

# London Borough of Ealing Pension Fund Annual Report & Accounts

2016/17

EALING COUNCIL

## CONTENTS

|  |     |
|--|-----|
| CHAIR'S STATEMENT.....                           | 3   |
| PENSION BOARD ANNUAL REPORT.....                 | 5   |
| HIGHLIGHTS 2016-17.....                          | 8   |
| MANAGEMENT STRUCTURE.....                        | 8   |
| PENSION FUND PANEL.....                          | 9   |
| STAFF, ADVISERS AND INVESTMENT MANAGERS .....    | 10  |
| THE SCHEME .....                                 | 12  |
| SCHEME EMPLOYERS .....                           | 14  |
| MEMBERSHIP OF THE FUND.....                      | 14  |
| BUDGETARY ESTIMATE REVIEW.....                   | 15  |
| RISK MANAGEMENT .....                            | 17  |
| INVESTMENT REVIEW.....                           | 19  |
| ADMINISTRATION .....                             | 24  |
| STATEMENT OF RESPONSIBILITIES .....              | 28  |
| AUDIT OPINION.....                               | 29  |
| GOVERNANCE POLICY AND COMPLIANCE STATEMENT ..... | 30  |
| PENSION FUND ACCOUNTS.....                       | 35  |
| FUNDING STRATEGY STATEMENT.....                  | 59  |
| INVESTMENT STRATEGY STATEMENT.....               | 85  |
| COMMUNICATIONS POLICY STATEMENT.....             | 100 |
| GLOSSARY .....                                   | 102 |

## CHAIR'S STATEMENT



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

I am delighted to once again introduce the London Borough of Ealing's Pension Fund annual report for the year ending 31 March 2017.

We manage your Local Government Pension Scheme (LGPS), which is a statutory funded scheme meaning that 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 your contributions are currently fixed nationally therefore any funding shortfall has to be met by the assets growing faster or the Council increasing their contribution. Although your benefits are guaranteed by statute, the government may in future require scheme members to either increase contributions or alter the benefit structure in order to meet any funding shortfall above a specified limit. Our Fund's assets grew by 20.2% from £953.6 million to £1.15 billion and remains in a good financial position having increased by over £190 million during 2016/17 and surpassing the £1 billion mark for the first time.

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. This was a key year when we worked with the scheme actuary responsible for carrying out the Fund's triennial valuation. This involves the financial health of the Fund being reviewed to establish both its funding level and how well placed the scheme is to meet its future liabilities based on the plan that we have put in place to achieve full funding over a specified duration, ours being 17 years. The review was completed on time and indicates that the Fund's assets were sufficient to cover 80% of its liabilities as at 31 March 2016, up from 72% in 2013.

The triennial valuation involves collating key data on the Scheme's assets and liabilities and informs the strategic review of the Fund's investments. Members are currently reviewing the range and mix of investment options to achieve the optimal risk return strategy to ensure the ongoing affordability of the scheme.

Collaborating across LGPS schemes, knowledge improvement and resource sharing to reduce scheme cost remained high up on our agenda. I 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 which led to the creation of the London CIV. The Fund has representation on the London CIV Investment Advisory Committee and I sit on its Sectoral Joint Committee and also chair the London CIV's Member Stewardship Working Group. The Stewardship Group is responsible for championing the London's CIV approach to and provision of solutions for the boroughs to promote sustainable investments.

The Panel continues to pay due regard to responsible investment. The Fund engages with companies in which we invest via the Local Authority Pension Fund Forum (LAPFF). I've recently been appointed as an executive member of the LAPFF which was formed out of a collaboration of Local authorities Funds specifically to engage with individual companies across a wide range of issues such as climate change, employment standards executive remuneration etc. I look forward to being able to contribute to the work of the LAPFF and will continue advocating our long standing commitment to robust engagement.

We review our governance arrangements on an ongoing basis and strive to offer and maintain a quality scheme and service to scheme members. 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.

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

We will 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 keep you updated of proposed changes to the scheme through various communication channels including our website, newsletters and our annual general meeting. The Annual General Meeting took place on the 17 March 2017 and lined up some excellent speakers. Feedback from those who attended was very good and next year we will once again be holding the surgeries where members can attend one to one meetings.

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

Do 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 2016-17

## Purpose of the Report

To provide an update on the work undertaken by the Local Pensions Board during 2016-2017 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 2016 /17

| Member Representatives | Designation   | Employer Representatives | Designation   |
|------------------------|---|--------------------------|---|
| Ian Potts (Chair)      | <i>Ealing Pensioner and former elected member and sat on the Pension Fund Panel for several years</i> | Cllr. Dr Sarfraz Khan    | <i>Elected Member</i>   |
| Mary Lancaster         | <i>Unison Official</i>  | Richard Lane             | <i>Director of Finance and Operations (Twyford Academies Trust)</i> |

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 2017 and all meetings were quorate.

- 30 June 2016
- 06 September 2016
- 24 November 2016
- 16 March 2017

## 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 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 ongoing operation of the Board has been minimal, having been incorporated within existing officer workloads. There was some spend incurred on external training which was contained within the total budget.

The Board has not commissioned any external consultants however there has been some expenditure on training as follows:

- Triennial Valuation – Internal training and update provided by the Fund's Actuary.
- Cipfa Training – Local Pension Board

## **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 continue to review 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 and the board have asked officers to attach weightings to likelihood and impact of the various risks.

### **Externalities**

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

### **Pensions Regulator**

Whilst it is generally felt that the LGPS is comparatively well governed, 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. The board has been kept updated on the progress of production and dispatch of the annual benefit statements which are expected to meet the statutory deadline of 31 August 2017.

### **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 was not highlighted as failing.

### **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 meetings are the same as the Pension Fund Panel, but the board can request specific reports for their own review. The board requested that a quarterly compliance checklist is provided for review and no breaches have been escalated for the attention of the regulator.

The board were kept updated and involved with the triennial valuation process and received training and updated from the board actuary.

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

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

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

### **Appreciation**

The Chair of the Ealing Pension Board wishes to thank his fellow Board members who have volunteered their time and energies towards 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 2016/17

- The value of the Fund rose from £953.6m to £1,146.5m the end of the financial year; an increase of 20.2%.
- 66% of assets under management are held in equities, 24% in corporate bonds, and 10% in UK pooled property funds.
- Overall in 2016/17 the scheme again remained cash flow positive (when investment income is included), with income to the scheme (contributions and investment income) at £88.7m, 71.0% more than the outgoings of £51.9m, enabling the Council to invest sensibly for the longer term without worrying about short term market movements.
- The triennial valuation was successfully completed and the review showed that as at 31 March 2016, the Fund's assets were sufficient to cover 80% of its liabilities, up from 72% as at 31 March 2013.

## 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 2016/17                  | 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 (Deputy Chair)       | 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 2016/17

| 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  |
|--|---|--|
| <b>Ealing Officers:</b>                    |   | 0208 825 5000  |
| Executive Director,<br>Corporate Resources | Ian O'Donnell   | Perceval House<br>14-16 Uxbridge Road<br>London W5 2HL   |
| Director of Finance                        | Ross Brown  | Perceval House<br>14-16 Uxbridge Road<br>London W5 2HL   |
| Group Manager, Treasury &<br>Investments   | Bridget Uku   | Perceval House<br>14-16 Uxbridge Road<br>London W5 2HL   |
| <b>Consulting Actuaries:</b>               |   |  |
| Mercer                                     | Ian Kirk  | 1 Tower Place West<br>Tower Place<br>London EC3R 5BU   |
| <b>Auditors:</b>                           |   |  |
| KPMG                                       | Steve Lucas   | 12 <sup>th</sup> Floor,<br>15 Canada Square,<br>Canary Wharf, London   |
| <b>Legal Advisers:</b>                     |   |  |
| In-House Team                              | Helen Harris –<br>Director of Legal<br>and Democratic<br>Services | Perceval House<br>14-16 Uxbridge Road<br>London W5 2HL   |
| <b>Pension Administration Services:</b>    |   |  |
| In-House Team                              | Jenny Connet –<br>Pensions Manager                                | Perceval House<br>14-16 Uxbridge Road<br>London W5 2HL   |
| London Pensions Fund Authority<br>(LPFA)   | Ealing Pension<br>Team  | Dexter House<br>2 <sup>nd</sup> Floor, 169 Union Street<br>London, SE1 0LL   |
| <b>Custodian:</b>                          |   |  |
| BNY Mellon                                 | Jeremy Shaw   | BNY Mellon Asset Servicing UK<br>Pension Team<br>3 <sup>rd</sup> Floor, 160 Queen Victoria Street<br>London EC4V 4LA |
| <b>Investment Managers:</b>                |   |  |

| <b>Company Name</b>  | <b>Contact</b>    | <b>Contact Details</b>  |
|--|-------------------|---|
| Lazard – UK Equity Mandate   | Louisa Vincent    | 50 Stratton Street<br>London W1J 8LL  |
| Allianz – Global Equity Mandate  | Michelle Bailey   | 155 Bishopsgate<br>London EC2M 3AD  |
| RLAM – UK Corporate Bond Mandate   | Robert Nicholson  | 55 Gracechurch Street<br>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  |
| <b>Performance Measurement Services:</b>   |                   |   |
| BNY Mellon   | Matthew Flackett  | 1 Whitehall Riverside, Leeds, LS1 4BN   |
| PIRC LIMITED   | Karen Thrumble    | PIRC LIMITED, Exchange Tower, London E14 9GE  |
| <b>Pension Body Membership:</b>  |                   |   |
| National Association of Pension Funds - represents the interests of the occupational pensions movement, organises conferences and training programs for members. | n/a               | Cheapside House<br>138 Cheapside<br>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: <a href="mailto:David.Sellors@lapfforum.org">David.Sellors@lapfforum.org</a><br>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 1<sup>st</sup> April 2014. Details of these changes are highlighted on the next page.

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

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

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

The pay bands and the rates that applied from April 2016 to March 2017 were:

| Full-time Pensionable Pay | % Contribution Main Scheme | % Contribution 50/50 |
|---------------------------|----------------------------|----------------------|
| £0 to £13,600             | 5.5%                       | 2.75%                |
| £13,601 to £21,200        | 5.8%                       | 2.90%                |
| £21,201 to £34,400        | 6.5%                       | 3.25%                |
| £34,401 to £43,500        | 6.8%                       | 3.40%                |
| £43,501 to £60,700        | 8.5%                       | 4.25%                |
| £60,701 to £86,000        | 9.9%                       | 4.95%                |
| £86,001 to £101,200       | 10.5%                      | 5.25%                |
| £101,201 to £151,800      | 11.4%                      | 5.70%                |
| Over £151,801             | 12.5%                      | 6.25%                |

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 31 <sup>st</sup> 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 | <p>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).</p> <p>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.</p> |
| 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).   |

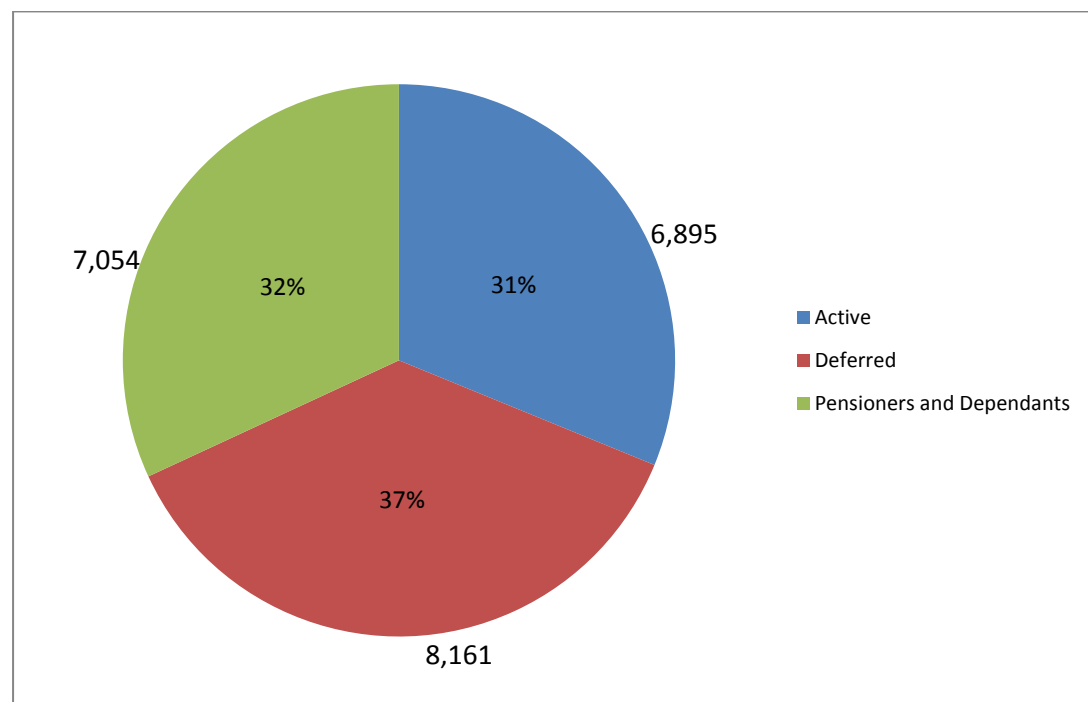
## SCHEME EMPLOYERS

The Pension Fund had 41 employers in the Fund during the financial year 2016/17, including the London Borough of Ealing. These employers in the Fund are listed in the section Accounting Policies and Notes to the Accounts.

## MEMBERSHIP OF THE FUND

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

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



Definitions:

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

## BUDGETARY ESTIMATE REVIEW

The Pension Fund Panel reviews the budgetary estimate for the Pension Fund on an annual basis. In the table below income and expenditure for 2015/16 and 2016/17 is shown together with the agreed budget for 2017/18:

|   | Actual<br>2015/16<br>£m | Forecast<br>2016/17<br>£m | Actual<br>2016/17<br>£m | Variance     |             | Budget*<br>2017/18<br>£m |
|---|-------------------------|---------------------------|-------------------------|--------------|-------------|--------------------------|
| <b>Income</b>   |                         |                           |                         |              |             |                          |
| Employer Contributions  | 36.9                    | 32.1                      | 38.3                    | 19%          | 6.2         | 38.7                     |
| Employee Contributions  | 9.7                     | 9.9                       | 10.0                    | 0%           | 0.0         | 9.9                      |
| Transfers In  | 2.5                     | 7.1                       | 9.1                     | 28%          | 2.0         | 4.0                      |
| <b>Total Income</b>   | <b>49.1</b>             | <b>49.1</b>               | <b>57.4</b>             | <b>17%</b>   | <b>8.3</b>  | <b>52.6</b>              |
| <b>Expenditure</b>  |                         |                           |                         |              |             |                          |
| Pensions  | 35.8                    | 36.8                      | 37.0                    | 0%           | 0.1         | 37.3                     |
| Lump sum retirement benefits                                      | 9.5                     | 7.9                       | 6.1                     | -23%         | -1.8        | 7.9                      |
| Lump sum death grants   | 1.4                     | 1.7                       | 1.1                     | -34%         | -0.6        | 0.9                      |
| Transfers out (inc. refunds)                                      | 1.7                     | 1.7                       | 3.6                     | 109%         | 1.9         | 1.7                      |
| Fund Management expenses  | 3.0                     | 3.1                       | 3.2                     | 4%           | 0.1         | 3.3                      |
| Administration expenses   | 1.0                     | 1.0                       | 0.9                     | -12%         | -0.1        | 1.1                      |
| <b>Total Expenditure</b>  | <b>52.4</b>             | <b>52.1</b>               | <b>51.9</b>             | <b>-1%</b>   | <b>-0.3</b> | <b>52.2</b>              |
| <b>Net Income/(Expenditure)</b>                                   |                         |                           |                         |              |             |                          |
|   | <b>(3.3)</b>            | <b>(3.0)</b>              | <b>5.6</b>              | <b>-285%</b> | <b>8.6</b>  | <b>0.4</b>               |
| <b>Investment Income generated by Fund Managers</b>               |                         |                           |                         |              |             |                          |
|   | 31.4                    | 28.7                      | 31.2                    | 9%           | 2.5         | 29.8                     |
| <b>Total Income (inclusive of income held with Fund Managers)</b> | <b>28.2</b>             | <b>16.8</b>               | <b>36.8</b>             | <b>119%</b>  | <b>20.0</b> | <b>30.2</b>              |

Overall the London Borough of Ealing Pension Fund achieved a net surplus for the year 2016/17 of £36.8m (£28.2m in 2015/16). This excludes the effect of the increase in market value of the Fund's investments which was £156.28m (£42.02m fall in 2015/16).

During 2016/17 non-investment income was enough to cover pension benefits and expenses. This trend is not expected to continue due to the rising cost of pension benefits and stagnating contribution levels. Current cash levels will be sufficient to meet forecasted pension obligations in 2017/18, so withdrawal of cash from investments may not be necessary.

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

A copy of the budgetary estimate report for 2017/18 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/5043/Committee/18/Default.aspx>

The Pension Fund Panel approved the 2017/18 budgetary estimate report on 16 March 2017.



## RISK MANAGEMENT

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

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

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

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

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

The key risks to the fund are:

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

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

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

## INVESTMENT REVIEW

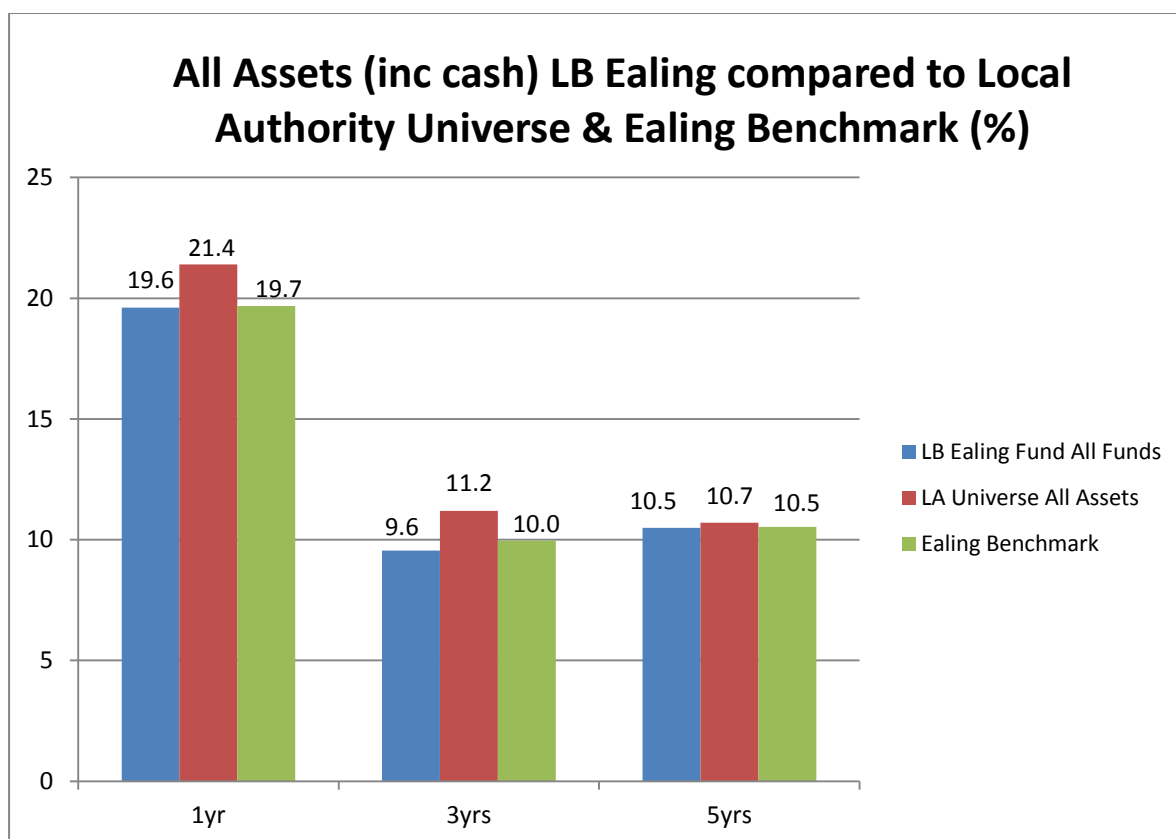
Over the last twelve months, the average Local Authority Pension Fund returned 21.4%. The strong performance has been driven by the excellent returns from equities which returned almost 30% for the year. The outperformance of benchmark indices by alternative assets was the key driver in the unusual statistic that more than three quarters of funds managed to outperform their benchmarks in the latest year.

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

### Performance of Fund

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

As set out in the graph below, the fund has returned 19.6% for 2016/17, and an average of 9.6% and 10.5% for the three years and five years respectively to 31 March 2017.



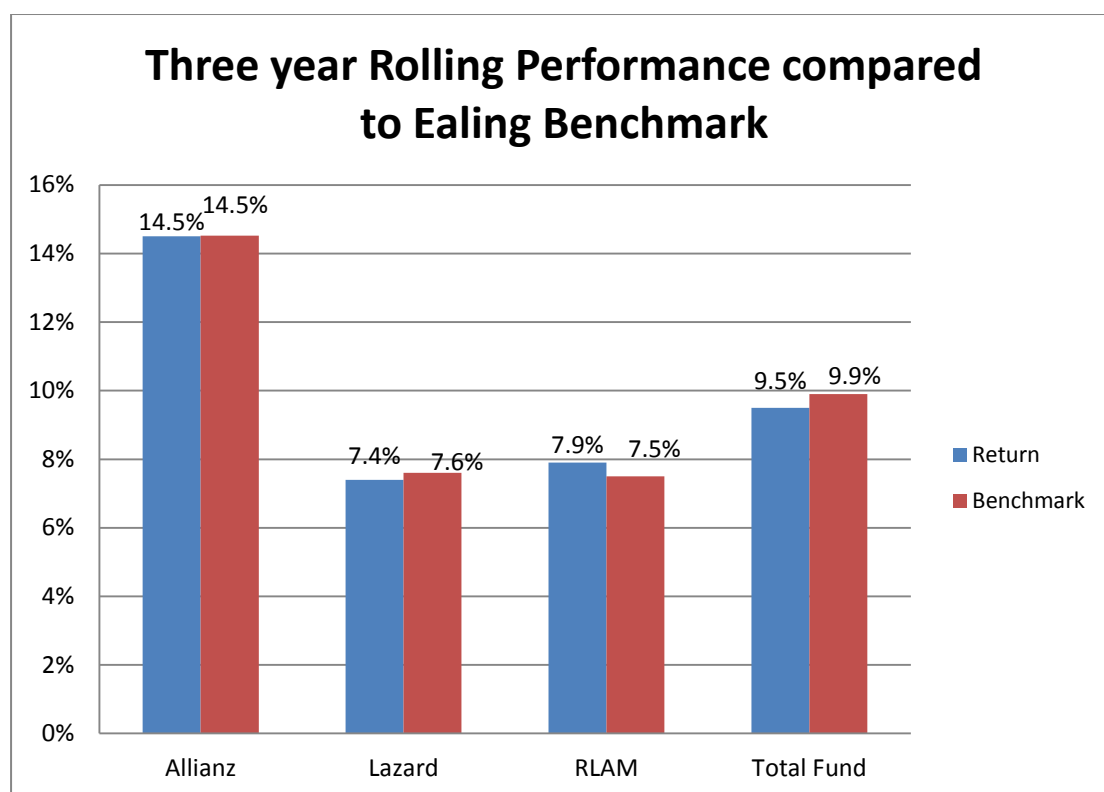
In 2016/17 the Ealing Fund return of 19.6% underperformed the benchmark of 19.7% with a relative return of -0.1%. It also underperformed the Local Authority Universe which achieved an average of 21.4%. This underperformance was mainly attributable to stock selection in the equity market. The table below details the performance for the year to March 2017 for each of the fund managers and the combined fund in relation to the Ealing Specific Benchmark.

|                    | Return                   | LB Ealing<br>Benchmark   | Relative<br>Performance* | Relative<br>Performance* |
|--------------------|--------------------------|--------------------------|--------------------------|--------------------------|
|                    | Year to 31<br>March 2017 | Year to 31<br>March 2017 | 2016/17                  | 2015/16                  |
|                    | %                        | %                        | %                        | %                        |
| Allianz            | 28.5                     | 31.9                     | -3.3                     | -2.1                     |
| Lazard             | 22.9                     | 21.9                     | 0.9                      | 2.2                      |
| RLAM               | 11.2                     | 9.3                      | 1.9                      | -0.7                     |
| Cash (In<br>House) | 0.5                      | 0.0                      | 0.6                      | -2.3                     |
| <b>Total Fund</b>  | <b>19.6</b>              | <b>19.7</b>              | <b>-0.1</b>              | <b>-1.8</b>              |

\*relative performance is a geometric not arithmetic calculation

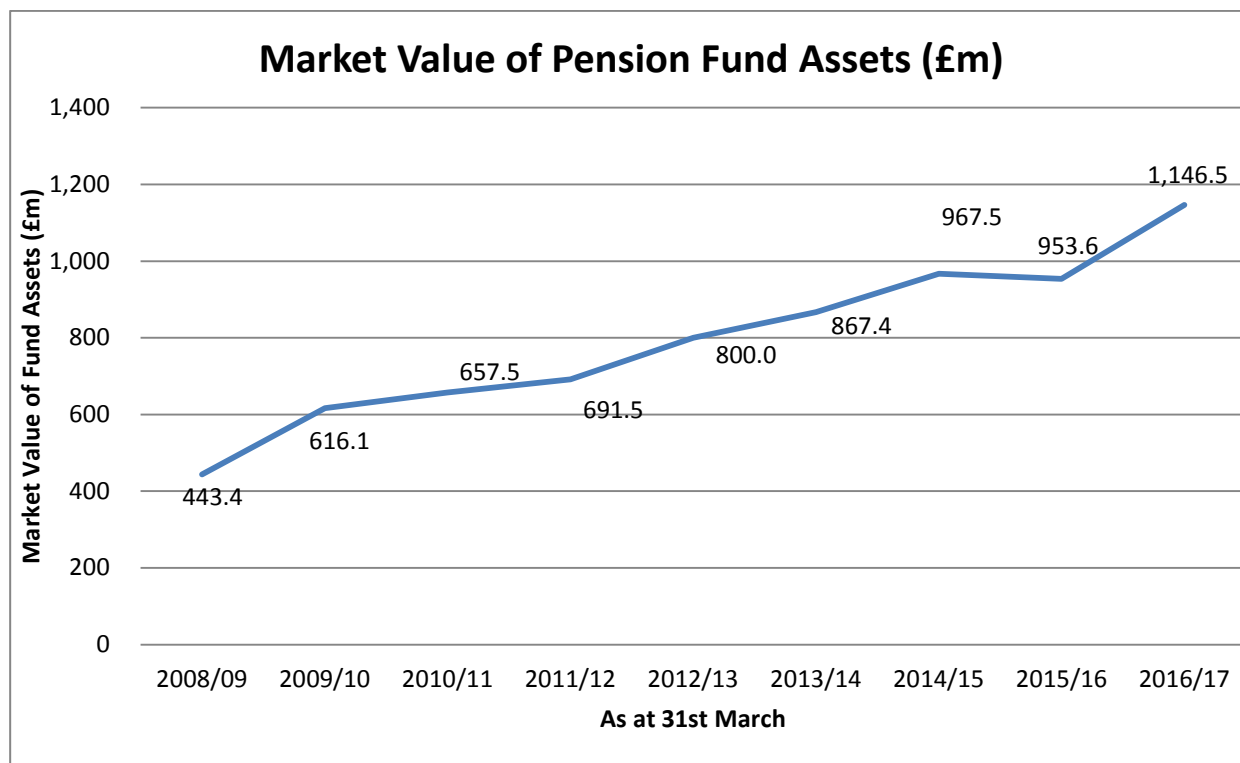
At the overall portfolio level, the Fund underperformed the composite benchmark return during the year 2016/17 by 0.06%.

Long-term 3 year rolling performance analysis of the fund managers to 31 March 2017 shows that all three have outperformed their benchmarks.



## Value of the Fund's Assets

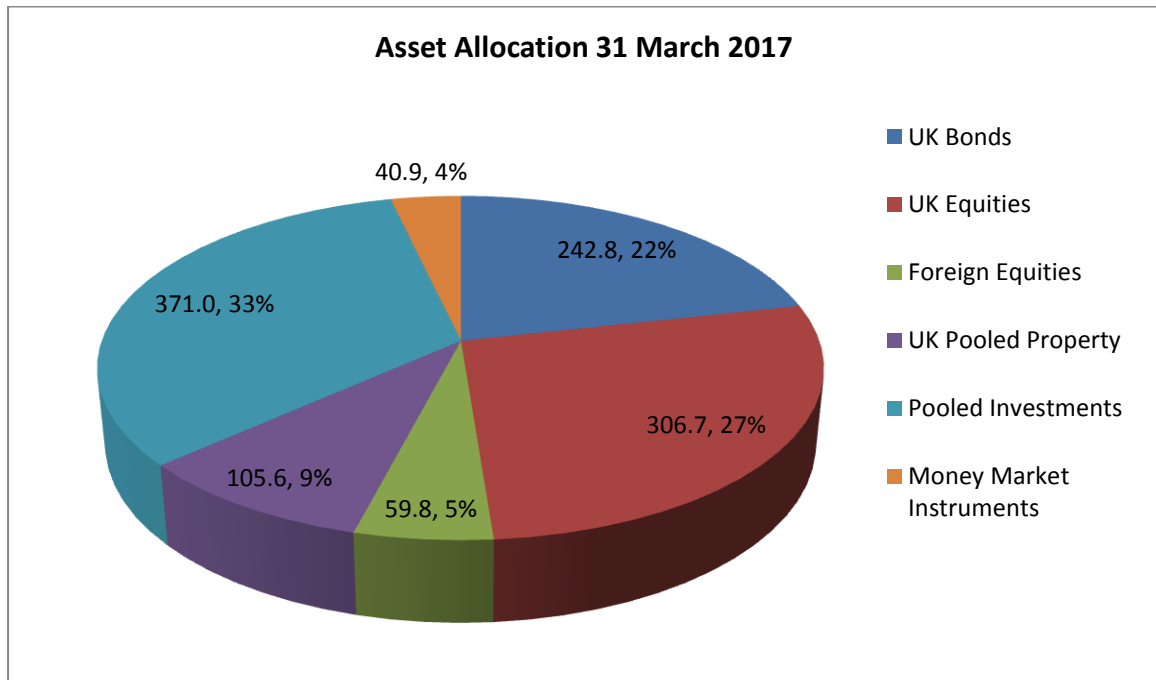
At the end of March 2017 the market value of the Pension Fund's total assets was £1,146.5m; an increase of 20.2% from the opening value of £953.6m. The graph below illustrates the progress of the Fund's assets over the last 9 years (as at the 31 March in each year).



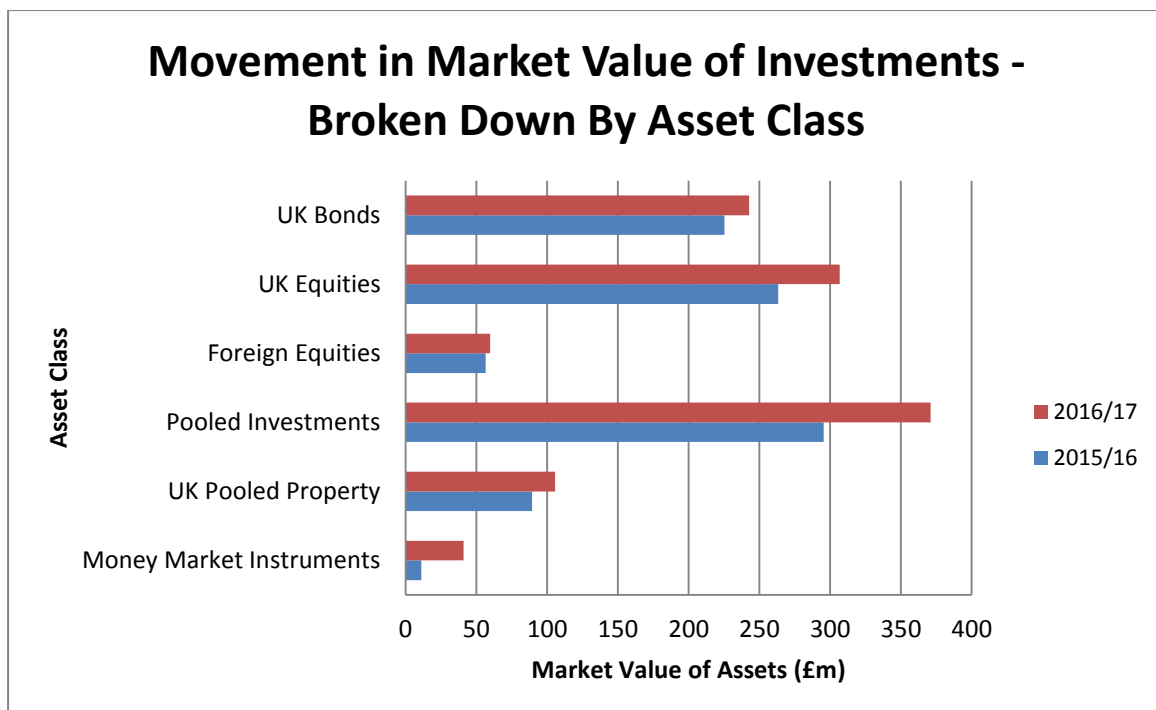
## Investment Management

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 (Management and Investment of Funds) Regulations 2016 requires the Administering Authority to formulate an Investment Strategy Statement (ISS); which outlines the broad investment principles governing the investment policy of the Pension Fund. The ISS covers investment responsibilities, Fund's liabilities, and eligible assets, social, environmental, and ethical considerations. A copy of the current ISS is included as appendix D of this report.

The Fund 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 2016/17 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 2016, and the end of the current financial year, March 2017.



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

| Manager       | Mandate            | % of Fund Under Management at 31/3/17 |
|---------------|--------------------|---------------------------------------|
| Lazard        | UK Equities        | 34%                                   |
| Allianz       | Global Equities    | 32%                                   |
| RLAM          | UK Corporate Bonds | 24%                                   |
| Lothbury      | UK Pooled Property | 4%                                    |
| Standard Life | UK Pooled Property | 3%                                    |
| Hermes        | UK Pooled Property | 3%                                    |

**Top fifteen holdings by Market Value as at 31<sup>st</sup> March 2017**

| Top 15 Holdings at 31 <sup>st</sup> March 2017 | Market Value (£000) |
|--|---------------------|
| LONDON LGPS CV GL EQ HI AL-A                   | 354,655             |
| LOTHBURY PROPERTY FUND                         | 41,945              |
| GOLDMAN SACHS GBP L RSRV-INS                   | 40,921              |
| HERMES PROPERTY UNIT TRUST                     | 33,957              |
| STANDARD LIFE LONG LEASE PPTY FUN              | 29,660              |
| ROYAL DUTCH SHELL PLC B SHS                    | 25,685              |
| BRITISH AMERICAN TOBACCO PLC                   | 25,289              |
| BP PLC   | 20,536              |
| RIO TINTO PLC                                  | 14,190              |
| HSBC HOLDINGS PLC                              | 13,613              |
| DIAGEO PLC                                     | 12,514              |
| PRUDENTIAL PLC                                 | 12,073              |
| GLAXOSMITHKLINE PLC                            | 11,591              |
| BARCLAYS PLC                                   | 11,029              |
| SHIRE PLC                                      | 10,619              |

**Investment Management Expenses**

The investment management expenses for the year to 31 March 2017 were £3.187m, as compared to the previous year figure of £3.016m.

## 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  
2<sup>nd</sup> Floor  
169 Union Street  
London  
SE1 0LL

Telephone: 020 7369 6115  
Text Telephone: 020 7369 6119  
Email: [ealing@lpfa.org.uk](mailto: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  
5<sup>th</sup> Floor SW  
14-16 Uxbridge Road  
London  
W5 2HL  
Telephone: 0208 825 9000

### Administration Expenses

The costs of administering the Fund over the financial year 2016/17 amounted to £796k (£762k in 2015/16). 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.

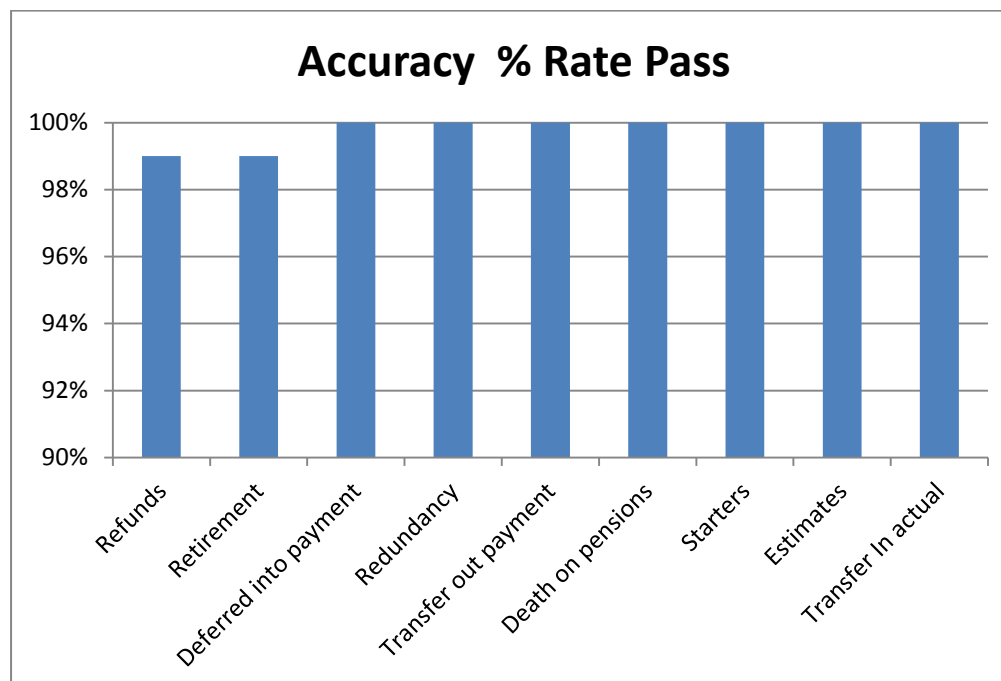
Timeliness – Have cases been processed in a timely manner.

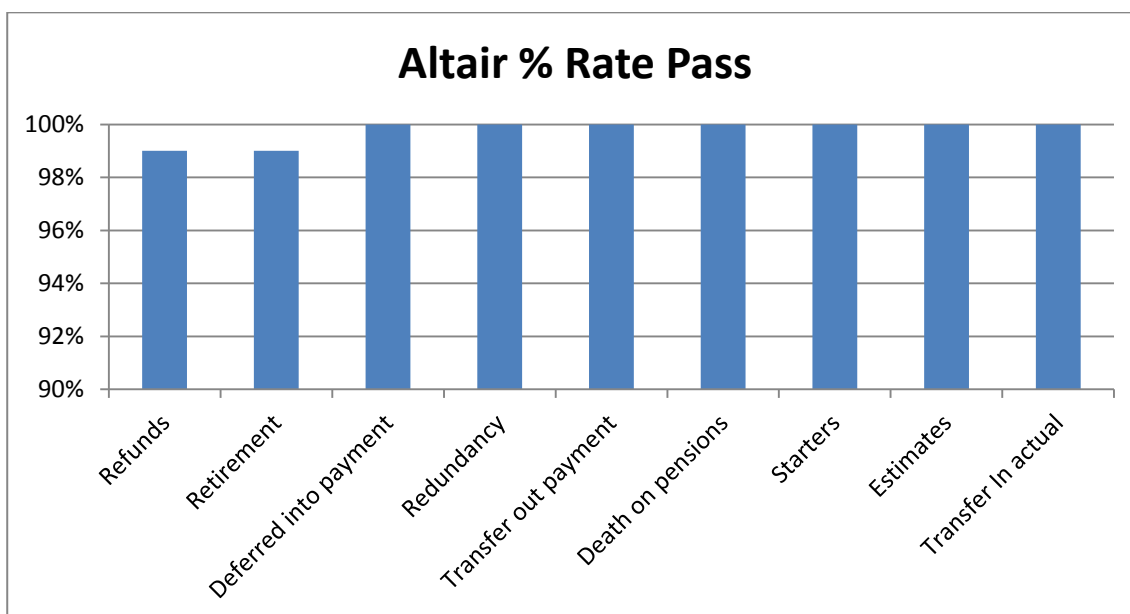
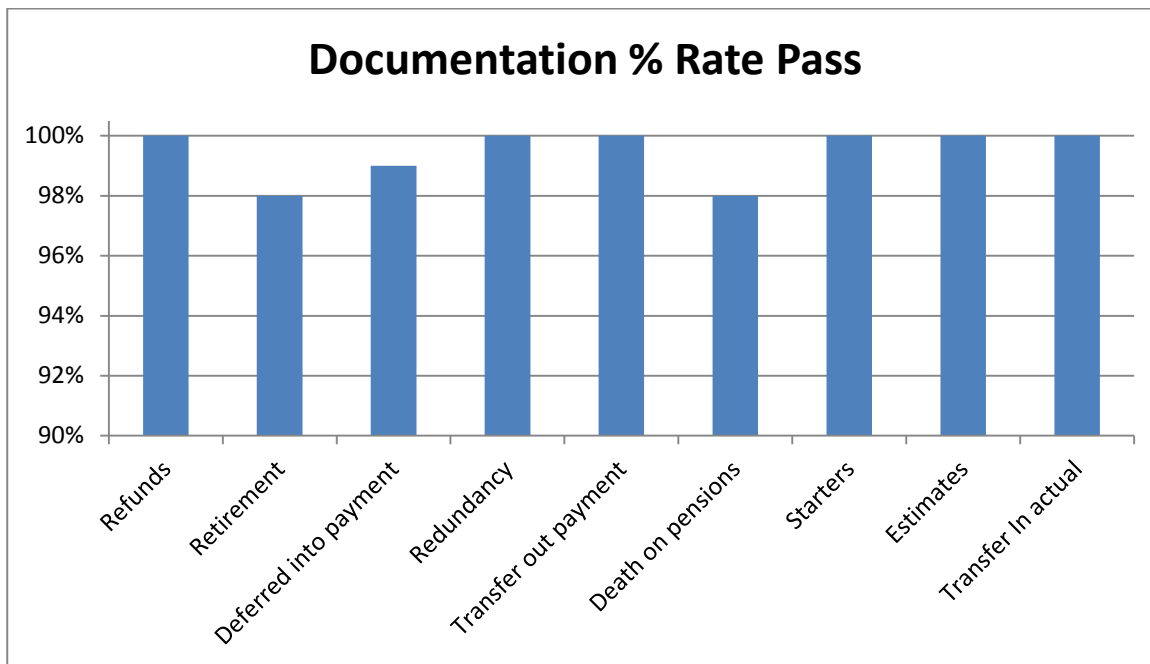
Documentation – Has the correct documentation been attached to members' files.

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

Ealing's in house pension team take monthly samples of work undertaken 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 2016/17 across some of the most common and active areas within LPFA's remit.





#### Internal Disputes Resolution Procedure

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

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

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

### **Self-Service**

Members have quick and easy access to a dedicated pensions website [www.yourpension.org.uk](http://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.

<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](mailto: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 2017 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

### **Independent auditor's report to the members of London Borough of Ealing on the pension fund financial statements published with the London Borough of Ealing Pension Fund Annual Report & Accounts 2016/17**

We have examined the pension fund financial statements for the year ended 31 March 2017 on pages 35 to 58.

#### **Respective responsibilities of the Executive Director of Corporate Resources 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 2016/17.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the London Borough of Ealing Pension Fund Annual Report & Accounts 2016/17 with the pension fund financial statements included in the annual published statement of accounts of London Borough of Ealing Pension, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

In addition, we read the information given in London Borough of Ealing Pension Fund Annual Report & Accounts 2016/17 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 2017 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

We have not considered the effects of any events between the date we signed our report on the full annual published statement of accounts 12 September 2017 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 London Borough of Ealing Pension Fund Annual Report & Accounts 2016/17 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

14 November 2017

# POLICY STATEMENTS AND ACCOUNTS

The following appendices contain various policy statements, and the 2016/17 pension fund accounts. The pension fund accounts contain the Actuary's statement for the year.

- Appendix 1 – Pension Fund Accounts
- Appendix 2 – Funding Strategy Statement
- Appendix 3 – Investment Strategy Statement

## GOVERNANCE POLICY AND COMPLIANCE STATEMENT

### **Governance Policy Statement**

#### **Introduction**

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

#### **Governance Framework**

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

The governance framework is supported by:

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

#### **Delegation of Function**

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

#### **Meetings**

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

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

On 30<sup>th</sup> June 2007, the 1997 Regulations were further amended to require Pension Funds to report on the level of compliance on their governance arrangements against a set of best practice principles and where they did not comply to state the reason why. The Communities and Local Government Department (CLG) published a draft Governance Compliance Statutory Guidance note on 8<sup>th</sup> 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  |
|---|------------------|--|
| <b>Structure</b>  |                  |  |
| The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.   | Compliant        | The Council Constitution clearly sets out that responsibility for the management of the Pension Fund resides with Pension Fund Panel.  |
| That representatives of participating LGPS employers, and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee. | Partly Compliant | The larger scheme employers e.g. University of West London are invited to participate on the Pension Fund Panel and trade union representatives sit on the panel as observers.   |
| That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.   | Compliant        | The Council does not have a secondary Committee or Panel, however PFP are supported by the Treasury Risk and Investment Board (TRIB). TRIB 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. |



| REQUIREMENT  | COMPLIANCE          | COMMENT   |
|--|---------------------|---|
| That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.   | Partly Compliant    | The Council does not have a secondary Committee or Panel. However, they are supported by the TRIB, and at least two members from this body also attend the PFP meetings.  |
| <b>Representation</b>  |                     |   |
| <p>That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include :-</p> <ul style="list-style-type: none"> <li>• employing authorities (e.g. scheme employers),</li> <li>• scheme members (including deferred and pensioner scheme members),</li> <li>• independent professional observers,</li> <li>• expert advisors (on an ad-hoc basis).</li> </ul> | Partially Compliant | Representation on the Pension Fund Panel is open to the larger scheme employers and two trade union representatives sit on the panel. The Panel has not appointed an independent professional observer but has appointed expert advisors who can attend Panel meetings when required. |
| 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.  |
| <b>Selection &amp; Role Of Lay Members</b>   |                     |   |
| 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.  |
| <b>Voting</b>  |                     |   |
| 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.   |
| <b>Training/Facility Time/Expenses</b>   |                     |   |
| 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   | 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  |

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

## FUND ACCOUNT

|   | Notes | 2016/17<br>£'000   | 2015/16<br>£'000 |
|---|-------|--------------------|------------------|
| <b>Dealings with members, employers and others directly involved in the fund</b>        |       |                    |                  |
| <b>Contributions</b>  |       |                    |                  |
| From Employers  | 6     | (38,280)           | (36,881)         |
| From Members  | 6     | (9,955)            | (9,748)          |
| Individual Transfers in from Other Pension Funds  |       | (9,099)            | (2,465)          |
|   |       | <b>(57,334)</b>    | <b>(49,094)</b>  |
| <b>Benefits</b>   |       |                    |                  |
| Pensions  | 7     | 36,977             | 35,793           |
| Commutation, Lump Sum Retirement and Death Benefits                                     | 7     | 7,155              | 10,892           |
| <b>Payments to and on Account of Leavers</b>  |       |                    |                  |
| Individual Transfers Out to Other Pension Funds   |       | 3,552              | 1,653            |
| Bulk transfers  |       | 0                  | 0                |
| Refunds to Members Leaving Service  |       | 215                | 103              |
|   |       | <b>47,899</b>      | <b>48,441</b>    |
| <b>Net (Additions)/Withdrawals from Dealings with Members</b>                           |       | <b>(9,435)</b>     | <b>(653)</b>     |
| <b>Management Expenses</b>  | 8     | <b>4,067</b>       | <b>3,975</b>     |
| <b>Returns on Investments</b>   |       |                    |                  |
| Investment Income   | 9     | (31,107)           | (32,969)         |
| Other Income  | 9     | (258)              | (44)             |
| Taxes on Income   | 9     | 125                | 1,568            |
|   |       | <b>(31,240)</b>    | <b>(31,445)</b>  |
| <b>Profit and losses on disposal of investments and changes in value of investments</b> | 13    | <b>(156,282)</b>   | <b>42,022</b>    |
| <b>Net return on investments</b>  |       | <b>(187,522)</b>   | <b>10,577</b>    |
| <b>Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year</b> |       | <b>(192,891)</b>   | <b>13,899</b>    |
| <b>Opening Net Assets of the Scheme</b>   |       | <b>(953,597)</b>   | <b>(967,496)</b> |
| <b>Closing Net Assets of the Scheme</b>   |       | <b>(1,146,488)</b> | <b>(953,597)</b> |

## NET ASSETS STATEMENT

|  | Notes | 2016/17<br>£'000 | 2015/16<br>£'000 |
|--|-------|------------------|------------------|
| <b>Investment assets</b>   |       |                  |                  |
| Bonds  | 12a   | 242,782          | 225,319          |
| Equities   | 12a   | 366,435          | 319,905          |
| Pooled Investment Vehicles   | 12a   | 476,526          | 384,746          |
| Cash   | 12a   | 40,921           | 13,155           |
| Other Investment Balances:   | 12a   | 0                | 0                |
| Income Due and other debtors   | 12a   | 19,262           | 7,559            |
|  |       | <b>1,145,926</b> | <b>950,684</b>   |
| <b>Investment Liabilities</b>  |       |                  |                  |
| Amounts payable for purchases of investments                               | 12a   | (18)             | 0                |
| <b>Net Value of Investment Assets</b>                                      |       | <b>1,145,908</b> | <b>950,684</b>   |
| <b>Current Assets</b>  | 15    | <b>1,139</b>     | <b>4,465</b>     |
| <b>Current Liabilities</b>   | 16    | <b>(559)</b>     | <b>(1,552)</b>   |
| <b>Net Assets of the Fund Available to Fund Benefits at the Period End</b> |       | <b>1,146,488</b> | <b>953,597</b>   |

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 not for profit organisations or private contractors undertaking local authority functions.

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

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

- The LGPS Regulations 2013 (as amended)
- The LGPS (transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and
- the LGPS (Management and Investment of Funds) Regulations 2016 (as amended).

### Funding

The Fund is financed by contributions from 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. Contributions range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2017. Employers pay contributions into the Fund based on rates determined by the appointed actuary following triennial funding valuations. The latest valuation as at 31 March 2016 has just been concluded.

## LONDON BOROUGH OF EALING PENSION FUND ACCOUNTS

### 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  |
|-----------------|--|---|
| <b>Pension</b>  | Each year worked is worth 1/80 x final pensionable pay   | Each year worked is worth 1/60 x final pensionable pay  |
| <b>Lump sum</b> | Automatic lump sum of 3 x pension.<br>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.<br>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 1/49<sup>th</sup>. Accrued pension is updated annually in line with the Consumer Prices Index. Benefits for service prior to 1 April 2014 are protected and continue to be based on the table shown above.

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. AVCs are used to secure additional benefits on a money purchased basis. The scheme providers are Scottish Widows and Equitable Life.

### Governance

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

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

### Investment Principles

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

<http://ealing.cmis.uk.com/ealing/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/5043/Committee/18/Default.aspx>

## LONDON BOROUGH OF EALING PENSION FUND ACCOUNTS

### Membership

The Council is the administering authority for the scheme and has the major share of contributors and pensioners. 40 other organisations currently participate in the Fund (36 in 2015/16) \*\*:

| Scheduled bodies                       | Admitted bodies                              |
|--|--|
| Alec Reed Academy                      | Carillion                                    |
| Ark Priory Academy                     | City West Services                           |
| Ark Byron Academy                      | Engie Services Ltd                           |
| Beaconsfield Primary                   | Equinox                                      |
| Brentside Primary Academy              | Fit for Sport                                |
| Brentside High School                  | Greenwich Leisure                            |
| Christ the Saviour CofE Primary School | Innovate Services Ltd                        |
| Derwentwater Primary School            | IFS Ltd ( International Facilities Services) |
| Dormers Wells Trust/Day care           | Mitie  |
| Dormers Wells Infant School            | NSL Parking                                  |
| Dormers Wells Junior School            | Serco  |
| Dormers Wells High School              | SLM - community leisure                      |
| Drayton Manor High                     | SLM - fitness & health                       |
| Ealing Fields                          | Viridian Housing                             |
| Ellen Wilkinson High School            |  |
| Featherstone High                      |  |
| Greenford High School                  |  |
| Northolt High School                   |  |
| Selborne Primary                       |  |
| St Anne's School                       |  |
| St Marys                               |  |
| Twyford CE Academies Trust             |  |
| University of West London              |  |
| Wood End Academy                       |  |
| Wood End Infant School                 |  |
| Woodlands Academy                      |  |

\*\* 31 bodies were listed as at 31 March 2016, but these did not include schools that use the Councils payroll.

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<br>2017 | 31 March<br>2016 |
|-------------------------------|------------------|------------------|
| Active Members                | 6,895            | 6,925            |
| Deferred Pensioners           | 8,161            | 7,911            |
| Pensioners receiving benefits | 7,054            | 6,924            |
|                               | <b>22,110</b>    | <b>21,760</b>    |

## NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Statement of Accounts summarises the Fund's transactions for 2016/17 and its position as at 31st March 2017. The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The accounts have been prepared on an accruals basis, apart from transfer values which are accounted for on a cash basis as described below.

The Accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year or the actuarial present value of promised retirement benefits. The code gives administering authorities the options to either disclose this information in the Net Asset Statement, Notes to the Accounts, or by appending an Actuarial report prepared for this purpose. The Council has opted to disclose this information by attaching an Actuarial report as at 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 Pension Fund management expenses are accounted for in accordance with the CIPFA guidance accounting for Local Government Pension Scheme Management Costs 2016.

### **Administrative Expenses**

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

### **Oversight and Governance costs**

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

### **Investment management expenses**

All investment management expenses are accounted for on an accruals basis. Fees for the fund managers and custodian are agreed in the respective mandates governing their appointments and are based broadly on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. Where an investment management fee has not been received by the balance sheet date, an estimate based upon the market value of the mandate as at the end of the year is used for inclusion in the accounts.

## **Net Assets Statement**

### **Financial Assets**

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the net asset statement on the date the fund becomes party to the contractual acquisition of the assets. From this date, any gains/losses are recognised in the Fund Account. The Net Asset Statement shows values of investments have been determined at fair value in accordance with the requirements of the code and IFRS13.

### **Foreign Currency Transactions**

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

### **Cash and Cash Equivalents**

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

### **Financial Liabilities**

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

### **Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 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, but are disclosed as a memorandum note only (Note 17).

### **Recharges from the General Fund**

The LGPS (Management and Investment of Funds) Regulations 2016 permit the Council to charge administration costs to the Fund. A proportion of relevant Council costs have been charged to the Fund based on an apportionment of time spent on Pension Fund business. Costs incurred in the administration and the oversight and governance of the Fund are set out in Note 8.

### NOTE 4 – CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 3 above, the 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 Appendix A. 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.

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

## LONDON BOROUGH OF EALING PENSION FUND ACCOUNTS

### 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.

| <b>By Authority</b>     | <b>2016/17<br/>£'000</b> | <b>2015/16<br/>£'000</b> |
|-------------------------|--------------------------|--------------------------|
| Administering Authority | (39,778)                 | (39,065)                 |
| Scheduled bodies        | (7,627)                  | (6,812)                  |
| Admitted bodies         | (830)                    | (752)                    |
|                         | <b>(48,235)</b>          | <b>(46,629)</b>          |

| <b>By Type</b>                  | <b>2016/17<br/>£'000</b> | <b>2015/16<br/>£'000</b> |
|---------------------------------|--------------------------|--------------------------|
| Employees' normal contributions | (9,955)                  | (9,748)                  |
| Employer's contributions:       |                          |                          |
| Normal contributions            | (22,488)                 | (20,211)                 |
| Deficit recovery contributions  | (14,780)                 | (14,324)                 |
| Augmentation contributions      | (1,013)                  | (2,346)                  |
|                                 | <b>(48,235)</b>          | <b>46,629</b>            |

### NOTE 7 – BENEFITS PAYABLE

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

| <b>By Authority</b>     | <b>2016/17<br/>£'000</b> | <b>2015/16<br/>£'000</b> |
|-------------------------|--------------------------|--------------------------|
| Administering Authority | (40,448)                 | (42,874)                 |
| Scheduled Bodies        | (3,145)                  | (3,520)                  |
| Admitted Bodies         | (539)                    | (292)                    |
|                         | <b>(44,132)</b>          | <b>(46,685)</b>          |

## LONDON BOROUGH OF EALING PENSION FUND ACCOUNTS

| By Type               | 2016/17         | 2015/16         |
|-----------------------|-----------------|-----------------|
|                       | £'000           | £'000           |
| Pensions              | (36,977)        | (35,793)        |
| Commutation/lump sums | (6,051)         | (9,526)         |
| Death benefits        | (1,104)         | (1,365)         |
|                       | <b>(44,132)</b> | <b>(46,685)</b> |

### NOTE 8 – MANAGEMENT EXPENSES

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

|                                | 2016/17      | 2015/16      |
|--------------------------------|--------------|--------------|
|                                | £'000        | £'000        |
| Administration Expenses        | 579          | 631          |
| Oversight and Governance**     | 301          | 328          |
| Investment Management Expenses | 3,187        | 3,016        |
|                                | <b>4,067</b> | <b>3,975</b> |

\*\*Includes external audit fees of £21,000 (£21,000 in 2015/16)

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

|                    | 2016/17      | 2015/16      |
|--------------------|--------------|--------------|
|                    | £'000        | £'000        |
| Management fees    | 2,502        | 2,808        |
| Performance fees   | 55           | 54           |
| Custody fees       | 109          | 148          |
| Transaction costs* | 522          | 6            |
|                    | <b>3,187</b> | <b>3,016</b> |

\*Transaction costs did not include fund management expenses in 2015-16

# LONDON BOROUGH OF EALING PENSION FUND ACCOUNTS

## NOTE 9 - INVESTMENT INCOME

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

|                            | 2016/17       | 2015/16       |
|----------------------------|---------------|---------------|
|                            | £'000         | £'000         |
| Fixed interest securities  | 12,371        | 11,740        |
| Equity dividends           | 15,254        | 18,648        |
| Pooled investments         | 3,443         | 2,566         |
| Interest and cash deposits | 39            | 15            |
| <b>Investment income</b>   | <b>31,107</b> | <b>32,969</b> |
| Other income               | 258           | 44            |
| <b>Total before taxes</b>  | <b>31,365</b> | <b>33,013</b> |
| Taxes on income            | (125)         | (1,568)       |
| <b>Total</b>               | <b>31,240</b> | <b>31,445</b> |

## LONDON BOROUGH OF EALING PENSION FUND ACCOUNTS

### NOTE 10 – INVESTMENT MANAGEMENT ARRANGEMENTS

The market value and proportion of investments managed by each fund manager at 31 March 2017 is shown below:

| Fund Manager        | Mandate                         | 31 March<br>2017 | %           | 31 March<br>2016 | %           |
|---------------------|---------------------------------|------------------|-------------|------------------|-------------|
|                     |                                 | Market<br>Value  |             | Market<br>Value  |             |
|                     |                                 | £'000            |             | £'000            |             |
| Lazard              | Global Equity (Active)          | 64,156           | 6%          | 63,143           | 7%          |
| Lazard              | UK Equity (Active)              | 310,776          | 28%         | 265,147          | 28%         |
| <b>Lazard</b>       | <b>Sub-Total</b>                | <b>374,932</b>   | <b>34%</b>  | <b>328,290</b>   |             |
| RCM/Allianz         | Global Equities (active)        | 356,153          | 32%         |                  | 0%          |
| RCM/Allianz         | London CIV                      |                  | 0%          | 278,376          | 30%         |
| <b>RCM/Allianz</b>  | <b>Sub-Total</b>                | <b>356,153</b>   | <b>32%</b>  | <b>278,376</b>   |             |
| Royal London        | Pooled equities (UK and Europe) | 11,737           | 1%          | 11,658           | 1%          |
| Royal London        | Fixed Interest                  | 248,087          | 23%         | 229,771          | 24%         |
| <b>Royal London</b> | <b>Sub-Total</b>                | <b>259,824</b>   | <b>24%</b>  | <b>241,429</b>   |             |
| Lothbury            | UK Property                     | 42,252           | 4%          | 37,329           | 4%          |
| Hermes              | UK Property                     | 35,556           | 3%          | 25,460           | 3%          |
| Standard Life       | UK Property                     | 29,660           | 3%          | 27,698           | 3%          |
| <b>Property</b>     | <b>Sub-Total</b>                | <b>107,468</b>   | <b>10%</b>  | <b>90,487</b>    |             |
| <b>Total</b>        |                                 | <b>1,098,377</b> | <b>100%</b> | <b>938,582</b>   | <b>100%</b> |

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 2016/17 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 £356.2m at 31 March 2017, representing 31% of the total Fund.

# LONDON BOROUGH OF EALING PENSION FUND ACCOUNTS

## NOTE 11 – RECONCILIATION IN MOVEMENT IN INVESTMENTS

| 2016/17   | Market value<br>1 April 2016 | Purchases<br>during the<br>year | Sales<br>during the<br>year | Change in<br>market value<br>during the year | Market value<br>31 March<br>2017 |
|---|------------------------------|---------------------------------|-----------------------------|--|----------------------------------|
|   | £'000                        | £'000                           | £'000                       | £'000  | £'000                            |
| Bonds   | 225,319                      | 71,092                          | (67,290)                    | 13,661                                       | 242,782                          |
| Equities  | 319,905                      | 130,094                         | (143,484)                   | 59,922                                       | 366,437                          |
| Pooled property<br>investments                  | 371,761                      | 118,305                         | (109,167)                   | 82,644                                       | 463,543                          |
| Cash  | 0                            | 64,772                          | (23,851)                    | 0  | 40,921                           |
| Forward FX                                      | 0                            |                                 |                             |  | 0                                |
| <b>Total</b>                                    | <b>916,985</b>               | <b>384,263</b>                  | <b>(343,792)</b>            | <b>156,227</b>                               | <b>1,113,683</b>                 |
| Amounts receivable from<br>sales of investments | 7,559                        |                                 |                             | 49   | 6,968                            |
| Amounts payable for<br>purchases of investments |                              |                                 |                             |  | (18)                             |
| Cash incl Spot FX                               | 26,139                       |                                 |                             | 6  | 25,278                           |
| Other investment liabilities                    |                              |                                 |                             |  |                                  |
| <b>Net investment assets</b>                    | <b>950,683</b>               |                                 |                             | <b>156,282</b>                               | <b>1,145,911</b>                 |

| 2015/16   | Market value<br>01-Apr-15 | Restate<br>opening<br>balance | Purchases<br>during the<br>year | Sales<br>during<br>the year | Change in<br>market<br>value during<br>the year | Market value<br>31-Mar-<br>16 |
|---|---------------------------|-------------------------------|---------------------------------|-----------------------------|---|-------------------------------|
|   | £'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<br>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                             |
| <b>Total</b>                                    | <b>964,949</b>            |                               | <b>813,502</b>                  | <b>(795,152)</b>            | <b>(42,791)</b>                                 | <b>916,985</b>                |
| Amounts receivable from<br>sales of investments | 11,402                    |                               |                                 |                             | 23  | 7,559                         |
| Amounts payable for<br>purchases of investments | (8,525)                   |                               |                                 |                             |   |                               |
| Cash incl Spot FX                               |                           |                               |                                 |                             | 746   | 26,139                        |
| Other investment<br>liabilities                 |                           |                               |                                 |                             |   |                               |
| <b>Net investment assets</b>                    | <b>967,826</b>            |                               |                                 |                             | <b>(42,022)</b>                                 | <b>950,683</b>                |



# LONDON BOROUGH OF EALING PENSION FUND ACCOUNTS

## 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 2017                    |                     |   | 31 March 2016                    |                     |   |
|-----------------------------------|----------------------------------|---------------------|---|----------------------------------|---------------------|---|
|                                   | 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                                   |
| <b>Investment Assets</b>          |                                  |                     |   |                                  |                     |   |
| <b>Bonds</b>                      |                                  |                     |   |                                  |                     |   |
| UK Public sector                  | 5,819                            |                     | -                                       | 15,330                           | -                   | -                                       |
| UK Corporate                      | 236,963                          |                     | -                                       | 209,989                          | -                   | -                                       |
| <b>Quoted equities</b>            |                                  |                     |   |                                  |                     |   |
| UK                                | 306,676                          |                     | -                                       | 263,376                          | -                   | -                                       |
| Overseas                          | 59,759                           |                     | -                                       | 56,529                           | -                   | -                                       |
| <b>Pooled investment vehicles</b> |                                  |                     |   |                                  |                     |   |
| Property                          | 105,562                          |                     | -                                       | 89,290                           | -                   | -                                       |
| Fixed Interest                    | 11,737                           |                     | -                                       | -                                | -                   | -                                       |
| Equity - Global                   | 354,655                          |                     | -                                       | 285,727                          | -                   | -                                       |
| Equity - Overseas                 | 4,572                            |                     | -                                       | 9,729                            | -                   | -                                       |
| <b>Cash Instruments</b>           |                                  |                     |   |                                  |                     |   |
| Cash deposits                     | 40,921                           | 12,293              | -                                       | -                                | 13,155              | -                                       |
| Accrued income                    |                                  | 6,968               | -                                       | -                                | 7,559               | -                                       |
| <b>Total investment assets</b>    | <b>1,126,664</b>                 | <b>19,261</b>       | <b>-</b>                                | <b>929,970</b>                   | <b>20,714</b>       | <b>-</b>                                |
| <b>Investment Liabilities</b>     |                                  |                     |   |                                  |                     |   |
| <b>Net Investment assets</b>      | <b>1,126,664</b>                 | <b>19,261</b>       | <b>-</b>                                | <b>929,970</b>                   | <b>20,714</b>       | <b>0</b>                                |
| <b>Other financial assets</b>     |                                  |                     |   |                                  |                     |   |
| Contributions Due                 |                                  | 1,139               | -                                       | -                                | 1,198               | -                                       |
| Other debtors and prepayments     | -                                | -                   | -                                       | -                                | 247                 | -                                       |
| Cash held by the Pension Fund     | -                                |                     | -                                       | -                                | 3,020               | -                                       |
|                                   | <b>1,126,664</b>                 | <b>20,400</b>       | <b>-</b>                                | <b>929,970</b>                   | <b>25,179</b>       | <b>0</b>                                |
| <b>Financial Liabilities</b>      |                                  |                     |   |                                  |                     |   |
| Creditors                         | -                                |                     | (576)                                   | -                                | -                   | (1,552)                                 |
|                                   | -                                | -                   | (576)                                   | -                                | -                   | (1,552)                                 |
| <b>Total</b>                      | <b>1,126,664</b>                 | <b>20,400</b>       | <b>(576)</b>                            | <b>929,970</b>                   | <b>25,179</b>       | <b>(1,552)</b>                          |
| <b>Grand Total</b>                |                                  | <b>1,146,488</b>    |   |                                  | <b>953,597</b>      |   |

## LONDON BOROUGH OF EALING PENSION FUND ACCOUNTS

### 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 2017       |                         |                                      | 31 March 2016       |                         |                                      |
|--|---------------------|-------------------------|--------------------------------------|---------------------|-------------------------|--------------------------------------|
|  | 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                                |
| <b><u>Financial Assets</u></b>                   |                     |                         |                                      |                     |                         |                                      |
| Designated at fair value through profit and loss | 609,217             | 517,447                 |                                      | 545,224             | 384,746                 | 0                                    |
| <b><u>Financial Liabilities</u></b>              |                     |                         |                                      |                     |                         |                                      |
| Designated at fair value through profit and loss |                     |                         |                                      |                     |                         | 0                                    |
|  | <b>609,217</b>      | <b>517,447</b>          | <b>0</b>                             | <b>545,224</b>      | <b>384,746</b>          | <b>0</b>                             |
| <b>Grand Total</b>                               | <b>1,126,664</b>    |                         |                                      | <b>929,970</b>      |                         |                                      |

### 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<br>2017 | 31 March<br>2016 |
|--|------------------|------------------|
|  | £'000            | £'000            |
| <b>Financial Assets</b>                          |                  |                  |
| Designated at fair value through profit and loss | 156,227          | (42,791)         |
| Loans and receivables                            | 55               | 769              |
|  | <b>156,282</b>   | <b>(42,022)</b>  |
| <b>Financial Liabilities</b>                     |                  |                  |
| Designated at fair value through profit and loss | 0                | 0                |
| Financial liabilities at amortised cost          |                  |                  |
|  | <b>0</b>         | <b>0</b>         |
| <b>Total</b>                                     | <b>156,282</b>   | <b>(42,022)</b>  |

### 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 Investment Strategy Statement which aim to identify and analyse the investment risks faced by the Fund. These are regularly reviewed in the light of changing market and other conditions.

#### Market Risk

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

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 2017          | 1,126,664 | 1,239,331                   | 1,013,998                   |
| As at 31 March 2016          | 929,970   | 1,022,967                   | 836,973                     |

## 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 2017                  | 255,075 | 257,626                    | 252,524                    |
| As at 31 March 2016                  | 238,474 | 240,859                    | 236,089                    |

## 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 2017             | 64,331 | 70,764                                      | 57,898                                      |
| As at 31 March 2016             | 66,258 | 72,884                                      | 59,632                                      |

## 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<br>2017<br>£'000 | 31 March<br>2016<br>£'000 |
|--|---------------------------|---------------------------|
| <b>Debtors:</b>                        |                           |                           |
| Contributions due - employers          | 953                       | 881                       |
| Contributions due - employees          | 186                       | 317                       |
| Sundry debtors and payments in advance | -                         | 247                       |
|  | 1,139                     | 1,445                     |
| Cash balances - Lloyds Bank            | -                         | 3,020                     |
|  | <b>1,139</b>              | <b>4,465</b>              |

|                                | 31 March<br>2017<br>£'000 | 31 March<br>2016<br>£'000 |
|--------------------------------|---------------------------|---------------------------|
| <b>Analysis of debtors</b>     |                           |                           |
| Central government bodies      | 131                       | 150                       |
| Local authorities              | 437                       | 247                       |
| Other entities and individuals | 571                       | 1,048                     |
|                                | <b>1,139</b>              | <b>1,445</b>              |

## NOTE 16 – CURRENT LIABILITIES

|                                       | 31 March<br>2017<br>£'000 | 31 March<br>2016<br>£'000 |
|---------------------------------------|---------------------------|---------------------------|
| Unpaid benefits                       | (83)                      | (946)                     |
| Sundry creditors and accrued expenses | (475)                     | (606)                     |
| <b>Total</b>                          | <b>(558)</b>              | <b>(1,552)</b>            |

| Analysis of creditors          | 31 March<br>2017 | 31 March<br>2016 |
|--------------------------------|------------------|------------------|
|                                | £'000            | £'000            |
| Central government bodies      | 0                | 0                |
| Local authorities              | (66)             | (67)             |
| Other entities and individuals | (492)            | (1,485)          |
| <b>Total</b>                   | <b>(558)</b>     | <b>(1,552)</b>   |

## 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<br>2015/16 | Market<br>Value<br>2015/16 | Contributions<br>2015/16 | Market<br>Value<br>2015/16 |
|--|--------------------------|----------------------------|--------------------------|----------------------------|
|  | £'000                    | £'000                      | £'000                    | £'000                      |
| Scottish Widows (as at 31 March 2017)  | 40                       | 539                        | 56                       | 591                        |
| Equitable Life (as at 31 October 2016) | 2                        | 244                        | 2                        | 240                        |
| <b>Total</b>                           | <b>42</b>                | <b>783</b>                 | <b>58</b>                | <b>831</b>                 |

## NOTE 18 – RELATED PARTY TRANSACTIONS

The Fund is administered by the London Borough of Ealing (the Council). In 2016/17 the Council charged the pension fund £796,000 for expenses incurred in administering the Fund (£0.8m in 2015/16).

The cash balance held by the Council on behalf of the Pension Fund was £6.4m at 31 March 2017 (£12.1m at 31 March 2016). The balance has since been settled (£5.5m on 20 April 2017 and £0.9m on 22 May 2017).

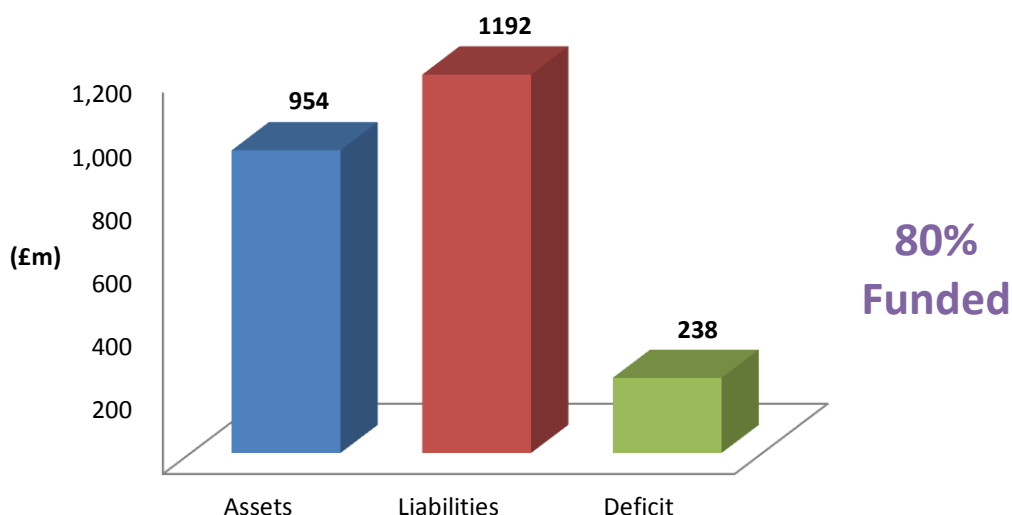
# LONDON BOROUGH OF EALING PENSION FUND

## ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2017 - STATEMENT BY THE CONSULTING ACTUARY

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

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

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



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

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



The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average deficit recovery period is 17 years, and the total initial recovery payment (the “Secondary rate”) for 2017/18 is approximately £13 million. For all employers, the Secondary rate will increase at 3.45% per annum. With the agreement of the Administering Authority employers may also opt to pay some of their employer contributions early (after suitably agreed reductions), with either all three years being paid in April 2017 or payment being made in the April of the year in question.

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

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

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

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

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

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

The assets were assessed at market value.

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

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2017 (the 31 March 2016 assumptions are included for comparison):

|  | 31 March 2016   | 31 March 2017   |
|--|-----------------|-----------------|
| Rate of return on investments (discount rate)                                      | 3.5% per annum  | 2.50% per annum |
| Rate of pay increases*   | 3.75% per annum | 3.55% per annum |
| Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension) | 2.0% per annum  | 2.3% per annum  |

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

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

During the year, corporate bond yields fell, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (3.5% p.a. versus 2.7% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.0% p.a. to 2.3%. Both of these factors combined served to significantly increase the value of the liabilities over the year. The pay increase assumption at the year-end has also changed to allow for a short-term public sector pay restraint as detailed in the actuarial valuation, together with a lower assumed level of “real” pay growth above CPI inflation, both of which serve to reduce the liabilities.

The value of the Fund’s promised retirement benefits for the purposes of IAS 26 as at 31 March 2016 was estimated as £1,398 million. Interest over the year increased the liabilities by c£49 million, and allowing for net benefits accrued/paid over the period also increased them by c£6 million (including any increase in liabilities arising as a result of early retirements/augmentations). There was then a further increase in liabilities of c£335 million made up of “actuarial losses” (mostly changes in the actuarial assumptions used, primarily the discount rate and assumed rate of future CPI as referred to above).

The net effect of all the above is that the estimated total value of the Fund’s promised retirement benefits as at 31 March 2017 is therefore £1,788 million.

**Ian Kirk**

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

**Mercer Limited  
May 2017**

## FUNDING STRATEGY STATEMENT (FSS)

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

### 1. INTRODUCTION

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

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

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

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

### BENEFITS

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

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

### EMPLOYER CONTRIBUTIONS

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

### PRIMARY RATE

The “Primary rate” for an employer is the contribution rate required to meet the cost of the future accrual of benefits, ignoring any past service surplus or deficit, but allowing for any employer-specific

circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant.  
The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers' Primary rates.

## **SECONDARY RATE**

The "Secondary rate" is an adjustment to the Primary rate to arrive at the total rate of contribution each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following the actuarial valuation.

Secondary rates for the whole fund in each of the three years shall also be disclosed. These will be the calculated weighted average based on the whole fund payroll in respect of percentage rates and the total amount in respect of cash adjustments.

## **2. PURPOSE OF THE FSS IN POLICY TERMS**

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

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

The purpose of this Funding Strategy Statement is therefore:

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

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

## **3. AIMS AND PURPOSE OF THE FUND**

**The aims of the Fund are to:**

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

**THE PURPOSE OF THE FUND IS TO:**

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

**4. RESPONSIBILITIES OF THE KEY PARTIES**

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

**The Administering Authority should:**

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

**The Individual Employer should:**

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)

- pay all contributions, including their own as determined by the actuary, promptly by the due date
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits, early retirement strain, and
- have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context, and
- notify the Administering Authority promptly of any changes to membership which may affect future funding.

**The Fund actuary** should:

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

## **5. SOLVENCY ISSUES AND TARGET FUNDING LEVELS**

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

### **SOLVENCY AND LONG TERM EFFICIENCY**

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

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

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

## DETERMINATION OF THE SOLVENCY FUNDING TARGET AND DEFICIT RECOVERY PLAN

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

Underlying these assumptions are the following two tenets:

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

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2017 at the latest.

As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers and employer groups in the Fund.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2016 actuarial valuation:

- Where deficits remain, the Fund does not believe it appropriate for contribution reductions to apply compared to the existing funding plan (allowing for indexation where applicable) unless there is specific reason to do so.
- Subject to consideration of affordability, as a general rule the deficit recovery period will be a continuation of the recovery period adopted at the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan in **Appendix B**). These principles have resulted in a maximum recovery period of 17 years being adopted for most Fund employers.
- Individual employer contributions will be expressed and certified as two separate elements:
- the **Primary rate**: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits
- the **Secondary rate**: a schedule of lump sum monetary amounts over 2017/20 in respect of an employer's surplus or deficit

For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to further review from April 2020 based on the results of the 2019 actuarial valuation.

□ Where increases (or decreases) in employer contributions are required from 1 April 2017, following completion of the 2016 actuarial valuation, at the sole discretion of the Administering Authority the increase (or decrease) from the rates of contribution payable in the year 2017/18 may be implemented in steps, over a maximum period of 3 years.

- On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer. The termination policy is set out in Appendix C.
- In all cases the Administering Authority reserves the right to apply a different approach at its sole discretion, taking into account the risk associated with an employer in proportion to the Fund as a whole. Any employer affected will be notified separately.

## **FUNDING FOR NON-ILL HEALTH EARLY RETIREMENT COSTS**

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

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

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

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

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

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

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

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



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

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

## 7. IDENTIFICATION OF RISKS AND COUNTER MEASURES

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

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

### FINANCIAL

The financial risks are as follows:-

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

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

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

### DEMOGRAPHIC

The demographic risks are as follows:-

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)

- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations
- The level of take-up of the 50:50 option at a higher or lower level than built into the actuarial assumptions.

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

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

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

## **INSURANCE OF CERTAIN BENEFITS**

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

## **REGULATORY**

The key regulatory risks are as follows:-

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

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

## **GOVERNANCE**

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

Governance risks are as follows:-

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

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

## 8. MONITORING AND REVIEW

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

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

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

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

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

## ACTUARIAL METHOD AND ASSUMPTIONS

### **METHOD**

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

### **FINANCIAL ASSUMPTIONS – SOLVENCY FUNDING TARGET**

#### **Investment return (discount rate)**

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

#### **Inflation (Consumer Prices Index)**

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

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

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

#### **Salary increases**

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

#### **Pension increases/Indexation of CARE benefits**

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

## DEMOGRAPHIC ASSUMPTIONS

### **Mortality/Life Expectancy**

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

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

### **Commutation**

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

### **Other Demographics**

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

### **Expenses**

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

### **Discretionary Benefits**

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

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

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the “Primary Rate” (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the Primary Rate should take account of the market conditions applying at future dates, not just the date of the valuation and a slightly higher expected return from the investment strategy has been assumed. In addition the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real discount rate of 2.75% per annum above the long term average assumption for consumer price inflation of 2.2% per annum.

### **EMPLOYER ASSET SHARES**

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

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

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

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

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

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

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

## Life expectancy assumptions

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

| Current Status | Retirement Type | 2016 study   |
|----------------|-----------------|--|
| Annuitant      | Normal Health   | 94% S2PMA CMI 2015[1.5%] /<br>85% S2PFA CMI 2015[1.5%]                 |
|                | Dependant       | 115% S2PMA CMI 2015[1.5%] /<br>100% S2DFA CMI 2015[1.5%]               |
|                | Ill Health      | 94% S2PMA CMI 2015[1.5%] + 3 yrs /<br>85% S2PFA CMI 2015[1.5%] + 3 yrs |
| Active         | Normal Health   | 94% S2PMA CMI 2015[1.5%] /<br>85% S2PFA CMI 2015[1.5%]                 |
|                | Ill Health      | 94% S2PMA CMI 2015[1.5%] + 4 yrs /<br>85% S2PFA CMI 2015[1.5%] + 4 yrs |
| Deferred       | All             | 94% S2PMA CMI 2015[1.5%] /<br>85% S2PFA CMI 2015[1.5%]                 |

*-Life expectancies at age 65*

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

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



## EMPLOYER DEFICIT RECOVERY PLANS

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

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

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

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

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

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

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

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain the deficit contributions at the expected monetary levels from the preceding valuation (allowing for any indexation in these monetary payments over the recovery period).

For those employers assessed to be in surplus at the valuation date, the surplus will be removed over a maximum recovery period of 17 years, unless agreed otherwise with the Administering Authority.

### **Other factors affecting the Employer Deficit Recovery Plans**

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

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

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

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

## ADMISSION AND TERMINATION POLICY

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

- Admission bodies are required to have an "admission agreement" with the Fund. In conjunction with the Regulations, the admission agreement sets out the conditions of participation of the admission body including which employees (or categories of employees) are eligible to be members of the Fund.
- Scheme Employers have a statutory right to participate in the LGPS and their staff therefore can become members of the LGPS at any time, although some organisations (Part 2 Scheme Employers) do need to designate eligibility for its staff.

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

### ENTRY TO THE FUND

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

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

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

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

## **ADMITTED BODIES PROVIDING A SERVICE**

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

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

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

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

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

## **PRE-FUNDING FOR TERMINATION**

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

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

## **EXITING THE FUND**

### **TERMINATION OF AN EMPLOYER’S PARTICIPATION**

When an employing body terminates for any reason, employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits. In addition to any liabilities for current employees the Fund will also retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members except where there is a complete transfer of responsibility to another Fund with a different Administering Authority.

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

The LBEPF’s policy is that a termination assessment will be made based on a minimum risk funding basis, unless the employing body has a guarantor within the Fund or a successor body exists to take

over the employing body's liabilities (including those for former employees). This is to protect the other employers in the Fund as, at termination, the employing body's liabilities will become orphan liabilities within the Fund, and there will be no recourse to it if a shortfall emerges in the future (after participation has terminated).

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

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

## **FUTURE TERMINATIONS**

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

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

### MINIMUM RISK TERMINATION BASIS

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

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

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

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

## ACADEMIES POLICY

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

### Introduction

Previously, the Local Government Pension Scheme (LGPS) Miscellaneous Regulations 2010 made an amendment to the LGPS (Administration) Regulations 2008 to allow an Academy established under the Academies Act 2010, to become a Scheme Employer within the LGPS.

Prior to converting to Academy status, schools were pooled together with the Local Education Authority (LEA) and the other LEA schools for the purpose of meeting their obligations for LGPS pension provision, in particular for contribution rate purposes.

This document details the London Borough of Ealing Pension Fund's ("the Fund") policy on the pension funding options available to newly formed Academies.

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

### Options

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

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

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

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

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

**Pooling**

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

**Stand-alone**

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

**Implementation**

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

As at the 31 March 2016 actuarial valuation, there are currently 3 academies who are pooled with the Council.

**Actuarial Assessment**

The contribution rates for all participating employers in the Fund are formally reassessed by the Fund Actuary every three years as part of an actuarial valuation exercise.

As denoted above, once a decision is made by an Academy as to how its contribution requirements should be assessed on conversion, the Academy cannot choose to reverse this at subsequent actuarial valuation exercises.

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

**Accounting for Pension Costs**

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

**Statement of Acceptance**

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



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

Name of School: .....

Date of conversion to Academy status: .....

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

- A. treated as a stand-alone employer
- B. treated as pooled employer alongside Ealing Council

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

A / B (please circle the preferred choice)

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

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

.....

NAME

POSITION

DATE

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

Signature .....

.....

NAME

POSITION

DATE

## GLOSSARY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# INVESTMENT STRATEGY STATEMENT

## 1. Introduction and Background

- 1.1 This is the Investment Strategy Statement (ISS) of the London Borough of Ealing Pension Fund (the Fund), which is administered by Ealing Council, (the Administering Authority or Scheme Manager). The ISS is prepared in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the Regulations").
- 1.2 The ISS has been prepared by the Fund's Officers in consultation with Pension Fund Panel ("the PFP") having taken advice from the Fund's investment adviser, currently Hymans Robertson LLP. The PFP acts on the delegated authority of the Administering Authority.
- 1.3 This ISS, which was approved by the PFP on 16 March 2017, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The PFP has consulted with such persons it considers appropriate, including the Treasury Risk & Investment Board and Trade Union representatives, on the contents of the Fund's investment strategy.

### Pension Fund Panel

- 1.4 The PFP comprises seven Councillors, two non-voting Trade Union representatives and one non-voting scheme employer representative, and is advised by an Investment Consultant and the Treasury Risk & Investment Board (TRIB), whose membership includes the Executive Director of Corporate Resources and the Director of Finance. The PFP, which meets quarterly, is responsible for setting investment policy, appointing persons to implement that policy and carrying out regular reviews and monitoring of investment performance. When making decisions the PFP are cognisant of the need to meet the Fund's liabilities and achieve the Fund's objectives.
- 1.5 This ISS outlines the broad investment principles governing the investment policy of the Pension Fund and covers investment responsibilities; Fund's liabilities; eligible assets; social, environmental and ethical considerations.

### Investment Responsibilities

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

### Liabilities

- 1.9 The 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 Fund. Full Fund benefit details are set out in the LGPS regulations.

- 1.10 Ealing Council, and the other contributing authorities, are responsible for meeting the balance of costs necessary to finance the benefits payable from the Fund. This is funded from the Council's revenue budget. Employers' contribution rates are determined every three years based on the advice of the Fund's actuary following the triennial valuation and are subject to inter-valuation monitoring. The last actuarial review was on 31 March 2013. However, the 2016 valuation will be concluded on 16 March 2017, the same day as this ISS is scheduled to be approved.
- 1.11 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).
- 1.12 The PFP seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund's Funding Strategy Statement also approved on the 16 March 2017.

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

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

### **Investment Strategy**

- 2.4 It is intended that the Fund's investment strategy will be reviewed at least every three years following actuarial valuations of the Fund. The approach that the Fund has taken to setting on an appropriate investment strategy is as follows:
  - Commissioning an Investment Adviser to assist
  - The Fund's Investment beliefs are re-established
  - Determine whether full or partial asset liability study required
  - Establish the Fund's constraints, e.g. cash flow constraints for a mature pension fund, balance between complexity/resources availability
  - Establish how returns will be generated (e.g. mix between growth and income seeking, use of derivatives, Liability Driven Investments, asset class mix)
  - Strategy Review
  - Manager Selection

- Monitoring performance of the overall strategy and the investment managers on a regular basis
- Rebalancing as necessary

2.5 The PFP review the suitability of the investment strategy on a regular basis, typically around the triennial Actuarial Valuation. The PFP will be formally reviewing the strategy, with the assistance of the Fund's investment consultants, following the valuation in 2016.

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

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

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

2.8 The PFP also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation. It is anticipated that no allocation will ever be more than 10% of its target allocation.

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

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

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

2.11 Officers will review and compare actual asset allocations to the Fund's target allocation and, in consultation with the advisers and the PFP, recommend rebalancing. Where rebalancing needs to be carried out quickly in between meetings the chair and deputy chair of the PFP will be consulted. Ranges around which rebalancing will be monitored are outline below.

| Asset Class     | Mandate Type           | Investment Manager             | Target | Range  |
|-----------------|------------------------|--------------------------------|--------|--------|
| Total Equities  |                        |                                | 65%    | +/- 5% |
|                 | <i>UK Equities</i>     | <i>Lazard Asset Management</i> | 37%    | +/- 5% |
|                 | <i>Global Equities</i> | <i>Allianz London CIV</i>      | 28%    | +/- 5% |
| Corporate Bonds | UK Corporate Bonds     | Royal London Asset Management  | 25%    | +/- 5% |
| Property        | UK Commercial Property | Property Investment            | 10%    | +/- 3% |
|                 |                        | Total                          | 100%   |        |

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

### Investment Beliefs

2.13 In September 2015, the Fund's Investment adviser carried out an exercise through a questionnaire and interactive session to establish the investment beliefs of the PFP and this is summarised below.

|   |
|---|
| <p><b>Objectives and strategy matter</b></p> <p>The PFP believe that having a set of well-defined objectives and a robust investment strategy will have the most influence over the Fund's future direction, hence they prioritise discussions on these topics.</p>                                   |
| <p><b>Affordability a key area of focus</b></p> <p>The PFP believe in striking a balance between an affordable, but stable, contribution and taking investment risk. It is appreciated that this balance may change over time. The aim is to not take any more investment risk than is necessary.</p> |
| <p><b>Investment horizon</b></p> <p>The PFP appreciates that long-term investing tends to improve returns and reduce costs.</p>   |
| <p><b>Diversification</b></p> <p>The PFP believe that diversification is important, but are also conscious of the risks associated with over-diversification (e.g. excessive governance demands and higher fees).</p>   |
| <p><b>Efficient Markets</b></p> <p>The PFP believes that, at times, market inefficiencies can exist and that these can create opportunities that the Fund may be able to exploit, due to regular dislocations from value and price.</p>   |



|   |
|---|
| <p><b>Market Timing</b></p> <p>The PFP does not feel that they are best placed to capture these opportunities. Instead they take the view that managers, that are closer to the market, will be better positioned to make such tactical calls.</p>  |
| <p><b>Liquidity</b></p> <p>The PFP is willing to accept a degree of illiquidity to enhance returns (net of fees), but not an excessive amount that it would impact the Fund's ability to pay benefits.</p>  |
| <p><b>Equity investment</b></p> <p>The PFP believes that global equity markets will generate positive real returns over the long-term and therefore the Fund is expected to have a notable exposure to this asset class. However, the PFP has no strong belief that any one equity market will do better than another when it goes to generating long-term risk adjusted returns.</p> |
| <p><b>Responsible Investments</b></p> <p>The PFP believe that environmental, social and governance matters are important. However, they see it as being one, of a number of factors, which must be taken into account when making decisions considering suitable investments for the Fund. The PFP also believe in collective engagement and have signed up to the LAPFF.</p>         |
| <p><b>Manager Selection</b></p> <p>The PFP believes that active management can add value to pension funds. However, it can be difficult to identify, with confidence, a manager that will outperform over the long-term, so any manager appointments require considerable due diligence and expected to be made for the long-term.</p>  |
| <p><b>Fees</b></p> <p>Investment management fees are a drag on returns and should be managed. However, they are not the only factor when it comes to selecting a good active manager.</p>   |

### 3. Diversification

- 3.1 The Council seeks to diversify risk through investing in a range of assets, investment managers and strategies. 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. The PFP has adopted an active specialist approach to investment management.
- 3.2 The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

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

3.4 The Fund's current target investment strategy is set out below however a strategic asset allocation review is in progress.

**Table 1: Investment Strategy**

| <b>Name of Investment Manager</b> | <b>Mandate Type</b>    | <b>Target Allocation of Fund</b> | <b>Benchmark Index</b>                     | <b>Tracking Error band</b> | <b>Target Gross outperformance %pa (rolling 3 years)</b>    |
|-----------------------------------|------------------------|----------------------------------|--|----------------------------|---|
| Lazard Asset Management           | UK Equities            | 37%                              | FTSE All Share (TR)                        | 2% to 5.5%                 | 2.0%pa  |
| Allianz London CIV                | Global Equities        | 28%                              | MSCI All Country World Index (the "Index") | 0.5% pa                    | 2.0%pa on a gross fee basis over rolling five year periods. |
| 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  |
| <b>Total</b>                      |                        | <b>100%</b>                      |  |                            |   |

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

3.6 At 31 December 2016, the expected return of the Fund's target investment portfolio was c. 6.4%p.a. with an expected volatility of c. 13.7%p.a (based on 20 year asset return/volatility projections and assuming outperformance is achieved as outlined in the targets shown in Table 1). This volatility includes an assumed diversification benefit. In the absence of this diversification, the expected volatility would have increased to c. 16.8%p.a. Further details on the Fund's risks, including the approach to mitigating risks, is provided in the following section.

## **4 Restrictions on investment**

- 4.1 The Regulations have removed the previous restrictions that applied under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The Fund is yet to agree a number of its own restrictions following the investment strategy review.

## **5 Managers**

- 5.1 The PFP has appointed 6 investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.
- 5.2 The PFP, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The Fund does not currently hold any passive investments, though this may change following the strategic asset allocation review which is ongoing at the time of writing.

## **6 Risk Management**

- 6.1 The PFP is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken. One of the PFP's overarching beliefs is to only take as much investment risk as is necessary.
- 6.2 The principal risks affecting the Fund are set out below, we also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

### Funding risks

| Headline Risk         | Specifics   | Mitigating Actions   |
|-----------------------|---|--|
| Financial mismatch    | The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.   | <ul style="list-style-type: none"> <li>As indicated above, the PFP has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk. This analysis is being revisited as part of the 2016 valuation process.</li> <li>The PFP assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The PFP also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.</li> </ul> |
| Changing demographics | The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.  | <ul style="list-style-type: none"> <li>The PFP also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed. The Fund's longevity assumptions are reviewed as part of the triennial valuation process.</li> </ul>  |
| Systemic risk         | The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities. | <ul style="list-style-type: none"> <li>The PFP seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.</li> </ul>  |

## Asset risks

| Headline Risk                                | Specifics  | Mitigating Actions  |
|--|--|---|
| Concentration                                | The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives. | <ul style="list-style-type: none"> <li>The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The PFP has put in place rebalancing arrangements to ensure the Fund's "actual allocation" does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk.</li> </ul> |
| Illiquidity                                  | The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.  | <ul style="list-style-type: none"> <li>By investing across a range of assets, including liquid quoted equities and bonds, as well as property; the PFP has recognised the need for access to liquidity in the short term.</li> </ul>  |
| Currency risk                                | The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).   | <ul style="list-style-type: none"> <li>The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the PFP also assess the Fund's currency risk during their risk analysis.</li> </ul>   |
| Environmental, social and governance ("ESG") | The risk that ESG related factors reduces the Fund's ability to generate the long-term returns.  | <ul style="list-style-type: none"> <li>Details of the Fund's approach to managing ESG risks are set out later in this document.</li> </ul>  |
| Manager underperformance                     | The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.   | <ul style="list-style-type: none"> <li>The PFP has considered the risk of underperformance by any single investment manager. The PFP assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.</li> </ul>   |

**Other provider risk**

| <b>Headline Risk</b> | <b>Specifics</b>  | <b>Mitigating Actions</b>   |
|----------------------|---|---|
| Transition risk      | The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the PFP seeks suitable professional advice. | <ul style="list-style-type: none"> <li>The PFP monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The PFP has the power to replace a provider should serious concerns exist.</li> </ul> |
| Custody risk         | The risk of losing economic rights to Fund assets, when held in custody or when being traded.   | <ul style="list-style-type: none"> <li>As above</li> </ul>  |
| Credit default       | The possibility of default of counterparty in meeting its obligations.  | <ul style="list-style-type: none"> <li>As above</li> </ul>  |
| Stock-lending        | The possibility of default and loss of economic rights to Fund assets.  | <ul style="list-style-type: none"> <li>Stock lending in segregated mandates is not permitted without the prior consent of the Director of Corporate Finance.</li> </ul>   |

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

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

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

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

7.2 The Fund has already transitioned assets into the London CIV with a value of £339m or 28% of the assets and the intention is to invest its assets through the London CIV Pool as and when suitable Pool investment solutions become available. An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government. The key criteria for assessment of Pool solutions will be as follows:

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

At the time of preparing this statement as outlined above the Fund has already invested the following assets via the London CIV Pool being a scheme investor in the pools inaugural sub fund:

| Asset class   | Manager | % of Fund assets | Benchmark and performance objective  |
|---------------|---------|------------------|--|
| Global Equity | Allianz | 28%              | <p><b>Benchmark Index:</b> MSCI World Index Total Return (Net) in GBP</p> <ul style="list-style-type: none"> <li>The objective of the Sub-fund is to exceed the rate of return of the MSCI All Country World Index (the "Index") on a gross fee basis over rolling five year periods.</li> <li>The Sub-fund aims to achieve capital growth by outperforming the MSCI World Index Total Return (Net) GBP by 2% p.a net of fees.</li> </ul> <p>The level of Tracking Error for the sub-fund is anticipated to be within 0.05% per annum.</p> |

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

**Assets to permanently reside outside of the Pool**

7.5 The Fund holds £95m within pooled property funds (target allocation is 10%) and these will remain outside of the London CIV pool. The cost of exiting these strategies would have a negative financial impact on the Fund. These will be held as legacy assets until it is appropriate for them to be redeemed and the proceeds will be re-invested through the pool, assuming it has appropriate strategies available, or until the Fund changes asset allocation and makes a decision to disinvest.

7.6 One of the Funds is held with a life fund which the pool cannot currently accommodate for technical reasons.

| Asset class/ Manager    | % of Fund assets | Benchmark                  | Rational for initially withholding Investment outside of the London CIV Pool  |
|-------------------------|------------------|----------------------------|---|
| RLAM UK Corporate Bonds | 25%              | ML Sterling Non-Gilts (TR) | This is being held outside of the pool and the Fund will await the outcome of the ongoing strategic asset allocation review |
| Lazard – UK Equity      | 37%              | FTSE All Share (TR)        | This is being held outside of the pool and the Fund will await the outcome of the ongoing strategic asset allocation review |

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

### **Structure and governance of the London CIV Pool**

- 7.8 The July 2016 submission to Government of the London CIV Pool provided a statement addressing the structure and governance of the Pool, the mechanisms by which the Fund can hold the Pool to account and the services that will be shared or jointly procured.
- 7.9 Appendix 2 outlines the pools submission which explains the governance structure and operation of the London CIV. Find outlined below the relevant extracts of how the Fund can hold the pool to account.

### **Holding the London CIV to account**

- 7.10 The Boroughs interact with the London CIV through the Pensions Sectoral Joint Committee (PSJC) and through the CIV Investment Advisory Committee (IAC).
- 7.11 London CIV has formal agreements and arrangement in place and is already in the process of pooling investments for the London Local Authorities.
- 7.12 There are three levels of interaction between investing authorities and London CIV as the operating company; the Pension Sectoral Joint Committee (PSJC), the Investment Advisory Committee (IAC) and regular contact through formal and informal interaction at Borough level. At the time of setting up the London CIV it was understood that all activities of the CIV are carried out 'for and on behalf of' the investing authorities and, while London CIV has to ultimately take decisions independently of investors (for regulatory reasons) those decisions will be taken with appropriate levels of collaboration and the best interest of the investing authorities at heart. Formal agreements and documentation include:
- 7.13 The Shareholders Agreement which sets out the terms and conditions of the joint venture and regulates their relationship with each other and certain aspects of the affairs of and dealings with the Company. The Company has agreed with the Shareholders that it will comply with the terms and conditions of the Agreement insofar as it relates to the company and provided it is legal to do so.
- 7.14 The PSJC is established under London Councils' governance arrangements. The PSJC has specific Terms of Reference which include the following:
- 7.15 "...to receive and consider reports and information from the ACS Operator particularly performance information and to provide comment and guidance in response (in so far as required and permitted by Companies Act 2006 requirements and FCA regulations).
- 7.16 In addition, members of the Pensions CIV Joint Committee will meet at least once each year at an Annual General Meeting of the ACS Operator to take decisions on behalf of the participating London local authorities in their capacity as shareholders exercising the shareholder rights in relation to the Pensions CIV Authorised Contractual Scheme operator (as provided in the Companies Act 2006 and the Articles of Association of the ACS Operator company) and to communicate the decisions to the Board of the ACS Operator company. These include:



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

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

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

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

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

8.2 The PFP recognise that Environmental, Social and Corporate Governance (“ESG”) factors can influence long term investment performance and the ability to achieve long term sustainable returns. The PFP consider the Fund’s approach to responsible investment in two key areas:

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

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

8.4 The PFP requires 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 PFP will review these policies from time to time and will, where it is deemed necessary, engage the Investment Manager in discussion on these policies. It will, however, be made clear to the Investment Managers that any decisions by the Investment Managers should be in the best long term financial interest of the Fund and its stakeholders.

8.5 The Council does not take non-Financial factor considerations into account when making investment decisions. Nor do they directly screen off/in either positively or negatively companies in which the Pension Fund invests. However, the Fund expects its external investment managers (and specifically the London Collective Investment Vehicle through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such

as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

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

8.7 The Fund monitors ESG activity on an ongoing basis with the aim of maximising its impact and effectiveness. The PFP do not pursue any policies that are contrary to UK foreign policy or defence policy. None of the Fund's existing investments are "social investments", as defined in the DCLG's guidance statement.

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

### **Corporate Governance/Voting**

8.8 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. The PFP recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The PFP has a commitment to actively exercising the ownership rights attached to its investments reflecting their conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

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

8.10 The Council's encourages manages to vote to 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.

### **Stewardship**

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

- 8.12 The PFP has formally agreed to adhere to the Stewardship Code as published by the Financial Reporting Council ("FRC"). The PFP expects both the London CIV Pool and any directly appointed fund managers to also comply with the Stewardship Code and this is monitored on an annual basis. A copy of the Fund's statement of compliance with the Stewardship code can be found on the Fund's website. At the FRC's most recent review, the Fund was rated as a tier 2.
- 8.13 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 72 Local Authority Pension Schemes which exists to promote the interest of the group and engage with companies to ensure that their views are taken into account in the management of the affairs of the companies in which they collectively invest.
- 8.14 The Fund is also a member of the Pension and Lifetime Savings Association (PLSA) and in this way joins with other investors to magnify its voice and maximise the influence of investors as asset owners.
- 8.15 The Fund also gives support to shareholder resolutions where these reflect concerns which are shared and represent the Fund interest and finally the Fund joins wider lobbying activities where appropriate opportunities arise.

For and on behalf of London Borough of Ealing Pension Fund

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# COMMUNICATIONS POLICY STATEMENT

## London Borough of Ealing Pension Fund

### Introduction

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

### Communications Objectives

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

### Stakeholders

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

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

### Policy

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

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

#### **Scheme members:**

- Active Scheme members are communicated with through newsletters, intranet, monthly 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](http://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.

**Bonds**

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

**FTSE**

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

**Fund managers**

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

**Gilts**

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

**Hedge fund**

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

**Index-linked securities**

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

**Investment adviser**

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

**Mandate**

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

**Objectives**

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

**Option**

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

**Outperformance/Underperformance**

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

**Passive management**

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

**Investments or pensions committee**

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

**Performance**

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



**Pooled fund**

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

**Private equity**

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

**Projected unit method**

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

**Risk**

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

**Scheme Employers**

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

**Securities**

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

**Sector**

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

**Solvency**

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

**Sovereign debt**

Bonds issued by a government.

**Stock lending**

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

**Strategic asset allocation**

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

**Target funding rate**

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

**Tracking error**

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

**Transaction costs**

Costs resulting from managing a portfolio.

**Underwriting**

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

**Weighting**

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

**Yield**

A measure of the return earned on an investment.