

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

Delegation of Function

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

Meetings

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

The 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.

The Pension Board

- The Pension Board has been established under regulation 106 of the Local Government Pension Scheme Regulations 2013.
- The purpose of the Board is to assist the Administering Authority in its role as a scheme manager of the Scheme. Such assistance is to:
    - (a) secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme and;
    - (b) to ensure the effective and efficient governance and administration of the Scheme.
- The Board shall consist of either 4 or 6 voting members, with equal numbers of employer and member representatives. The board will elect one member to be the chair, and will meet at least two times per annum.

Review of this Policy Statement

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

London Borough of Ealing's Current Compliance Position

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

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

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

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

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

REQUIREMENT	COMPLIANCE	COMMENT
forum.		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. The Chair's introduction to the annual report and contact details for officers and other parties involved in the management of the fund encourage feedback.

LONDON BOROUGH OF EALING PENSION FUND ACCOUNTS

FUND ACCOUNT

	Notes	2015/16 £'000	2014/15 £'000
Dealings with members, employers and others directly involved in the fund			
Contributions			
From Employers	6	(36,881)	(31,278)
From Members	6	(9,748)	(9,912)
Individual Transfers in from Other Pension Funds		(2,465)	(3,206)
		(49,094)	**(44,396)**
Benefits			
Pensions	7	35,793	33,772
Commutation, Lump Sum Retirement and Death Benefits	7	10,892	7,040
Payments to and on Account of Leavers			
Individual Transfers Out to Other Pension Funds		1,653	5,618
Refunds to Members Leaving Service		103	61
		48,441	**46,491**
Net (Additions)/Withdrawals from Dealings with Members		**(653)**	**2,095**
Management Expenses	8	**3,975**	**3,914**
Returns on Investments			
Investment Income	9	(32,969)	(32,352)
Other Income	9	(44)	(91)
Taxes on Income (Irrecoverable Withholding Tax)	9	1,568	1,417
		(31,445)	**(31,026)**
Profit and loss on disposal of investments and changes in the market value of investments	13	**42,022**	**(75,125)**
Net return on investments		**10,577**	**(106,151)**
Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year		**13,899**	**(100,142)**
Opening Net Assets of the Scheme		**(967,496)**	**(867,354)**
Closing Net Assets of the Scheme		**(953,597)**	**(967,496)**

NET ASSETS STATEMENT

	Notes	2015/16 £'000	2014/15 £'000
Investment assets			
Fixed Interest Securities	12a	225,319	233,618
Equities	12a	319,905	629,785
Pooled Investment Vehicles	12a	384,746	77,987
Cash	12a	13,155	23,559
Other Investment Balances:	12a		
Income Due and other debtors	12a	7,559	11,402
		950,684	**976,351**
Investment Liabilities			
Amounts payable for purchases of investments	12a	0	(8,525)
Net Value of Investment Assets		**950,684**	**967,826**
Current Assets	15	**4,465**	**534**
Current Liabilities	16	**(1,552)**	**(864)**
Net Assets of the Fund Available to Fund Benefits at the Period End		**953,597**	**967,496**

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

NOTE 1 – GENERAL DESCRIPTION OF THE PENSION FUND

General

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

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

The Fund was established under section 7 of the Superannuation Act 1972 and is currently governed by the Public Service Pensions Act 2013 and the following secondary legislation:

- The LGPS Regulations 2013 (as amended)
- The LGPS (transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and
- The LGPS (Management and Investment of Funds) Regulations 2009 (as amended).

Funding

The Fund is financed by contributions from employees, the Council, other admitted and scheduled bodies and from interest and dividends on the Fund's investments. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013. Average member contributions to the scheme are 6.5% of gross actual pay. Employers pay contributions into the Fund based on rates determined by the appointed actuary following triennial funding valuations. The last such valuation was as at 31 March 2013.

Benefits

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

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

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

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested and accounted for separately from the pension fund in accordance with Regulation 4(2)(b) of the LGPS (Management and Investment of Funds) Regulations 2009. AVCs are used to secure additional benefits on a money purchased basis. The scheme providers are Scottish Widows and Equitable Life.

Governance

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

In line with the provisions of the Public Service Pensions Act 2013 the Council has set up a Local Pension Board to oversee the governance arrangements of the Pension Fund. Board members are independent of the Pension Fund Panel.

Investment Principles

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

https://www.ealing.gov.uk/downloads/download/240/ealing_pension_fund_policy_statements

Membership

The Council is the administering authority for the scheme and has the major share of contributors and pensioners. 31 other organisations currently participate in the Fund (17 in 2014/15):

Scheduled bodies	Admitted bodies
Alex Reed Academy	City West Services
Ark Priory Primary Academy	EC Harris
Ark Byron Priory Academy	Greenwich Leisure
Brentside Primary Academy	Innovate Services Ltd
Brentside High School	John Laing Integrated Services
Christ the Saviour CofE Primary School	Mitie
Derwentwater Primary School	NSL Parking
Dormers Wells Trust/Day care	Serco
Dormers Wells Infant School	SLM
Dormers Wells Junior School	Viridian Housing
Dormers Wells High School	
Drayton Manor High	
Ellen Wilkinson High School	
Featherstone High	
Greenford High School	
Northolt High School	
St Anne's School	
Twyford Academy	
University of West London	
Wood End Academy	
Wood End Infant School	

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. The following table summarises the membership numbers of the scheme:

	31 March 2016	31 March 2015
Active members	6,925	6,977
Pensioners receiving benefits	7,911	7,564
Deferred Pensioners	6,924	6,701
	21,760	**21,242**

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Statement of Accounts summarises the Fund's transactions for 2015/16 and its position at 31st March 2016. The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The accounts have been prepared on an accruals basis, apart from transfer values which are accounted for on a cash basis as described below.

The Statement of Accounts has been prepared in accordance with option B of para 6.5.2.8 of the Code and therefore does not take account of obligations to pay pensions and benefits which fall due after the end of the financial year or the actuarial present value of promised retirement benefits. These liabilities are disclosed in Appendix A.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – Revenue Recognition

Contribution Income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are due under the schedule of contributions set by the actuary or on receipt if earlier than the due date.
Augmentation and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid is classed as a current financial asset.

Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Investment Income

Dividends from quoted securities are accounted for when the security is declared ex-dividend.
Investment income is reported gross of withholding taxes which are accrued in line with the associated investment income. Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Distributions from pooled funds are recognised at the date of issue.

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

Fund Account – Expense Items

Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Lump sums are accounted for in the period in which the member becomes a pensioner. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

Taxation

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

Management Expenses

The Code does not require any breakdown of pension fund administration expenses. However in the interests of greater transparency, in 2015/16 the Council has followed the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs*.

Net Assets Statement

Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. Quoted Securities and Pooled Investments have been valued by the Fund's custodian at the published bid prices on the balance sheet date.

Foreign Currency Transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for in sterling at the spot market exchange rate prevailing on the date of the transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

Cash and Cash Equivalents

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

Financial Liabilities

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

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits should be disclosed and based on the requirements of IAS 19 Post-Employment Benefits and relevant actuarial standards. As permitted under the Code, the financial statements include a note disclosing the actuarial present value of retirement benefits (Appendix A).

Additional Voluntary Contributions

AVCs are not included in the accounts in accordance with Regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, but are disclosed as a memorandum note only (Note 17).

Recharges from the General Fund

The LGPS (Management and Investment of Funds) Regulations 2009 permit the Council to charge administration costs to the Fund. A proportion of relevant Council costs have been charged to the Fund on the basis of actual time spent on Pension Fund business. Costs incurred in the administration and the oversight and governance of the Fund are set out in Note 8.

NOTE 4 – CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Pension Fund Liability

The Pension Fund liability is calculated triennially by the appointed actuary with annual updates in the intervening years. The methodology follows generally agreed guidelines and is in accordance with IAS 19. These assumptions are summarised in Note 15. The estimates are sensitive to changes in the underlying assumptions underpinning the valuations.

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

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

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised pension benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rates used, the rate at which salaries are expected to increase, changes in retirement ages, longevity rates and expected returns on pension fund assets. A form of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effect of changes to assumptions can be measured. For example a 0.1 % increase in the discount rate assumption would reduce the net pension liability by £21 m. Conversely, a 0.1% increase in assumed earnings would increase the value of liabilities by £4m, a 0.1% increase in CPI inflation would increase the liability by £22m and a one year increase in life expectancy would increase the liability by £23m.

NOTE 6 – CONTRIBUTIONS RECEIVABLE

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

By Type	2015/16 £'000	2014/15 £'000
Employees' normal contributions	(9,748)	9,912
Employer's contributions:		
Normal contributions	(20,211)	19,382
Deficit recovery contributions	(14,324)	10,483
Augmentation contributions	(2,346)	1,413
	(46,629)	**41,190**

By Authority	2015/16 £'000	2014/15 £'000
Administering Authority	(39,065)	36,021
Scheduled bodies	(6,812)	4,390
Admitted bodies	(752)	779
	(46,629)	**41,190**

NOTE 7 – BENEFITS PAYABLE

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

	2015/16 £'000	2014/15 £'000
Pensions	(35,793)	(33,772)
Commutation/lump sums	(9,526)	(6,196)
Death benefits	(1,365)	(844)
	(46,685)	**(40,812)**

	2015/16 £'000	2014/15 £'000
Administering Authority	(42,874)	(38,410)
Scheduled Bodies	(3,520)	(1,957)
Admitted Bodies	(292)	(445)
	(46,686)	**(40,812)**

NOTE 8 – MANAGEMENT EXPENSES

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

	2015/16 £'000	2014/15 £'000
Administration Expenses	631	872
Oversight and Governance*	328	389
Investment Management Expenses (1)	3,016	2,653
	3,975	**3,914**

*Includes external audit fees of £21,000 (£21,000 in 2014/15)

(1) Investment management expenses have increased by £495,000 in 2015/16 as a result of implementing CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs*. Investment management costs are further analysed below.

	2015/16	2014/15
	£'000	£'000
Management fees	2,808	2,486
Performance fees (2)	54	
Custody fees	148	148
Transaction costs	6	19
	3,016	**2,653**

(2) Performance element of fees not separately analysed in 2014/15.

NOTE 9 - INVESTMENT INCOME

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

	2015/16	2014/15
	£'000	£'000
Fixed interest securities	11,740	12,087
Equity dividends	18,648	18,132
Pooled investments	2,566	2,110
Interest and cash deposits	15	23
Investment income	**32,969**	**32,352**
Other income	44	91
Total before taxes	**33,013**	**32,443**
Taxes on income	(1,568)	(1,417)
Total	**31,445**	**31,026**

NOTE 10 – INVESTMENT MANAGEMENT ARRANGEMENTS

The market value and proportion of investments managed by each fund manager at 31 March 2016 is shown below:

Fund Manager	Mandate	31 March 2016 Market Value £'000	%	31 March 2015 Market Value £'000	%
Lazard	Global Equity (Active)	63,143	7%	-	
Lazard	UK Equity (Active)	265,147	28%	360,750	38%
Lazard	**Sub-Total**	**328,290**	**35%**	**360,750**	**38%**
RCM/Alliancz	Global Equities (active)	-		285,683	30%
RCM/Alliancz	London CIV	278,376	30%	-	
RCM/Alliancz	**Sub-Total**	**278,376**	**30%**	**285,683**	**30%**
Royal London	Pooled equities (UK and Europe)	11,658	1%	-	
Royal London	Fixed Interest	229,771	24%	247,288	26%
Royal London	**Sub-Total**	**241,429**	**25%**	**247,288**	**26%**
Lothbury	UK Property	37,329	4%	34,803	3%
Hermes	UK Property	25,460	3%	25,945	2%
Standard Life	UK Property	27,698	3%	5,346	1%
Property	**Sub-Total**	**90,487**	**10%**	**66,094**	**6%**
	Total	**938,582**	**100%**	**959,815**	**100%**

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

Only one individual investment in 2015/16 exceeded 5% of total net assets. This was the Fund's investment in the London LGPS CIV Global Equity Alpha Fund held by Allianz/RCM. This investment was valued at £278.3m at 31 March 2016, representing 30% of the total Fund.

The Fund also held directly owned cash investments totalling £12.1m at 31 March 2016. These are not invested via Fund Managers and therefore not included in the analysis above. None of these cash investments exceeded the 5% threshold at 31 March 2016.

NOTE 11 – RECONCILIATION IN MOVEMENT IN INVESTMENTS

2015/16	Market value 1 April 2015	Restate opening balance	Purchases during the year	Sales during the year	Change in market value during the year	Market value 31 March 2016
	£'000		£'000	£'000	£'000	£'000
Fixed interest securities	233,618		36,136	(33,413)	(11,022)	225,319
Equities	629,785		300,002	(572,445)	(37,437)	319,905
Pooled property investments	77,987		477,034	(189,136)	5,876	371,761
Cash	23,559	(23,523)	23	(59)	0	0
Forward FX	0		307	(99)	(208)	0
Total	**964,949**		**813,502**	**(795,152)**	**(42,791)**	**916,985**
Amounts receivable from sales of investments	11,402				23	7,559
Amounts payable for purchases of investments	(8,525)					
Cash incl Spot FX					746	26,139
Other investment liabilities						
Net investment assets	**967,826**				**(42,022)**	**950,683**

2014/15	Market value 1 April 2014	Purchases during the year	Sales during the year	Change in market value during the	Market value 31 March 2015
	£'000	£'000	£'000	£'000	£'000
Fixed interest securities	220,839	33,862	(39,438)	18,355	233,618
Equities	590,172	224,308	(236,030)	51,335	629,785
Pooled investments	20,475	57,944	(6,012)	5,580	77,987
Cash	30,764	787,469	(794,529)	(145)	23,559
Total	**862,250**	**1,103,583**	**(1,076,009)**	**75,125**	**964,949**
Receivable from sales	7,703				11,402
Payable for purchases	(2,062)				(8,525)
Net investment assets	**867,891**			**75,125**	**967,826**

NOTE 12a - CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

	31 March 2016			31 March 2015		
	Fair value through profit & loss	Loans & receivables	Financial liabilities at amortised cost	Fair value through profit & loss	Loans & receivables	Financial liabilities at amortised cost
	£'000	£'000	£'000	£'000	£'000	£'000
<u>Investment Assets</u>						
Fixed interest securities						
UK Public sector	15,330	-	-	2,863	-	-
UK Corporate	209,989	-	-	230,755	-	-
Quoted equities						
UK	263,376	-	-	343,832	-	-
Overseas	56,529	-	-	285,953	-	-
Pooled investment vehicles						
Property	89,290	-	-	65,736	-	-
Fixed Interest	-	-	-	8,894	-	-
Equity - UK	285,727	-	-		-	-
Equity - Overseas	9,729	-	-	3,357	-	-
Cash Instruments						
Cash deposits	-	13,155	-	15,890	7,669	-
Accrued income	-	7,559	-	-	11,402	-
Total investment assets	**929,970**	**20,714**	**-**	**957,280**	**19,071**	**-**
<u>Investment Liabilities</u>						**(8,525)**
Net Investment assets	**929,970**	**20,714**	**-**	**957,280**	**19,071**	**(8,525)**
<u>Other financial assets</u>						
Contributions Due	-	1,198	-	-	444	-
Other debtors and prepayments	-	247	-	-	90	-
Cash held by the Pension Fund	-	3,020	-	-	-	-
	929,970	**25,179**	**-**	**957,280**	**19,605**	**(8,525)**
<u>Financial Liabilities</u>						
Creditors			(1,552)	-	-	(864)
	-	**-**	**(1,552)**	**-**	**-**	**(864)**
Total	**929,970**	**25,179**	**(1,552)**	**957,280**	**19,605**	**(9,389)**
Grand Total		**953,597**			**967,496**	

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

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

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

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

Level 3 – where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, neither of which the Fund currently invests in.

The Fund considers that pooled investments should be classified as level 2 as these instruments are less frequently traded and prices for the underlying assets are derived from independent valuation techniques. All other assets, which comprise quoted shares or fixed interest equities, have been valued at level 1.

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

	31 March 2016			31 March 2015		
	Quoted market price	Using observable inputs	With significant unobservable inputs	Quoted market price	Using observable inputs	With significant unobservable inputs
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	£'000	£'000	£'000	£'000	£'000	£'000
Financial Assets						
Designated at fair value through profit and loss	545,224	384,746		879,293	77,987	-
Financial Liabilities						
Designated at fair value through profit and loss					-	-
	545,224	**384,746**	**0**	**879,293**	**77,987**	**0**
Grand Total		**929,970**			**957,280**	

13 – NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

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

	31 March 2016 £'000	31 March 2015 £'000
Financial Assets		
Designated at fair value through profit and loss	(42,791)	75,125
Loans and receivables	769	-
	(42,022)	**75,125**
Financial Liabilities		
Designated at fair value through profit and loss	-	-
Financial liabilities at amortised cost	-	-
	0	**0**
Total	**(42,022)**	**75,125**

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

Risk and Risk Management

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

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

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

Market Risk

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

To mitigate market risk, the Panel and its investment advisors undertake regular monitoring of market conditions and benchmark analysis.

Price Risk

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices other than those arising from interest rate risk or foreign exchange risk, whether those changes are caused by factors specific to the individual instrument or its issuer or by factors affecting all similar instruments in the market.

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

The following table demonstrates the change in the net assets available to pay benefits if the market price had increased or decreased by 10%. The analysis excludes cash, debtors, creditors, and non-equity investment balances as these financial instruments are not subject to price risk.

Assets exposed to price risk	Value	Value on 10% price increase	Value on 10% price decrease
	£'000	£'000	£'000
As at 31 March 2016	929,970	1,022,967	836,973
As at 31 March 2015	941,390	1,035,529	847,251

Interest Rate Risk

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

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

Assets exposed to interest rate risk	Value	Value on 1% price increase	Value on 1% price decrease
	£'000	£'000	£'000
As at 31 March 2016	238,474	240,859	236,089
As at 31 March 2015	257,177	259,749	254,605

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than Sterling but diversifies this risk by investing in securities in multiple currencies. The Pension Fund Panel recognises that a strengthening or weakening of the pound against the various currencies in which the Fund holds investments would increase or decrease the net assets available to pay benefits accordingly.

The Fund does not hedge against currency risk on a long-term basis, as the movements in foreign exchange rates can lead to losses as well as gains but overseas equities, fixed interest securities, cash in foreign currencies, and some elements of the pooled investment vehicles are exposed to currency risk. Typically about 30% of the Fund is denominated in foreign currencies but fixed interest security mandates are restricted to a maximum of 10% holdings in non-sterling investments.

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

Assets exposed to currency risk	Value	Value on 10% foreign exchange rate increase	Value on 10% foreign exchange rate decrease
	£'000	£'000	£'000
As at 31 March 2016	66,258	72,884	59,632
As at 31 March 2015	289,310	318,241	260,379

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss.

The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The selection of high quality fund managers, counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner. The Fund sets both maximum investment limits and minimum credit rating limits

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

The Fund has no financial assets past their due date as at 31 March 2016 and has not identified any events or conditions to date that would suggest that any impairment or provision in respect of credit risk is required.

Liquidity Risk

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

NOTE 15 – CURRENT ASSETS

	31 March 2016	31 March 2015
	£'000	£'000
Debtors:		
Contributions due - employers	881	444
Contributions due - employees	317	-
Sundry debtors and payments in advance	247	90
	1,445	**534**
Cash balances - Lloyds Bank	3,020	-
	4,465	**534**

Analysis of debtors	31 March 2016	31 March 2015
	£'000	£'000
Central government bodies	150	-
Local authorities	247	128
Other entities and individuals	1,048	406
	1,445	**534**

NOTE 16 – CURRENT LIABILITIES

	31 March 2016	31 March 2015
	£'000	£'000
Unpaid benefits	(946)	(213)
Sundry creditors and accrued expenses	(606)	(651)
Total	**(1,552)**	**(864)**

Analysis of creditors	31 March 2016	31 March 2015
	£'000	£'000
Central government bodies	-	(100)
Local authorities	(67)	(7)
Other entities and individuals	(1,485)	(757)
Total	**(1,552)**	**(864)**

NOTE 17 – ADDITIONAL VOLUNTARY CONTRIBUTIONS

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

	Contributions 2015/16	Market Value 2015/16	Contributions 2014/15	Market Value 2014/15
	£'000	£'000	£'000	£'000
Scottish Widows (as at 31 March 2016)	56	591	69	750
Equitable Life (as at 31 October 2015)	2	240	2	255
Total	**58**	**831**	**71**	**1,005**

NOTE 18 – RELATED PARTY TRANSACTIONS

The Fund is administered by the London Borough of Ealing (the Council). In 2015/16 the Council charged the pension fund £762,000 for expenses incurred in administering the Fund (2014/15: £0.8m).

The cash balance held by the Council on behalf of the Pension Fund was £12.1m at 31 March 2016 (£1.6m at 31 March 2015). This balance has since been settled, £10m on the 03 May 2016 and £2m on the 17 June 2016.

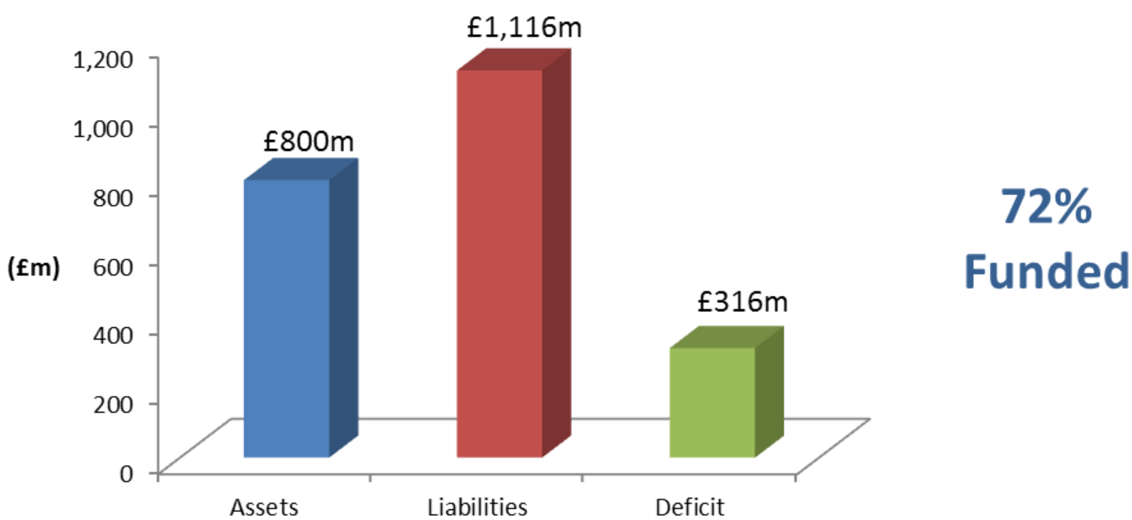
LONDON BOROUGH OF EALING PENSION FUND

Accounts for the year ended 31 March 2016 - 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 allowed for the new LGPS benefit structure which became 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 2016 (the 31 March 2015 assumptions are included for comparison):

	31 March 2015	31 March 2016
Rate of return on investments (discount rate)	3.2% per annum	3.5% per annum
Rate of pay increases*	3.75% per annum	3.75% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% per annum	2.0% 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 rose, resulting in a higher discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (3.5% p.a. versus 3.2% p.a.). There was no change in the expected long-term rate of CPI inflation during the year, resulting in the same assumption for pension increases at the year-end as at the beginning of the year (2.0% p.a).

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2015 was estimated as £1,439 million. The effect of the changes in actuarial assumptions between 31 March 2015 and 31 March 2016 as described above is to decrease the liabilities by c£88 million. Adding interest over the year increases the liabilities by c£46 million, and allowing for net benefits accrued/paid over the period increases the liabilities by a further c£1 million (including any increase in liabilities arising as a result of early retirements/augmentations).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2016 is therefore £1,398 million.

Ian Kirk
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
June 2016

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 58 of the Local Government Pension Scheme (Administration) Regulations 2013 and the guidance papers issued in March 2004 and November 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

1. INTRODUCTION

The Local Government Pension Scheme) (Administration) Regulations 2013 (as amended) ("the Administration Regulations") provide the statutory framework from which the Administering Authority is required to prepare a FSS. 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 58 of the Local Government Pension Scheme Regulations 2013;

- 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 Regulations 2013). Changes to the benefits under the Scheme took place from April 2014. The required levels of employee contributions are also specified in the Regulations.

Employer contributions are determined in accordance with the Administration Regulations 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.

2. PURPOSE OF THE FSS IN POLICY TERMS

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

The 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.

3. 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 (Administration) Regulations 2008 (as amended), the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended), the 2013 Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

4. 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 FSS/SIP.

The Individual Employer should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- 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,
- advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the SIP.

5. SOLVENCY ISSUES AND TARGET FUNDING LEVELS

Funding Objective

To meet the requirements of the Regulations the Administering Authority's long-term funding objective is 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. In the long term, the employer rate would ultimately revert to the Future Service Rate

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 Appendix 1.

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.

This allows us to take a longer term view when assessing the contribution requirements for certain employers. As part of this valuation when looking to potentially stabilise contribution requirements we will consider whether we can build into the funding plan the following:-

- some allowance for interest rates and bond yields to revert to higher levels over the medium to long term; and
- whether some allowance for increased investment return can be built into the funding plan over the agreed recovery period.

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful.

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, following a principle of no cross-subsidy between the distinct 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 2013 actuarial valuation:

- In the current circumstances, as a general rule, the Fund does not believe it appropriate for deficit contribution reductions to apply compared to the 2010 funding plan where substantial deficits remain.

- In addition, a maximum deficit recovery period of 17 years will apply. 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).

- For any employers assessed to be in surplus, their individual contribution requirements will be adjusted to such an extent that any surplus is used (ie run-off) over a 17 year period (if surpluses are sufficiently large, contribution requirements will be set to a minimum nil total amount). The current level of contributions will be phased down as appropriate.

- The employer contributions will be expressed and certified as two separate elements:
  - a percentage of pensionable payroll in respect of the future accrual of benefit
  - a schedule of lump sum amounts over 2014/17 in respect of the past service deficit subject to the review from April 2017 based on the results of the 2016 actuarial valuation.

- Where increases in employer contributions are required from 1 April 2014, following completion of the 2013 actuarial valuation, the increase from the rates of contribution payable in the year 2013/14 may be implemented in steps, over a maximum period of 3 years. Any employers considering this option should discuss it with officers of the Council in the first instance.

- 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. The termination policy for the Fund is currently under review.

In determining the above objectives the Administering Authority has had regard to:

- the responses made to the consultation with employers on the FSS principles
- relevant guidance issued by the CIPFA Pensions Panel
- 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, and
- the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

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.

Additional contributions will be expressed as annual monetary lump sums, subject to review based on the results of each actuarial valuation.

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

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

In certain instances, and in particular for Fund 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 interest rates and bond yields to revert to higher levels over a period of 10 years. It is envisaged that this option will only be afforded to eligible employers where an increase in contributions is required (compared to the projected 2014/15 level of contribution) when adopting the maximum 17 year recovery period. The assumptions to be used in these Recovery Plan calculations are set out in Appendix 2.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore, after specific agreement has been obtained by Fund Officers from the LBE Pension Fund Panel, would be willing to use its discretion to negotiate an **evidence based** affordable level of contributions for the organisation for the three years 2014/17. Any application of this option is at the ultimate discretion of the Administering Authority and will only be considered after the provision of the appropriate evidence.

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 Appendix 1.

Pooling

In certain instances, there will be employers in the Fund who will be pooled with Ealing Council for determining contributions payable following the valuation. Those employers who are pooled with the Council will typically be either post-coalition academies, who will have formally signed up to pooling with the Council following conversion, or transferee admission bodies, for whom the admission agreement will set out the mechanics by which contribution rates are to be determined.

6. LINK TO INVESTMENT POLICY SET OUT IN THE STATEMENT OF INVESTMENT PRINCIPLES (See Appendix 3)

The results of the 2013 valuation show the liabilities to be 72% covered by the current assets, with the funding deficit of 28% being covered by future deficit contributions.

In assessing the value of the LBEPF's liabilities above, allowance has been made for asset out-performance as described in Appendix 1, 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.

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 current benchmark investment strategy, as set out in the SIP, is:

Asset Class (Summary)		%
	Equities	65.0
	Property	10.0
	Corporate Bonds	25.0
	TOTAL	**100.0**

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	UK Corporate Bonds	25%	ML Sterling Non-Gilts	Up to 3%	1.0%pa

Management			(TR)		
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%**	

The funding strategy adopted for the 2013 valuation is based on an assumed asset out-performance of 1.4% per annum.

7. 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 Appendices and 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 (or return seeking) based strategy, so that actual asset out-performance between successive valuations could diverge significantly from the overall out performance assumed in the long term.

What are the 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 retirements (including those granted on the grounds of ill health)

Insurance of certain benefits

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

Regulatory

- Further 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.
- Changes in Panel membership.

8. 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.

Bridget Uku
Treasury and Investments Group Manager
Ealing Council as administering authority for the London Borough of Ealing Pension Fund

APPENDIX 1

ACTUARIAL VALUATION AS AT 31 MARCH 2013

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 ageing 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") 1.4% per annum.

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.

Inflation (Consumer Prices Index)

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

- an allowance for supply/demand distortions in the bond market is incorporated, and

- due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index, The overall reduction to RPI inflation at the valuation date is [1.0]% per annum.

Salary increases

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. In addition to the long term salary increase assumption, at the discretion of the administering authority and based on evidence provided by employers, allowance has been made for expected short / medium term pay restraint for certain employers of 1% per annum for 3 years followed by Inflation (CPI) for 3 years before reverting to the long-term assumption. For other employers in the Fund, allowance will be made for short-term pay restraint only of 1% p.a. for 3 years only.

Pension increases/Indexation of CARE benefits

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

Demographic assumptions

Mortality

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

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

Commutation

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

Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the incidence of retirement in normal health and in ill health and the proportions married/civil partnership assumption have been modified from the last valuation.

Expenses

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

Discretionary Benefits

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

Method and assumptions used in calculating the cost of future accrual

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 3.0% per annum, with a long term average assumption for consumer price inflation of 2.6% per annum. These two assumptions give rise to an overall discount rate of 5.6% p.a (i.e. 3.0% plus 2.6%).

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. In market conditions at the effective date of the 2013 valuation this approach gives rise to a slightly 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 2013 actuarial valuation

Long-term gilt yields	
Fixed interest	3.2% p.a.
Index linked	-0.4% p.a.
Past service Funding Target financial assumptions	
Investment return/Discount Rate	4.6% p.a.
CPI price inflation	2.6% p.a.
Long Term Salary increases*	4.35% p.a.
Pension increases/indexation of CARE benefits	2.6% p.a.
Future service accrual financial assumptions	
Investment return	5.6% p.a.
CPI price inflation	2.6% p.a.
Long Term Salary increases*	4.35% p.a.
Pension increases/indexation of CARE benefits	2.6% p.a.

* a short/medium pay adjustment will also be made if appropriate

Demographic assumptions

The post retirement mortality tables adopted for this valuation are as follows:

Life expectancy at 65 in 2013		Base table	Adjustment	Improvement model	Long term rate
CURRENT ANNUITANTS	Normal health	S1PxA	105% / 101%	CMI_2012	1.5%
	Ill health	S1PxA	Normal health + 3 years	CMI_2012	1.5%
	Dependants	S1PMA/S1DFA	177% / 120%	CMI_2012	1.5%
	Future dependants	S1PMA/S1DFA	114% / 105%	CMI_2012	1.5%
CURRENT ACTIVES / DEFERREDS	Actives normal health	S1PxA	105% / 101%	CMI_2012	1.5%
	Actives ill health	S1PxA	Normal health + 4 years	CMI_2012	1.5%
	Deferreds	S1PxA	105% / 101%	CMI_2012	1.5%
	Future dependants	S1PMA/S1DFA	114% / 105%	CMI_2012	1.5%

Other demographic assumptions are noted below:

Withdrawal	As for 2010 valuation
Other demographics	Based on LG scheme specific experience.

APPENDIX 2

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 which are considered by the Administering Authority to provide a high level of financial covenant and are required to increase contributions (compared to the 2014/15 levels that would have been payable under the previous funding plan), an allowance may be made as part of the recovery plan for interest rates and bond yields to revert to higher levels over a period of 10 years.

In isolation, the effect of this increase in yields is to reduce the funding deficit by primarily lowering the value of the fund's liabilities over time, thus reducing the level of deficit contributions required by the employer during the recovery period.

Increases in yields on fixed and index linked gilts

A maximum increase in fixed and index linked gilt yields of 0.4% p.a. reflecting expected increases in gilt yields over a 10 year period.

As indicated above, this variation to the 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 increased gilt yields 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 impact of the anticipated increases in gilt yields will be limited so that the total employer contributions emerging from the valuation will be no less the 2014/15 levels that would have been payable under the previous funding plan unless agreed with the Administering Authority.

STATEMENT OF INVESTMENT PRINCIPLES

Introduction

The Local Government Pension Scheme (LGPS) Regulations 2013 (Regulation 57 (1)(i)) 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 seven Councillors, two non-voting Trade Union representatives and one non-voting scheme employer representative, 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 provided benefits related to final salary prior to 1st April 2014, and now has become a career averaged earnings from 1st April 2014 onwards. Each member’s main benefits are specified in terms of a formula based on salary and service and are unaffected by the investment return achieved on the assets. There are some discretionary benefits, which can be agreed by the Council but these additional benefits will be considered in the light of the overall level of funding in the 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 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 or 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 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 six specialist mandates, (three of which being UK commercial pooled property funds). 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. The funding level at the last triennial valuation in March 2013was 72%. 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 fully funded by the end of 2015.

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 scheme 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 our 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.**

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

Communications Objectives

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

Stakeholders

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

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

Policy

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

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

Scheme members:

- Active Scheme members are communicated with through newsletters, intranet, monthly 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 LPFA, 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 LPFA, the 3rd party administrators. Deferred members are also invited to the Annual General Meeting.
- In addition, the PFP reports and minutes, and the pension fund annual report and accounts are available on the Council's website www.ealing.gov.uk

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

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

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

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

Review of this Communications Statement

The Treasury and Investments Manager, in consultation with HR, will review this Statement and approved by the Director of 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.

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.

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

Securities
Investments in company shares, 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.