London Borough of Ealing Pension Fund

Annual Report & Accounts

2011/12

EALING COUNCIL

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CONTENTS

CHAIR'S STATEMENT


Cllr Yvonne Johnson, Chair of the Pension Fund Panel

I take great pleasure in once again presenting on behalf of the Pension Fund Panel (PFP) the London Borough of Ealing's Pension Fund annual report for the accounting year ending 31 March 2012. The Pension Fund Panel, which I currently Chair is responsible for overseeing the management administration and strategic direction of the Pension Fund.

We administer the Local Government Pension Scheme (LGPS) on behalf of scheme members (i.e. employees of the London Borough of Ealing and certain other affiliated qualifying bodies). The LGPS is a statutory funded scheme meaning that assets are set aside and invested to meet future liabilities. Benefits are defined in statute and employee contributions are fixed, so all fund deficits have to be met by the assets growing faster or the employer increasing their contribution.

The Panel met four times during the year, reviewing the quarterly performance of our three fund managers at each meeting and considering the strategic direction of the Fund.

The global economic backdrop has continued to be challenging for our investments. There is considerable volatility in financial markets caused mainly by worry over a possible disorderly breakup of the euro and the catastrophic impact such an occurrence could have on the global finances. In spite of the harsh investment landscape, I am pleased to report that the fund rose in value from £657.5m to £691.5m at the end of the financial year, and our fund out-performed our benchmark return by 1.8% in relative terms. We also out-performed the average return of a peer group universe of other LGPS funds being ranked in the top 25% of performers.

We continue to review the Fund's investment strategy in order to achieve higher returns within acceptable risk parameters which will in turn minimise the amount the Council needs to pay as the sponsoring employer of the scheme. In this regards, we are diversifying the Fund's growth seeking assets and will soon invest in UK commercial property. The Panel has agreed to tender for new fund managers for property and we expect the new managers to be in place by April 2013, managing 10% of the Fund's assets (some £60M). We also continue to review the governance arrangements of the scheme as part of our commitment to offering and maintaining quality scheme and service to scheme participants. We recently extended the remit of the Treasury Risk and Investment Board (TRIB) a sub group of officers who meet monthly, incorporating a function to actively assist to the PFP to monitoring risk, generate new ideas on the full range of PFP coverage and speed up the implementation of strategic decisions taken by the PFP.

Public sector pensions have continued to come under considerable public scrutiny because the costs of providing pensions has increased as people live longer and asset values have not kept pace. I informed you last year that our scheme along with others in the public sector was being reviewed to see how it can be made more affordable and sustainable. Consultations and discussions have continued following Lord Hutton's final report in March 2011. A joint statement was issued by the Local Government Association and Trade Unions on the 31st May 2012 announcing the outcome of negotiations on a new LGPS proposal to take effect from 1 April 2014.

The key proposals are that:

- the schemes will move from final salary to career average,
- accrual rates will increase from 1/60th to 1/49th,
- Costs of running the scheme are to be capped and collared within acceptable parameters laid down by the Government Actuary's Department (GAD) model scheme.
- average contribution rates would remain at 6.5% though to top 5% of earners will pay more and 95% of members will either pay the same or less,
- and the current retirement age of 65 will be replaced and automatically linked to any changes with the state retirement age to reflect changes in longevity projections

The proposed changes do not affect accrued benefits which are protected and the changes are to the benefit structure going forward. The proposed schemed still has defined benefits, but will be linked to career average rather than final salary, which will benefit the majority of members who progress across a long and stable career path.

Auto-enrolment of employees will be implemented by the Fund by March 2013 as part of the Government's process of introducing a range of workplace pension reforms.. The aim is to increase the number of people saving for retirement.

We continue to keep abreast of all 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 communications channels including our website, newsletters and our member annual general meetings. We ran member surgeries last year instead of the full AGM, and the feedback from the sessions was excellent. The full AGM with presentations on relevant investment topics and the scheme changes will return in 2013.

During the year it was also pleasing to note that the Council was recognised for its careful stewardship of the Fund by being shortlisted for the Governance category at the prestigious Local Government Chronicle investment awards held in London in November 2011.

I would like to extend my thanks to colleagues on the Panel and officers of the Council for all their efforts which has contributed to making this year another successful one.

Once again I urge you to give us any feedback you have as assist in improving the way we communicate with you and the quality of the information you receive. This will assist us in our quest to enhance the nature and quality our communication with you. Contact details are provided in the sections "staff, advisors and Investment Managers"

HIGHLIGHTS 2011-12

- The value of the Fund rose from £657.5m to £691.5m at the end of the financial year; an increase of 5.2%.
- Nearly 70% of the Fund is held in equities with the balance invested mainly in UK corporate bonds.
- The year ending 31st March 2012 was a volatile one with the European debt crisis dominating investment markets. This was reflected in the WM local Authority Universe which resulted in the average fund returning just 2.6% p.a. (down from 8.2% in 2010/11) Against this background, the Pension Fund performed very well over the last year and its returns placed it in the top 25 % of Local Authority performers.
- Overall in 2011/12 the scheme again remained cash flow positive, with income to the scheme (contributions and investment income) at £71.8m, 78% more than the outgoings of £40.3m, enabling the Council to invest sensibly for the longer term without worrying about short term market movements.
- Pensions paid out were £27.1M (£25.6M in previous year) and the average individual pension was £4,123.
- The Fund was shortlisted for the LGC investments governance award December 2011.

MANAGEMENT STRUCTURE

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

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

MANAGEMENT AND ADVISERS TO THE PENSION FUND

Pension Fund Panel:

Councillors:	**2012/13**	**2011/12**
	Cllr Johnson (Chair)	Cllr Johnson (Chair)
	Cllr Cowing	Cllr Cowing
	Cllr Manro	Cllr Manro
	Cllr Langan	Cllr Padda
	Cllr Sabiers	Cllr Sabiers
	Cllr Steed	Cllr Steed
	Cllr Young	Cllr Young
Representatives (non-voting):		
Trade Union	C Yap	C Yap
	S Kalsi	S Kalsi
Admitted Bodies	H Turner	H Turner
	(University of West London)	(University of West London)

Investment Adviser:

AonHewitt Associates

Actuary:

Mercer Limited

Custodian:

Bank of New York Mellon

Investment Managers:

Lazard Asset Management

RCM Global Investors

Royal London Asset Management

The fees for the Investment Adviser and Actuary are set on a combination of fixed and time cost basis, depending on the nature of projects undertaken. The Panel believe this approach ensures fees are only paid for services that are required. The fees for the Custodian are set on a fixed, pre-agreed basis, as are those for the Investment Managers.

PENSION FUND PANEL

Terms of Reference

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

Members during 2011/12		Political Party
Councillors	Cllr Johnson (Chair)	Labour
	Cllr Cowing	Conservative
	Cllr Manro	Labour
	Cllr Padda	Labour
	Cllr Sabiers	Labour
	Cllr Steed	Liberal Democrat
	Cllr Young	Conservative
Non Voting Members		
	S Kalsi	(Unison)
	C Yap	(GMB)
	H Turner	(Admitted body representative)

Contact Details for Pension Fund Panel

Committee Services

Perceval House

Gordon Williams - Telephone: 0208 825 6058

Panel Member Training 2011/12

Topic	Provider
Manager Fees	Hewitt
High Yield Bonds	Hewitt
Infrastructure	Hewitt

Panel Voting Rights:

The voting rights for the panel are as follows:

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

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

STAFF, ADVISERS AND INVESTMENT MANAGERS

Company Name	Contact	Contact Details
Ealing Officers:		0208 825 5000
Director of Corporate Finance & Audit	Simon George	Perceval House 14-16 Uxbridge Road London W5 2HL
Assistant Director of Corporate Finance	Nigel Watson	Perceval House 14-16 Uxbridge Road London W5 2HL
Head of Financial Planning & Investments	Sharon Daniels	Perceval House 14-16 Uxbridge Road London W5 2HL
Group Manager, Treasury & Investments	Bridget Uku	Perceval House 14-16 Uxbridge Road London W5 2HL
Consulting Actuaries:		
Mercer	Paul Middleman	1 Tower Place West Tower Place London EC3R 5BU
Auditors:		
Audit Commission		1st Floor, Millbank Tower, Millbank, London
Investment Consultant:		
Aon Hewitt	Kate Charsley	10 Devonshire Square London EC2M 4YP
Legal Advisers:		
In-House Team	Helen Harris – Director of Legal and Democratic Services	Perceval House 14-16 Uxbridge Road London W5 2HL
Pension Administration Services:		
In-House Team	Jane Lynham – Payroll and Pensions Manager	Perceval House 14-16 Uxbridge Road

		London W5 2HL
London Pensions Fund Authority (LPFA)	Ealing Pension Team	Dexter House 2 Royal Mint Court London EC3N 4LP
Custodian:		
BNY Mellon	Lisa Anderson	BNY Mellon Asset Servicing UK Pension Team 3rd Floor, 160 Queen Victoria Street London EC4V 4LA
Investment Managers:		
Lazard – UK Equity Mandate	Louisa Vincent	50 Stratton Street London W1J 8LL
RCM – Global Equity Mandate	Bibi Tabisim	155 Bishopsgate London EC2M 3AD
RLAM – UK Corporate Bond Mandate	James Stoddart	55 Gracechurch Street London EC3V 0UF
Performance Measurement Services:		
WM Performance Services - State Street	Karen Thrumble	525 Ferry Road Edinburgh EH5 2AW
Pension Body Membership:		
National Association of Pension Funds - represents the interests of the occupational pensions movement, organises conferences and training programs for members.	n/a	Cheapside House 138 Cheapside London EC2V 6AE
Local Authority Pension Fund Forum - promotes the investment interests of local authority pension funds, and to maximise their influence as shareholders.	David Sellors	Email: David.Sellors@lapfforum.org Telephone: +44(0) 7920 809 515

THE SCHEME

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

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

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

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

- A guaranteed pension based on salary and length of time in the scheme
- Tax free lump sum on benefit accumulated prior to 1st April 2008 and option to convert some of the pension into tax free lump sum on post 1st April 2008 service
- Life assurance cover 3x member yearly pay from the day of joining scheme
- Pensions for spouses/civil and nominated co-habiting partners and children
- An entitlement to have pension paid early on medical grounds (3 tiers of award)
- Pensions increase annually in line with inflation

The above list is not exhaustive and certain conditions have to be met for an individual to be entitled to the benefits outlined. The cost of membership for employees is in banded contributions ranging from 5.5% to 7.5%, depending on the level of pay that a member receives. Employers also pay contributions towards the cost of providing benefits and these are determined every three years following a review by the Fund's consulting actuary, Mercer.

The pay bands and the rates that apply from April 2012 are:

Full-time Pensionable Pay	**% Contribution**
£0 to £13,500	5.5%
£13,501 to £15,800	5.8%
£15,801 to £20,400	5.9%
£20,401 to £34,000	6.5%
£34,001 to £45,500	6.8%
£45,501 to £85,300	7.2%
More than £85,300	7.5%

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

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

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

The contribution rate for Councillors is 6% of eligible allowances

LGPS 2014

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

1	A Career Average Revalued Earnings (CARE) scheme using CPI as the revaluation factor (the current scheme is a final salary scheme).
2	The accrual rate would be 1/49th (the current scheme is 1/60th).
3	There would be no normal scheme pension age, instead each member's Normal Pension Age (NPA) would be their State Pension Age (the current scheme has an NPA of 65).
4	Average member contributions to the scheme would be 6.5% (same as the current scheme) with the rate determined on actual pay (the current scheme determines part-time contribution rates on full time equivalent pay). While there would be no change to average member contributions, the lowest paid would pay the same or less and the highest paid would pay higher contributions on a more progressive scale after tax relief (see table below).
5	Members who have already or are considering opting out of the scheme could instead elect to pay half contributions for half the pension, while still retaining the full value of other benefits. This is known as the 50/50 option (the current scheme has no such flexible option).
6	For current scheme members, benefits for service prior to 1st April 2014 are protected, including remaining 'Rule of 85' protection. Protected past service continues to be based on final salary and current NPA.
7	Where scheme members are outsourced they will be able to stay in the scheme on first and subsequent transfers (currently this is a choice for the new employer).

2014 Member Contributions

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

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

2014 death in service lump sum

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

2014 ill health cover

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

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

ADMITTED & SCHEDULED BODIES

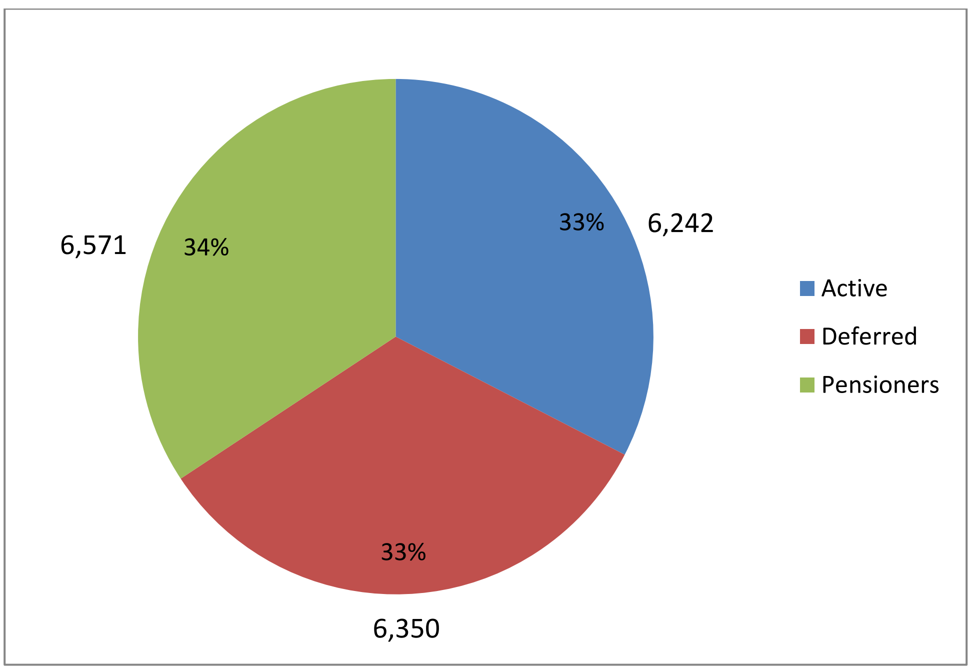
The Pension Fund had 28 employers in the Fund during the financial year 2011/12, including the London Borough of Ealing. The other employers in the Fund fall into either scheduled body status or admitted body status. These employers in the Fund are listed in the section Accounting Policies and Notes to the Accounts.

MEMBERSHIP OF THE FUND

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

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

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



Definitions:

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

BUDGET REVIEW

The Pension Fund Panel reviews the budget for the Pension Fund on an annual basis taking into consideration anticipated income and expenditure for the forthcoming year along with a comparison of the previous year forecast. The budget includes a forecast of the expected level of contributions, employee and employer and estimated transfer values, although the latter is difficult to forecast being dependent to a large extent on staff turnover and individual decisions on whether to transfer benefits into the Ealing Pension Fund. Member expenditure forecasts are based on anticipated inflation increases and also include an estimate of transfers out of the Fund.

Expenditure and Income in 2011/12 and 2010/11 is shown with the reported budget for 2011/12 in the table below:

	Actual 2011/12 £M	Budget* 2011/12 £M	Actual 2010/11 £M
Income			
Income from dealings with members, employers and others directly involved with the scheme	46.4	43.3	42.4
Investment Income	25.4	20.9	21.4
Total Income	**71.8**	**64.2**	**63.8**
Expenditure			
Expenditure relating to dealings with members, employers and others directly involved with the scheme	37.1	39.9	39.8
Fund Management	2.2	2.6	2.3
Administration	1.0	1.0	1.1
Total Expenditure	**40.3**	**43.5**	**43.2**
Net Income excluding change in Market Value	**31.5**	**20.7**	**20.6**
Change in Market Value	2.5		20.8
Net Increase/Decrease in Fund Value	**34.0**		**41.4**
Opening Fund Value	657.5		616.1
Closing Fund Value	**691.5**		**657.5**

***** *As approved 1 March 2012*

Balances Represented By:	At 31st March 2012 £M	At 31st March 2011 £M	Change in Year £M
Investments (including cash deposits held by Custodian)	671.7	643.0	28.7
Cash balances not forming part of investments assets	16.0	7.3	8.7
Net Current Assets External Investments	4.8	5.5	-0.7
Other Debtors/Creditors	-1.0	1.7	-2.7
Net at 31st March	**691.5**	**657.5**	**34.0**

Overall the London Borough of Ealing Pension Fund (LBEPF) achieved a net surplus for the year 2011/12 of £31.5m (including net investment income). This excludes the effect of the raise in market value on the fund, outlined in detail in the Investment Review elsewhere in this report. There was a net increase in the value of the LBEPF of £34.0m as shown in the above table.

The amount of cash held by Ealing Council on behalf of the LBEPF increased by £8.7m during 2011/12. This was due to cash being transferred from the council to the Pension Fund for the conversion of Compensatory Added Years Pensions into Fund Benefits and for costs arising from early retirements. The value of "in year" pension obligations was met during 2011/12 from the employer and member contributions received without the need to draw on investments.

The LBEPF receives interest from the Council on its cash balance based on the average return achieved by the Council on its investments. This "internal interest" amounted to £53k in 2011/12. Individual employers were not charged interest on overdue contributions during the year, due to monthly instalments being received timely.

At 31 March 2011 there was a debtor balance of £364k in contributions outstanding from employers and a creditor balance of £735k for unpaid benefits. There was also £672k for investment and management fees due to be paid by the LBEPF. The 2010/11 debtor of £1.8m for early retirement cost was paid by the Council during 2011/12.

Administration caseloads and performance are reported in the Administration Review section of this report.

A requirement of the LGPS Regulations are that all employing authorities (Admitted and Scheduled bodies) must pay to the administering authority all deductions made from employees pay for pensions not later than 19 days after the month in which they relate. During the year there have been five bodies that have failed to make either one or more monthly payments by the 19th of the next month, however in the majority of circumstances the delay has never been more than 2 days late. Payment dates are monitored monthly to ensure compliance of the regulations, and bodies that pay contributions past the 19th will be written to.

A copy of the budget report for 2011/12 can be obtained from the Council's website, or using the file path below.

http://www2.ealing.gov.uk/services/council/committees/agendas_minutes_reports/regulatory_committees/pension_fund_panel/24may2011-15may2012.html

The Pension Fund Panel approved the 2011/12 budget report on 01 March 2012.

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 in order to meet statutory deadlines.
- Reputational – Poor service damaging the reputation of the Fund and administering authority.
- Operational – Data maintenance, 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:

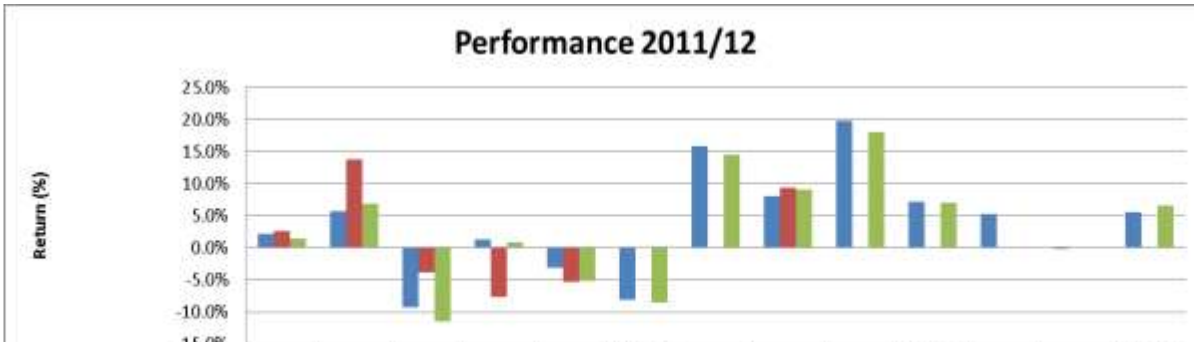
- Monitoring longevity triennially and in discussions with the Fund Actuary on how best to manage the impact on the Fund from people living longer
- Adequate diversification of assets and managers/manager style, quarterly monitoring of investment performance and regular reviews of asset allocation to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

INVESTMENT REVIEW

Investment Background

Continued concern over the state of the global economy combined with the European debt crisis dominated investment markets over the last year. The average fund in the WM local Authority Universe returned 2.6%.

The graph below shows the impact of the debt crisis on various markets over the last financial year compared to the WM universe:



	EQUITIES						BONDS				ALTERNATIVES		
	UK	North America	Europe	Japan	Pacific	Emerging Markets	UK Govt	UK Corp	Index Linked	Overseas	Private Equity	Hedge Funds	Property
WM Wtd Average	2.2%	5.7%	-9.2%	1.3%	-3.1%	-8.1%	15.8%	8.1%	19.8%	7.2%	5.3%	-0.1%	5.5%
Ealing Fund Return	2.6%	13.8%	-3.9%	-7.7%	-5.3%			9.4%					
Ealing Benchmark/Index	1.4%	6.9%	-11.4%	0.9%	-5.1%	-8.6%	14.5%	9.1%	18.1%	7.1%			6.6%

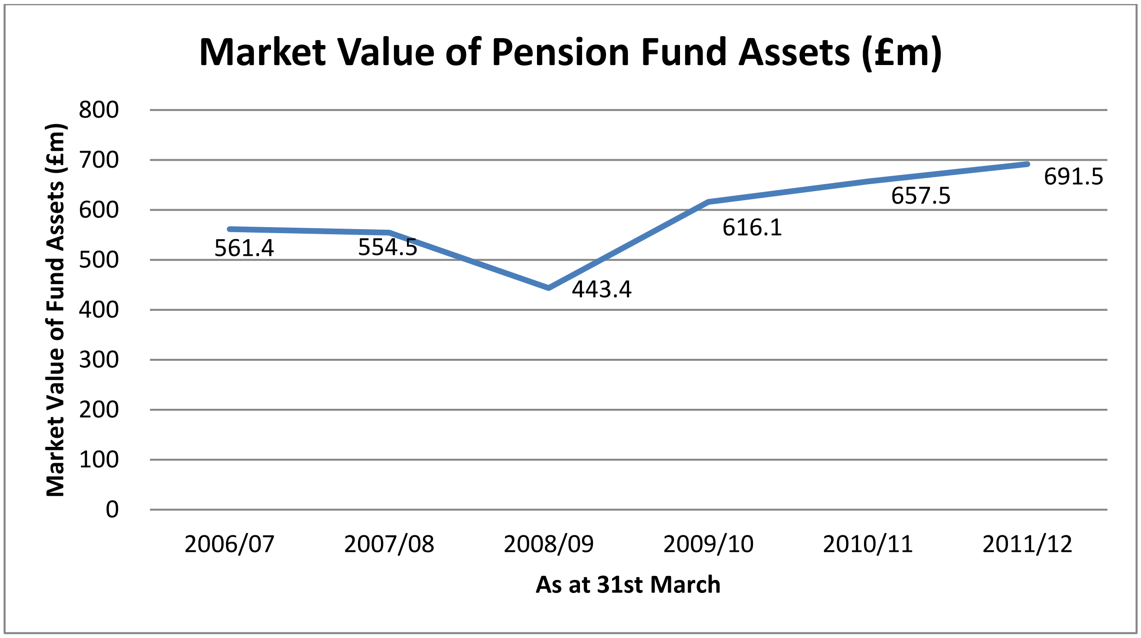
Equities struggled to make positive returns while investors, seeking a safe haven from the market turmoil, pushed non-euro government bonds to record high prices. The pressures brought on by paying down debt and fiscal retrenchment in many parts of the developed world are partially offset by central banks providing monetary stimuli and maintaining negative real interest rates. Although towards the end of the financial year there were mounting concerns over rising oil prices and disappointing economic data out of China. Nonetheless, most of these risks are reflected in equity markets, which are further supported by reasonable valuations and high degrees of corporate liquidity, which is positive for corporate spending, dividend increases, share buybacks and M&A activity.

The ECB liquidity measures, in the form of three year loans at an interest rate of 1%, have been recognised with preventing a credit crisis in Europe by encouraging banks to buy up struggling sovereign bonds, lowering yields across the Eurozone. Investors were also encouraged by progress in Greece, where the country's debt write down, which enjoyed 96% support from bondholders, and the Troika's release of bailout funds put an end to speculation concerning a possible disorderly default. Despite a great deal of brinkmanship, the Greek government eventually passed the necessary reforms and austerity measures deemed essential to meet a debt to Gross Domestic Product (GDP) target of 120% by 2020. Stock prices were also bolstered by increasingly positive macroeconomic data from the US, but pulled back in March on the back of poor Chinese manufacturing figures and a GDP estimate lower than analysts' estimates.

The performance of alternative investments was variable. The average return for private equity was 5% whilst hedge funds failed to produce a positive return. Property rose for the third consecutive year. During the year 2011/12 the LB Ealing Pension Fund did not invest in any alternatives.

Value of the Fund's Assets

At the end of March 2012, the market value of the Pension Fund's total assets was £691.5m; a rise from the opening value of £657.5m as at 31st March 2011, an increase over the year of 5%. The graph below depicts the progress of the Fund's assets over the last 6 years as at the 31st March in each year.

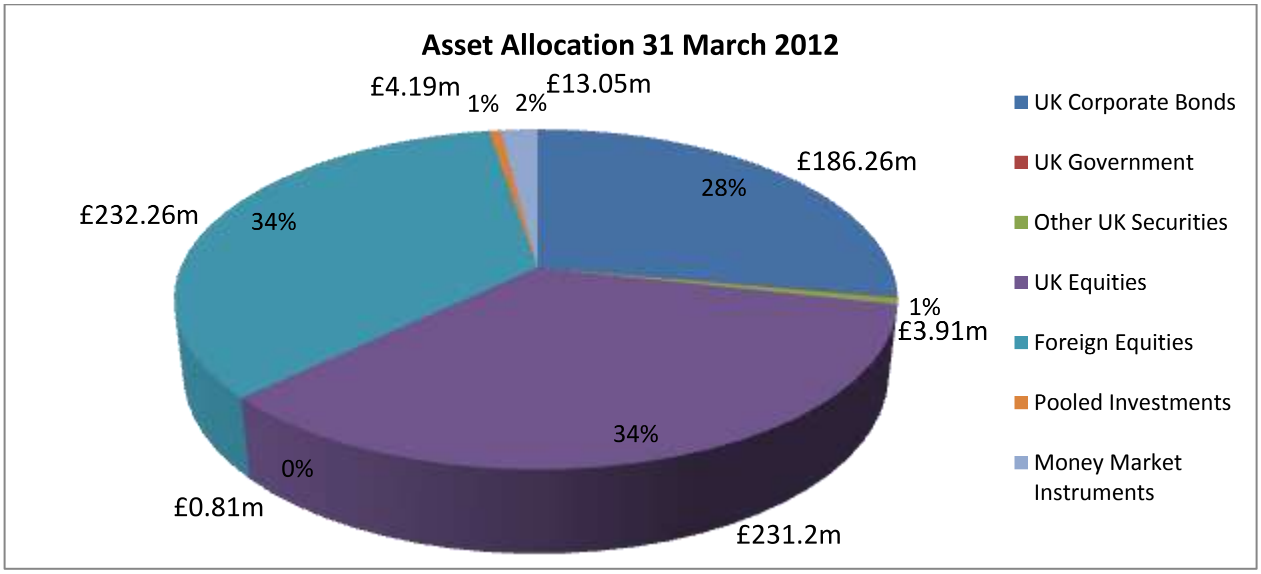


The Pension Fund Revenue Account also shows the impact of the market recovery during the financial year 2011/12 with the net return on investments being a positive of £34m.

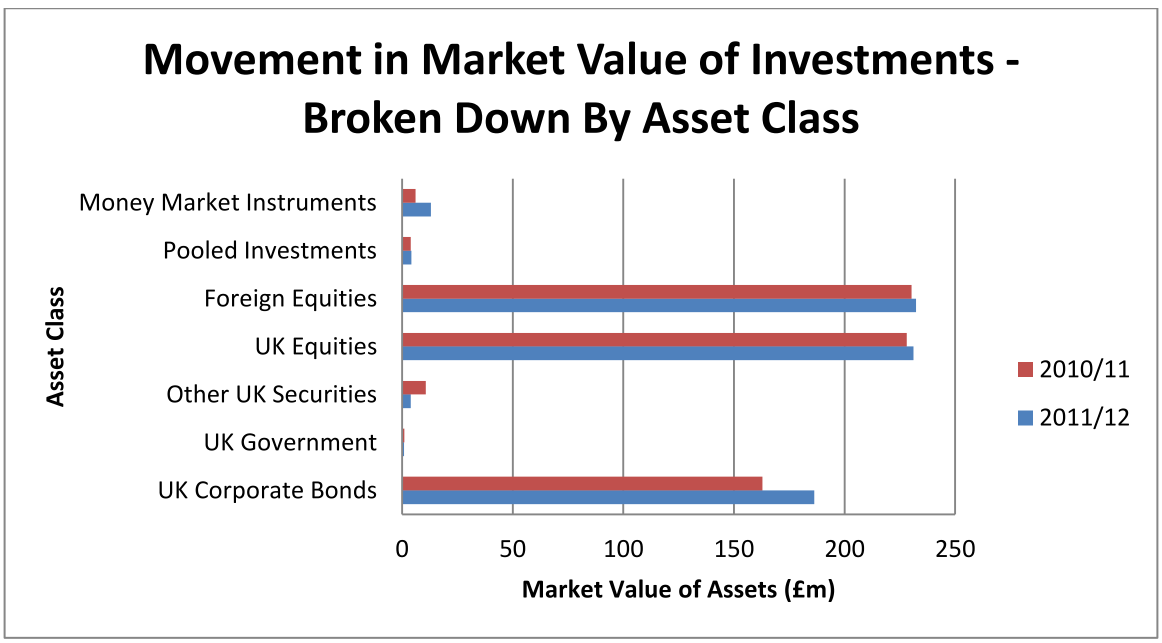
Investment Management

The management of the Fund's assets is determined by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended). The regulations enable authorities to appoint investment managers to manage and invest Pension Fund assets on their behalf, subject to being satisfied with their experience, competence and risk control, with appropriate arrangements for monitoring performance. The Local Government Pension Scheme (Administration) Regulations 2008 require the Fund to publish a Statement of Investment Principles (SIP), which sets out the main parameters and responsibilities for the management of the Fund. The SIP covers the investment style for fund managers e.g., balanced active/passive, types of investment to be permitted and the relative proportions between them, performance objectives for fund managers, socially responsible investment standards to be applied, and corporate governance matters to be exercised relating to the Fund's shareholding interests. A copy of the current SIP is included within this Report and Accounts.

The Fund appointed three new specialist managers in April 2007, with a UK Equity, Global Equity and UK Corporate Bond mandate. The allocation to the various asset classes as at the end of 2011/12 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 2011, and the end of the current financial year, March 2012. As can be seen from the chart, there has been little change in the weightings of asset classes during the year.



During the year the Fund maintained the three specialist managers:

Manager	Mandate	% of Fund Under Management at 31/3/12
Lazard	UK Equities	37%
RCM	Global Equities	32%
RLAM	UK Corporate Bonds	29%

As outlined above, the Fund has three active managers with a specialist mandate, RLAM with 29% of the Fund under management, and two active equity managers, RCM with 32% and Lazard with 37% of the Fund as at 31st March 2011. Internally managed assets held as a proportion of the Fund represented 2%; this comprises cash held outside Fund Manager cash holdings and other debtors and creditors.

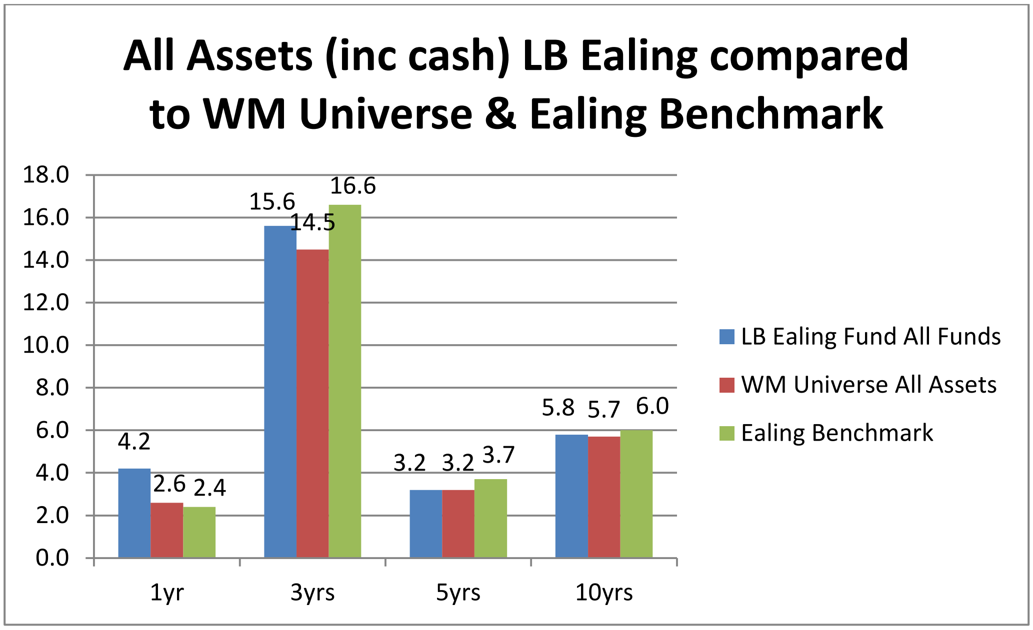
Top fifteen holdings by Market Value as at 31st March 2012

Top 15 Holdings at 31st March 2012	Market Value (£)
BP PLC	15,395
ROYAL DUTCH SHELL PLC B SHS	12,926
VODAFONE GROUP	12,457
GLAXOSMITHKLINE	12,229
BRITISH AMERICAN TOBACCO	11,886
HSBC HLDGS	9,028
RIO TINTO PLC	8,178
BG GROUP PLC	8,144
XSTRATA COM STK	8,081
DIAGEO	7,742
STANDARD CHARTERED	7,309
ASTRAZENECA	7,065
PRUDENTIAL PLC	7,047
NESTLE	6,465
BARCLAYS	6,210

Performance of Fund

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

As set out in the graph below, the total fund has returned 4.2% for 2011/12, and an average of 15.6%, 3.2% and 5.8% for the three years, five year and ten years respectively to 31st March 2012.

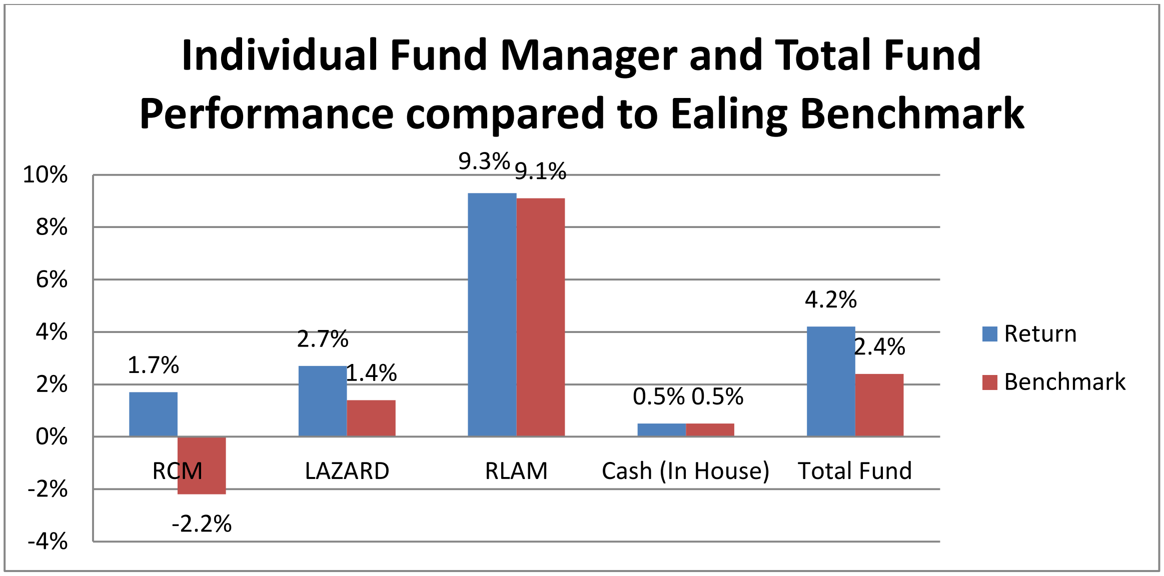


In 2011/12 the Ealing Fund return of 4.2% over-performed the benchmark of 2.4% with a relative return of +1.8%. It also over-performed the WM Local Authority Universe which achieved 2.6%. This positive performance against the Ealing benchmark arose mainly from good stock selection within foreign equities. Also no fund manager performed below benchmark for the year.

The table below details the performance and the market value for the year to March 2011 for each of the fund managers and the combined fund in relation to the Ealing Specific Benchmark. The fund was ranked in the 25th percentile in the WM Local Authority Universe (the lowest rank being the 100th percentile). However, over the 3, 5, and 10 years, the fund is ranked in the 32nd, 45th and 33rd percentile respectively.

	Return **2011/12** %	**LB Ealing Benchmark** **2011/12** %	**Relative Performance** **2011/12** %	**Relative Performance** **2010/11** %
RCM	1.7	-2.2	3.90	-4.20
LAZARD	2.7	1.4	1.30	0.40
RLAM	9.3	9.1	0.20	2.90
Cash (In House)	0.5	0.5	0.00	0.50
Total Fund	**4.2**	**2.4**	**1.70**	**-1.00**

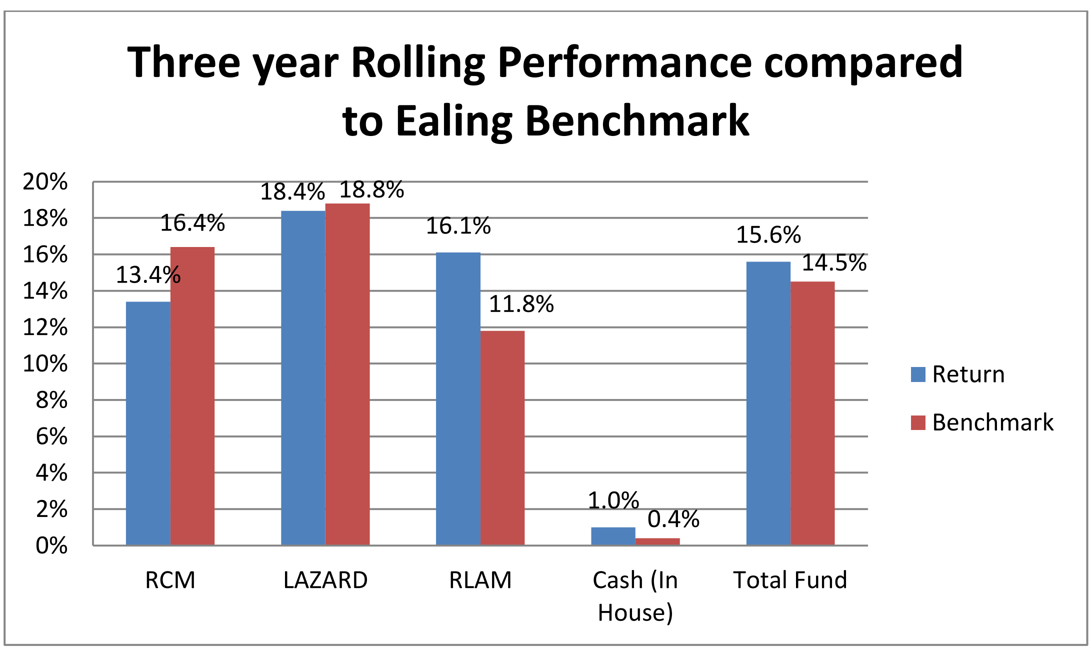
The graph below illustrates performance by fund managers against the Ealing Benchmark.



As illustrated in the graph above RCM, who manage the global equity, outperformed the benchmark with a relative return of 3.9%. This out performance is attributable to their good stock selection in North America and Europe, however stock selection in Japan slightly deflected from this. Lazard achieved an out performance of the benchmark, with a relative return of 1.3%. RLAM also achieved an out performance of 0.2%. This was mainly attributable to sound stock selection decisions.

At the overall portfolio level, the Fund outperformed the composite benchmark return during the year 2011/12 by 1.7%. The market value of the Fund increased in line with the general market from £658M (as at 31/3/11) to £692M (as at 31/3/12).

Long-term 3 year rolling performance analysis of the fund managers to March 2012 show the managers RCM and Lazard have under-performed their benchmark, while RLAM has out-performed.



Investment Management Expenses

The investment management expenses for the year to 31st March 2012 were £2,223k, down from the previous year figure of £2,324k, due to negotiation of terms with service providers. Investment management expenses cover the fees charged by the Fund's individual investment managers, and fees paid to the investment advisors and Fund custodian.

ADMINISTRATION

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

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

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

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

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

Ealing Council
Payroll Department
Perceval House
3rd Floor NW
14-16 Uxbridge Road
London
W5 2HL

Telephone: 0208 825 9000

Administration Expenses

The relative costs of administering the Fund over the financial year 2011/12 amounted to £1,006k. This is comparable with the 2010/11 figure of £1,149k.The administration expenses cover the costs involved in administering the Pension Scheme, with both external and internal costs being charged to the Pension Fund. The contract for pension administration was managed externally during the year by LPFA with the contract being overseen by the Payroll and Pensions Team at London Borough of Ealing.

Administration Performance

Performance monitoring has changed this year to take a more holistic approach. The performance by LPFA is measured against four criteria:

Accuracy – Whether the figures provided have been accurately computed.

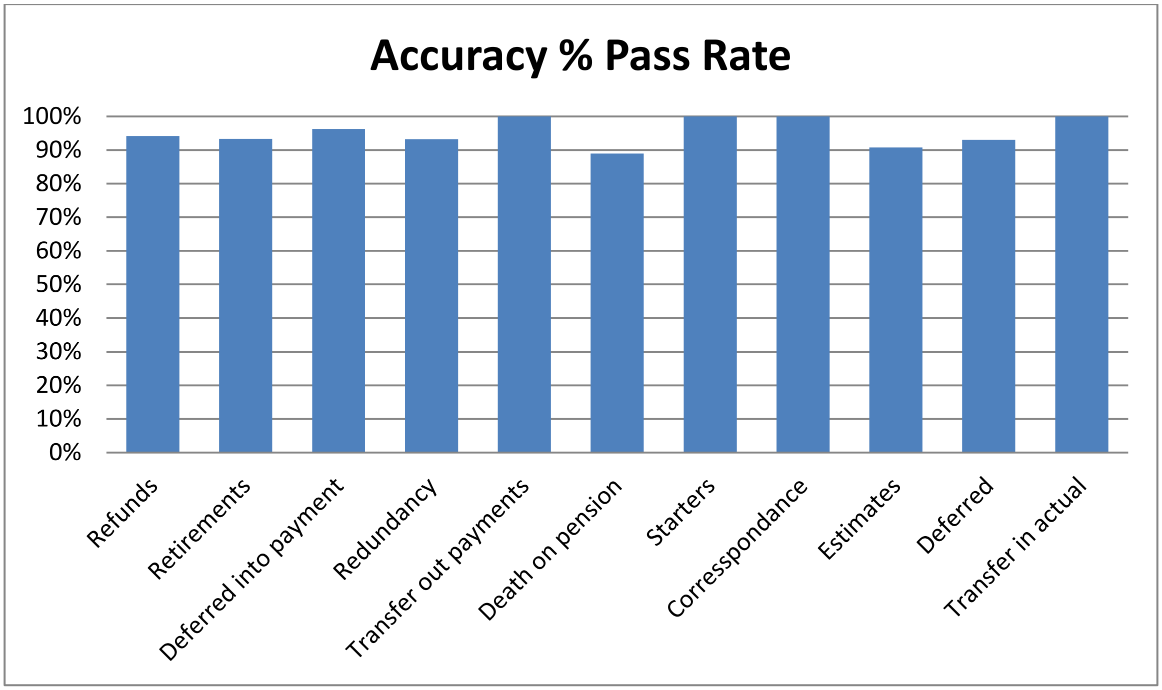
Timeliness – Have cases been processed in a timely manner.

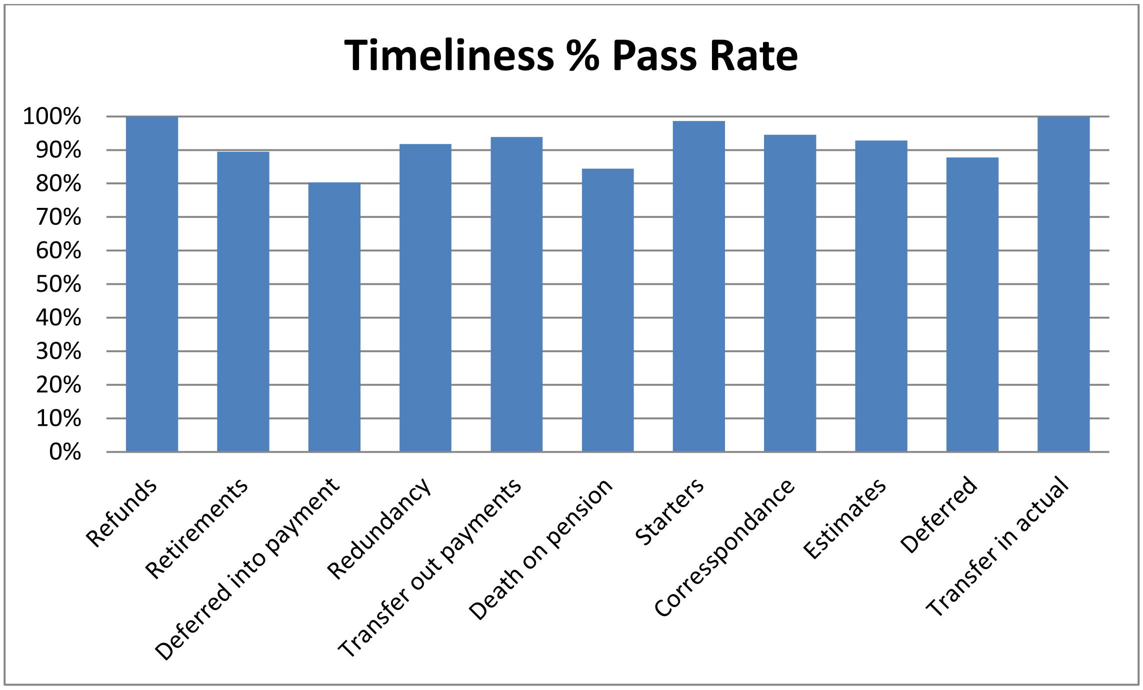
Documentation – Has the correct documentation been attached to members' files.

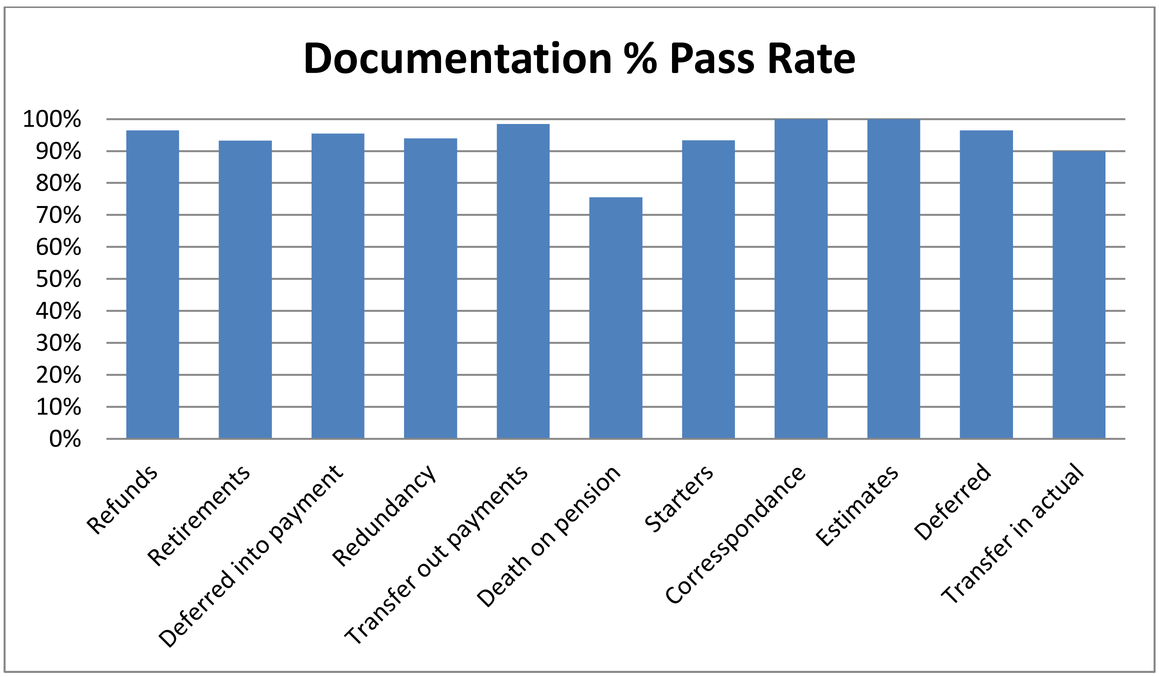
Axis – Does the pension administration system correctly reflect the activity processed.

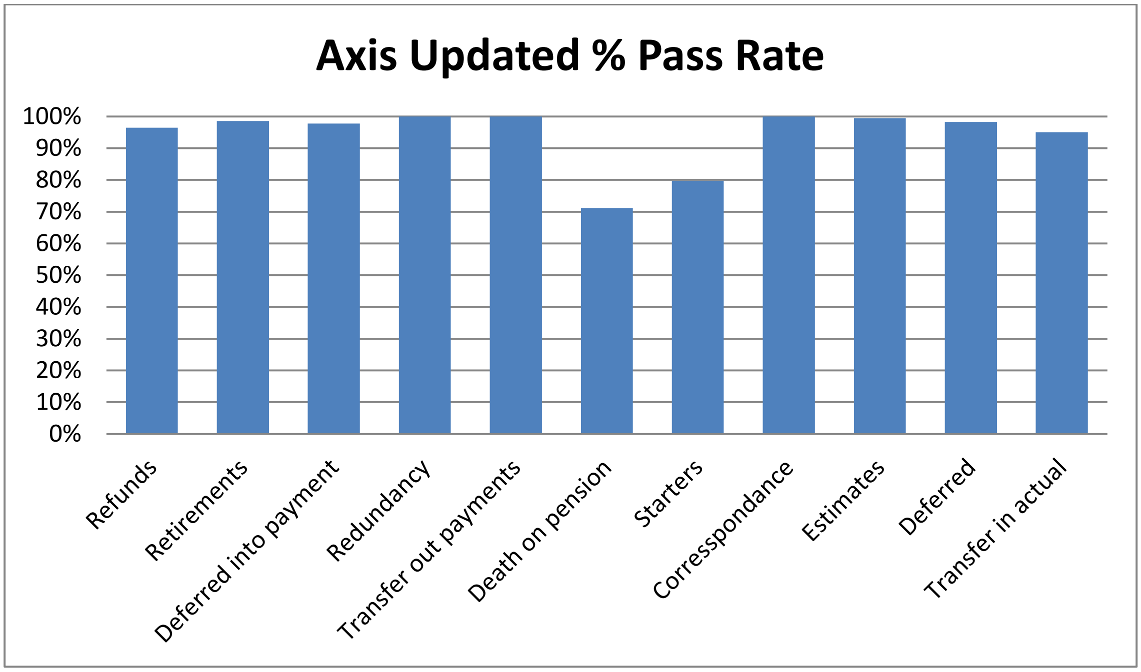
Ealing's in house pension team take monthly samples of work untaken by LPFA and assesses it against these criteria. Any 'fails' accrue resource credits to be used towards the Ealing contract. Performance statistics are reported to the Pension Fund Panel on a quarterly basis.

Below are performance graphs showing the pass rate LPFA achieved for 2011/12 across some of the most common and active areas within LPFA's remit.




Timeliness % Pass Rate
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Refunds
Retirements
Deferred into payment
Redundancy
Transfer out payments
Death on pension
Starters
Corresspondance
Estimates
Deferred
Transfer in actual


Documentation % Pass Rate
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Refunds
Retirements
Deferred into payment
Redundancy
Transfer out payments
Death on pension
Starters
Corresspondance
Estimates
Deferred
Transfer in actual



Internal Disputes Resolution Procedure

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

If the complainant is still dissatisfied with the decision they then have the right to refer the matter to the Stage 2 Deciding Officer to consider the matter under dispute. The Stage 2 Deciding Officer is Mike Allen, of the London Pension Funds Authority (LPFA).

If after the 2^{nd} 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

LPFA's website can be used by members for quick and easy access to

Since 1 April 2011, members have access to a dedicated pensions website www.yourpension.org.uk. Click the 'Ealing' option to view the latest information on the LGPS, Newsletters, Scheme Guides, Fact Sheets, Forms and Publications which are also available to download. An online calculator is also available to obtain an estimate of your pension and lump sum.

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

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

https://axise.yourpension.org.uk

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

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

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

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

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

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.

Nominated Co-habiting Partner

The Local Government Pension Scheme (LGPS) has a facility for a dependant’s pension to be paid in the event of your death to a co-habiting partner but only if you meet the conditions of the LGPS regulations and have registered the partnership within Ealing Council’s Pensions Scheme.

Even if your partnership meets all the requirements of the LGPS a dependant's benefit cannot be paid if the partnership has not been registered.

To be able to nominate a co-habiting partner, of either opposite or same sex, to receive a survivor's pension on your death, all of the following conditions must apply to both you and your nominated co-habiting partner and each condition must have applied for a continuous period of at least 2 years on the date you both sign the nomination form:

- both you and your nominated co-habiting partner are, and have been, free to marry each other or enter into a civil partnership with each other, and

- you and your nominated co-habiting partner have been living together as if you were husband and wife, or civil partners, and

- neither you or your nominated co-habiting partner have been living with someone else as if you/they were husband and wife or civil partners, and

- either your nominated co-habiting partner is, and has been, financially dependent on you or you are and have been financially interdependent on each other.

A nomination form is available on application or may be download from the LPFA website.

The nomination is only valid if all of the above conditions have been met for a continuous period of at least 2 years on the date you both sign the form.

Your partner is financially dependent on you if you have the highest income. Financially interdependent means that you rely on your joint finances to support your standard of living. It doesn't mean that you need to be contributing equally. For example, if your partner's income is a lot more than yours, he or she may pay the mortgage and most of the bills, and you may pay for the weekly shopping.

On your death, a survivor's pension would be paid to your nominated co-habiting partner if:

- the nomination has effect at the date of your death, and
- your nominated cohabiting partner satisfies us that the above conditions had also been met for a continuous period of at least 2 years immediately prior to your death.

Nominated co-habiting partners' pensions only apply to Employees in England or Wales who paid into the LGPS on or after 1 April 2008. Councillors in England or Wales cannot nominate a co-habiting partner to receive a survivor's pension.

STATEMENT OF THE CONSULTING ACTUARY

An actuarial valuation of the London Borough of Ealing Pension Fund was carried out as at 31 March 2010 to determine the contribution rates with effect from 1 April 2011 to 31 March 2014. The results of the valuation are contained in our report dated 31 March 2011.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of £610 million represented 70% of the Funding Target of £868 million at the valuation date. The valuation also showed that a common rate of contribution of 12.1% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit would be eliminated by an average additional contribution rate of 9.6% of pensionable pay for 20 years. This would imply an average employer contribution rate of 21.7% of pensionable pay in total.

In practice, each individual employer's position is assessed separately and the contributions required are set out in our report dated 31 March 2011. 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). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process.

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

	For past service liabilities	**For future service liabilities**
Rate of return on investments:		
- pre retirement	6.5% per annum	6.75% per annum
- post retirement	5.5% per annum	6.75% per annum
Rate of pay increases:	4.75% per annum	4.75% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension):	3.0% per annum	3.0% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2013. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2014.

Full details of the assumptions and methodology adopted for the valuation are set out in the actuarial valuation report.

GOVERNANCE POLICY AND COMPLIANCE STATEMENT

Governance Policy Statement

Introduction

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

Governance Framework

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

The governance framework is supported by:

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

Delegation of Function

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

Meetings

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

The Executive Director of Corporate Resources (Section 151 Officer), supported by the Director of Corporate Finance & Audit, is responsible for implementing Council policy and PFP decisions. Operating through the Treasury Risk and Investment Board (TRIB) a body that convenes monthly, the Sections 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 of \Corporate Finance & Resources.

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

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

Training

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

Pension Fund Panel Terms of Reference

The Terms of Reference of the PFP is as follows:

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

Review of this Policy Statement

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

London Borough of Ealing's Current Compliance Position

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

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

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

REQUIREMENT	COMPLIANCE	COMMENT
Structure		
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Compliant	The Council Constitution clearly sets out that responsibility for the management of the Pension Fund resides with Pension Fund Panel.
That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Partly Compliant	The larger admitted bodies e.g. Thames Valley University (TVU) 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.	Partly 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 of the PFP.
That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Partly Compliant	The Council does not have a secondary Committee or Panel. However, they are supported by the TRIB, and at least two members from this body also attend the PFP meetings.
Representation		
That all key stakeholders are afforded the opportunity to be represented within the main or secondary	Partially Compliant	Representation on the Pension Fund Panel is open to the larger admitted bodies

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

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

PENSION FUND ACCOUNTS

INTRODUCTION TO THE FUND, ACCOUNTING POLICIES AND PRINCIPLES

Introduction

1. The London Borough of Ealing Pension fund is part of the Local Government Pension Scheme (LGPS), which is a statutory, funded pension scheme. The LGPS benefits are defined and set out in law. There have been no significant changes to the LGPS scheme in the year 2011/12.

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

3. The Fund is operated under regulations made by the Department of Communities and Local Government under Section 7 of the Superannuation Act 1972.

4. Membership of the fund consists of contributing members, deferred members, pensioners, widows and dependants.

	31 March 2012	31 March 2011
Contributing members	6,242	6,379
Deferred members	6,350	6,248
Pensioners, widows and dependants	6,571	6,237

5. The Council is the administering authority of the scheme and has the major share of contributors and pensioners. There are now 20 contributing scheduled bodies and 7 admitted bodies. All of the bodies shown below contribute to the Fund.

Other employers contributing to the Fund as at 31st March 2012 are:

Scheduled Bodies

Brentside High
Brentside Primary
Cardinal Wiseman
Derwentwater Primary
Dormers Wells Infant
Dormers Wells Junior
Dormers Wells High
Dormers Wells Trust
Drayton Manor High
Edward Betham CE Primary
Ellen Wilkinson School for Girls
Featherstone High
Greenford High
Northolt High
St Ann's
Twyford Academy
University of West London (formally Thames Valley University)
West London Academy
Wood End Infants
Wood End Academy

Admitted Bodies

Compass Group
EC Harris
Greenwich Leisure
May Gurney (left 1 April 2012)
MITIE PFI
NSL Parking
Viridian Housing

6. All investments are managed by external fund managers, Lazard Asset Management Ltd for UK Equities, RCM (UK) Ltd for Global Equities and Royal London Asset Management Ltd for Corporate Bonds.

Accounting Policies

7. The pension fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2011/12 issued by CIPFA (Chartered Institute of Public Finance and Accountancy). The accounting policies contained in the Code apply International Financial Reporting Standards as adapted or interpreted for the public sector. IAS19 Employee Benefits and IAS26 Accounting and Reporting by Retirement Benefit Plans are of particular relevance to these statements. Where IAS26 is less detailed in its reporting requirements and this leads to lack of clarity then due to the hierarchy of standards recourse is to UK GAAP and thus the Pension SoRP (Statement of Recommended Practice). The fund accounts are not consolidated with the accounts of the authority.

8. Contributions from employees and employers, and other committed benefits and expenses are accounted for on an accruals basis.

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

10. Transfers to and from the fund were previously accounted for on a cash basis (in accordance with CIPFA's Code of Practice) but are now accounted for on an accruals basis. Practically this change only affects transfers out, as it is prudent to account for transfers in only when money has been received. Transfers out however are paid by the Pension Fund so the date of discharging member liability can be easily determined. This change provides more accurate transfer values and debtor/creditor amounts. The value of this change is immaterial, £93,141.56 was accrued for in 2011/12 and £124,552.26 would have been accrued for in 2010/11.

11. Both the costs of the investment management arrangements and pension fund administration expenses are charged to the Fund.

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

Actuarial Valuation

13. The Fund is valued by an independent actuary every 3 years. An independent valuation was carried out by Mercer Limited as at 31 March 2010 to determine the contribution rate from 1 April 2011 to 31 March 2014. It showed an excess of liabilities over assets of £258M, representing a funding level of 70%.

14. Contributions to the Scheme by employers are set at rates determined by the Scheme's Actuary and approved by the London Borough of Ealing Pension Fund Panel. The Council is meeting the fund's liabilities by a recovery plan that has been certified by the Actuary for the next three years. Since the 2010 Valuation this has required contributions from the Council and ex grant maintained schools of 12.1% of pensionable pay plus a fixed cash value (£9,664k in 2011/12, £10,123k in 2012/13 and £10,604k in 2013/14). Notionally this equates to 19.6% of pensionable pay (19.6% in 2010/11). Other Admitted and Scheduled bodies rates differed, reflecting different profiles of liabilities.

15. The contribution rates were calculated using the projected unit actuarial method from the 2010 Actuarial Valuation and the main assumptions were as follows:

	For Past Service Liabilities	For Future Liabilities
Investment Return	6.50%	6.75%
Earnings Growth	4.75%	4.75%
Price Inflation	3.00%	3.00%

16. The most recent actuarial valuation was carried out as at 31 March 2010 to determine the contribution rates for the next three years. It showed an excess of liabilities over assets of £258M. This excess will be addressed by increases in employer's contributions as necessary over a 20-year recovery period. The Actuary used a "market value" basis for the valuation of the Fund at 31 March 2010. Assets amounted to £610M representing 70% of the Fund's accrued liabilities of £868M.

17. In accordance with IAS 26 the actuarial present value of promised retirement benefits are shown in the attached report by the Actuary in the Appendix.

Basis for Valuation

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

    18.1. All valuations for investments at 31 March 2012 and transactions during 2011/12 financial year are obtained from the accounting records of the Custodian Bank of New York Mellon (BNYM). This is the same principle as applied in the 2010/11 accounts.

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

    18.3. Actively traded investments are valued on the basis of bid market prices where available or at fair value where these prices are not available.

    18.4. Unit trust and In-house funds are stated at the bid point of the latest prices quoted by their respective managers.

    18.5. Overseas investments are valued using official vendor feeds in accordance with BNYM's Global Pricing Guidelines and translated into sterling at the rate prevailing on 31st March 2012. IDC is usually used for foreign equities except US equities that are typically priced using Interactive Data Pricing and Reference Data Inc (IDSI).

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

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

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

Statement of Investment Principles (SIP)

20. The Statement of Investment Principles for Ealing Pension Fund was reviewed as part of the annual report covering the 2011/12 Annual Accounts and approved by the Pension Fund Panel as Trustees of the Fund on 8 December 2011. The SIP is published on Ealing's web site and is available to any interested party.

PENSION FUND - FUND ACCOUNT

Dealings with members, employers and others directly involved in the scheme	2011/12 £000	2010/11 £000
INCOME		
Contributions: (note 11)		
-employer contributions	31,519	27,191
-member contributions	9,206	9,777
Transfers in from other pension funds	4,543	5,089
Other Income (note 10)	1,129	309
	46,397	42,366
EXPENDITURE		
Benefits: (note 12)		
-pensions	27,096	25,562
-commutation of pensions & lump sum retirement benefits	6,981	4,203
-lump sum death benefits	211	759
Payment to and on account of leavers:		
-refunds of contributions	39	22
-transfers out to other schemes	2,803	9,253
Other Payments:		
Administrative expenses (note 8)	1,006	1,149
	38,136	40,948
Sub-total: Net additions from dealings with members	8,261	1,418
RETURNS ON INVESTMENTS		
Investment Income		
-income from fixed interest securities	11,085	10,088
-dividends from equities	13,965	11,075
-pooled funds	328	227
-interest on cash deposits	41	32
Profit and losses on disposal of investments and changes in value of investments	2,568	20,844
Investment management expenses (note 9)	(2,223)	(2,324)
Sub-total: Net returns on investments	25,764	39,942
Surplus / (Deficit) on the fund for the year	34,025	41,360
Net assets of the scheme at 1 April	657,507	616,147
Net assets of the scheme at 31 March	691,532	657,507

PENSION FUND - NET ASSETS STATEMENT

	2011/12 £000	2010/11 £000
INVESTMENT ASSETS		
Fixed Interest Securities		
UK Corporate Bonds	186,262	162,821
UK Government	813	964
Other UK	3,912	10,748
Equities		
UK	231,203	228,127
North America	73,275	59,295
Europe	106,179	107,497
Japan	16,407	22,061
Pacific	18,497	18,166
Emerging Markets	10,919	17,492
Other	6,987	5,728
Pooled Investment Vehicles		
Other managed funds	4,191	3,931
Cash deposits (note 6)		
Cash held by custodian	79	992
Money market instrument	13,051	6,131
Other Short Term Investment Balances		
Debtors		
Interest due	4,218	3,794
Dividends due	2,131	1,428
Recoverable tax on dividends	546	498
Unsettled sales	1,327	-
Other Income receivable	5	5
Total Investment Assets	680,002	649,678
INVESTMENT LIABILITIES		
Other Investment Balances		
Creditors		
Unsettled purchases	(3,509)	(1,175)
NET INVESTMENTS (Under External Management)	676,493	648,503
LONG-TERM FINANCIAL ASSETS		
Long Term Debtors (note 7)	-	938
Total Long-term Financial Assets	-	938
CURRENT ASSETS		
Contributions due from employers (note 13)	364	525

Payments in advance (note 13)	6	1
Other Debtors (note 13)	-	862
Cash balances not forming part of investment assets	16,076	7,318
Total Current Assets	16,446	8,706
CURRENT LIABILITIES		
Unpaid benefits (note 14)	(735)	(18)
Accrued expenses (note 14)	(672)	(622)
Total Current Liabilities	(1,407)	(640)
TOTAL NET ASSETS	691,532	657,507

The Financial statements summarise the transactions of the scheme and show the net assets of the fund at the disposal of the Pension Fund. They do not take account of obligations to pay pensions and benefits, which fall due after the end of the scheme year. The actuarial position of the fund that takes account of such liabilities is described in the notes to the accounts and through the accompanying report.

RECONCILIATION OF OPENING NET ASSETS TO CLOSING NET ASSETS

	Net Assets of Scheme 31/03/2011 £000	Purchases of Investments £000	Sales of Investments £000	Increase in fund during year £000	Cash Applied to Investment during year £000	Net Assets of Scheme 31/03/2012 £000
Lazard	244,474	120,824	(114,162)	(2,512)		248,624
RCM	213,892	59,760	(57,877)	(932)		214,843
RLAM	178,464	50,907	(40,309)	6,116		195,178
Cash held by Custodian	992			(1,284)	371	79
Money Market Instruments	6,131	106,526	(99,606)			13,051
Investment Income Due	5,720			26,602	(25,427)	6,895
Unsettled Sales	-				1,327	1,327
Other Investment debtors	5					5
Unsettled Purchases	(1,175)				(2,334)	(3,509)
Net External Investments	**648,503**	**338,017**	**(311,954)**	**27,990**	**(26,063)**	**676,493**
Net Current Assets with LBE	9,004			6,035		15,039
Net Assets	**657,507**	**338,017**	**(311,954)**	**34,025**	**(26,063)**	**691,532**
				Note (i)	Note(ii)	

Increase in Fund during Year	2011/12 £000	2010/11 £000	
Change in Market Value of Investments	2,568	20,844	
Net Additions from dealings with Members	8,261	1,418	
Investment Management Expenses	(2,223)	(2,324)	
Investment Income	25,419	21,422	
Fund Manager Commission in Investment Management expenses			
Net Increase in Fund during the year	**34,025**	**41,360**	Note (i)

Change in Investments during 2011/2012	2011/12 £000	2010/11 £000	
Purchases for the Year	338,017	358,877	
Less Sales for the Year	(311,954)	(336,925)	
Net increase in Investments at book cost	**26,063**	**21,952**	
Funded By:			
Distribution of Cash Fund managers	-	-	
Investment Income received for re-investment during year	25,427	20,912	
Cash receipts applied to investment during year	636	1,040	
Fund Manager Commission in Investment Management expenses	-	-	
Net Investment in Fund	**26,063**	**21,952**	Note(ii)

NOTES TO THE ACCOUNTS

1. The Fund investment management arrangements were last reviewed in 2006/07. The Pension Fund Panel appointed RCM for Global Equities, Lazards for UK Equities and Royal London Asset Management (RLAM) for UK Corporate Bonds and the transition to the new arrangements was completed in April 2007. The three specialised managers have also been set out-performance targets of 2.0% pa for Lazard and RCM and 1.0% pa for RLAM against their selected benchmarks.

2. The Fund's investments as at 31st March 2012 continued to be managed by Lazard, RCM and RLAM, acting under the direction of the Pension Fund Panel. The Market Value of the investments managed by each fund manager at 31st March 2012 was £254m, £222m and £200m respectively based on the Custodian BNYM valuation. The asset classification by sector shown in the accounts for 2011/12 is provided by the Custodian, this is consistent with the figures in 2010/11.

3. The proportion of the externally managed assets held by the fund managers as at 31st March 2012 compared to the target allocation are:

	Proportion 2011/12	Proportion 2010/11	Target Allocation
Lazard	37%	38%	42%
RCM	33%	34%	33%
RLAM	30%	28%	25%

4. Investment transactions for the Fund, excluding cash instruments, are shown below. Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs charged directly to the scheme include fees, commissions, stamp duty and other fees. In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

	2011/12	2010/11
Sales	£212m	£222m
Purchases	£231m	£242m
Transaction Costs	£918k	£961k

5. Securities which exceed 5% of an asset class or type of security are shown below. There are no securities which exceed 5% of net assets.

Holding	2011/12 £000		2010/11 £000	
Royal Dutch Shell Plc B Shares	12,926	5.6% of Global equities	14,626	6.2% of Global equities
BP Plc Ordinary Shares	15,395	6.7% of UK equities	14,329	6.5% of UK equities
Vodafone Group Ordinary Shares	12,457	5.4% of UK equities	13,861	6.3% of UK equities
GlaxoSmithKline Ordinary Shares	12,229	5.3% of UK equities	7,259	3.3% of UK equities
British American Tobacco Ordinary Shares	11,886	5.1% of UK equities	4,467	2.0% of UK equities
RBS Global Treasury GBP Fund	13,051	100% of Cash instruments	6,131	100% of Cash instruments
RLAM Bond Funds Plc Sterling Extra Yield	4,191	100% of Pooled Funds	3,931	100% of Pooled Funds

6. In addition to the sales and purchases of investments there was a further net investment during the year in an overnight money market fund. The Custodian also held some funds in currency accounts at 31 March 2012.

	2011/12 £000	2010/11 £000
Cash held by custodian	79	992
Money market instrument	13,051	6,131

7. Long term debtors in 2010/11 relate to money due to be paid to the Pension fund, payable within 1 and 5 years in relation to Augmentation strain costs from Early retirements. This debtor was paid in 2011/12.

8. Administrative Expenses

	2011/12 £000	2010/11 £000
Actuarial expenses	32	93
Pension administration & payroll	859	937
External audit	34	26
Other administrative expenses	81	93
	1,006	**1149**

9. Investment Expenses

	2011/12 £000	2010/11 £000
Fund management	1,833	1,951
Custodian	69	74
Investment consultancy	40	41
LB Ealing recharge	255	220
Other Investment expenses	26	38
	2,223	**2,324**

10. Other income earned by the pension fund includes the costs from early retirements, class action claims,

and internal interest on cash balances held by the Council. There were no tax refunds during 2011/12. During 2011/12 there were 44 early retirements accounted for (5 in 2010/11).

	2011/12 £000	2010/11 £000
Income in relation to Early retirements	1,063	228
Internal interest	53	35
Class action income	13	6
Tax refunds	0	40
	1,129	**309**

11. The total contributions split by administering authority, scheduled bodies and admitted bodies.

	2011/12 £m	2010/11 £m
Administering authority (LB Ealing)	35.1	29.7
Scheduled bodies	5.1	6.8
Admitted bodies	0.5	0.5
	40.7	**37.0**

During 2011/12 London Borough of Ealing paid £5m to the Pension Fund as an initial payment for the conversion of Compensatory Added Years Pensions into Fund Benefits as enabled by 13(A) of the LGPS (Benefits Membership and Contributions) Regulations 2007. Annual payments of £1.09m are then to be paid until 31st March 2032.

12. Benefits Payable

	2011/12 £m	2010/11 £m
Administering authority (LB Ealing)	31.3	27.6
Scheduled bodies	2.7	2.6
Admitted bodies	0.3	0.3
	34.3	**30.5**

13. Debtors

	2011/12 £000	2010/11 £000
Central government bodies	0	0
Local authorities	235	1,154
NHS bodies	0	0
Public corporations & trading funds	0	0
Bodies external to general government	135	234
	370	**1,388**

14. Creditors

	2011/12 £000	2010/11 £000
Central government bodies	1	1
Local authorities	0	0
NHS bodies	0	0
Public corporations & trading funds	0	0
Bodies external to general government	1,406	639
	1,407	**640**

Additional Voluntary Contributions

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

- Scottish Widows £103,754.96, 1 April 2011 - 31 March 2012 (£63,356.11, 1 April 2010 - 31 March 2011)
- Equitable Life £7,325.12, 1 November 2010 - 31 October 2012 (£8,339.07, 1 November 2009 - 31 October 2010)

The latest available fund valuations are as follows:

	2011/12 £000	2010/11 £000
Scottish Widows with Profits Fund (31 March 2012)	**586**	**478**
Equitable Life with Profits Fund	194	240
Equitable Life Unit Linked Fund	164	187
Equitable Deposit Account Fund	60	96
Total Value of Equitable Life Funds (31 October 2011)	**418**	**523**
	1,004	**1,001**

IFRS 7 Nature and extent of risks arising from Financial Instruments

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

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

Liquidity risk - the possibility that the Fund might not have funds available to meet its commitments, in particular pension benefits.

Market risk - the possibility that financial loss might arise for the Fund as a result of changes in such measures as interest rates and stock market movements.

17. **Credit Risk**

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

The Funds maximum exposure to credit risk in relation to its investments cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments.

The Bond portfolio is managed closely with reference to credit ratings and duration management. The managers are only allowed to invest in investment grade bonds. The Council's Bond manager also invests in unrated bonds on which they carry out their own due diligence and award proprietary ratings to. The bond manager, has a comprehensive set of risk controls against which all portfolios are measured and monitored. Portfolio risk is evaluated using UBS Delta allowing them to Value At Risk (VAR). Portfolios are monitored on a live basis on a fund management system, 'ThinkFolio', where applicable mandate guidelines are built in.

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

Non-investment transactions go through Ealing Council’s bank account and balances are transferred throughout the year. As Ealing Council is a local authority the Pension Fund’s credit risk is considered negligible. There is however indirect exposure to the Council’s investments but credit risk is managed by employing a restricted counterparty list (Local Authorities, UK banks rated at least AA- or who have been fully or partly nationalised and UK Treasury Bills).

The table below highlights the credit risk exposure to internally managed Pension Fund cash as at 31st March 2012.

Counterparty	Fitch Long Term Rating	2011/12 £m	2010/11 £m
Lloyds TSB Bank plc	A	6	-
RBS Banking Group plc	A	8	-
HSBC Bank plc	AA	-	-
London Borough of Ealing	N/A	2	-
		16	**-**

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

18. **Liquidity Risk**

The Pension fund transactions are actioned through the Administering Authority Bank Account. The authority has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the authority has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

Pension fund transaction will continue to be transacted through the Administering Authority Bank Account and the relevant balance will be transferred between the authority and the fund throughout the year. The pension fund maintains the liquidity of its internal cash balances by investing in highly liquid accounts (RBS account is instant access and Lloyds a 32 day notice account). This enables instant access to cash to meet expenditure liabilities as they fall due.

The pension Fund is cash positive so there is a very low risk that the pension fund cash would be fully depleted. Budgeting and forecasting exercises are carried out to monitor this situation. The Pension fund could draw money down from the Fund managers' investment portfolios if expenditure exceeded income, as the scheme is mainly invested in highly marketable securities.

19. **Market Risk**

19.1. Actuarial Risk

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

The Administering Authority has been advised by the actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity-based strategy, so that actual asset out-performance of gilts between successive valuations could diverge significantly from the overall 1.4% per annum currently required on the basis of the 2010 valuation assumptions.

19.2. Price Risk

The Fund invests in equity shares; consequently it is exposed to losses arising from movements in the prices of shares. The Council is responsible for the investment return achieved on the Fund's assets. The investment objective is to maximise investment returns over the long term within specified risk tolerances. Investment returns are defined as the overall rates of return (capital growth and income). The Pension Fund Panel has decided that, given the financial circumstances of the Fund, it can afford to take on some risk in the pursuit of incremental return particularly given the strong liquidity status of the fund i.e. being cash flow positive.

The Council seeks to diversify risk through having more than one investment management firm with different strategies and investment philosophies to manage the assets of the Fund. Currently, there are three investment managers, with an additional investment manager to be appointed in 2012 to manage a commercial property mandate. The investment policy is to appoint expert investment managers with clear performance benchmarks and to place maximum accountability for out performance against those benchmarks on the investment manager. Ealing has adopted an active specialist approach to investment management.

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

The Fund invests in UK Fixed Interest Corporate Bonds, which also exposes the Fund to losses arising from price movements and downgrading of bonds. Bonds in general are considered less risky than stocks, because Bonds carry the promise of their issuer to return the face value of the security to the holder at maturity. Most bonds also pay investors a fixed rate of interest income that is also backed by a promise from the issuer. Historically the bond market has been less vulnerable to price swings or volatility than the stock market, however the average returns from bond investments have also been historically lower, if more stable, than average stock market returns.

Where the bond manager is holding bonds that have been downgraded, and this bond is retained in the portfolio, the Investment manager must explain to the Pension Fund Panel the reasons for retention and update regularly. With downgraded bonds there is the risk that their value will sustain further significant falls, however the Investment manager may predict the reason for downgrade to be temporary based on their expert knowledge of the market.

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

Asset Type	2011/12 £000	% change	Increase £000	Decrease £000
UK Bonds	190,987	7.5	205,311	176,663
UK Equities	231,203	14.6	264,959	197,447
Overseas Equities	232,264	14.9	266,871	197,657
Pooled Investment Vehicles	4,191	7.5	4,505	3,877
Other non-market balances	32,887	0.0	32,887	32,887
Total Net Assets	**691,532**		**774,533**	**608,531**

Asset Type	2010/11 £000	% change	Increase £000	Decrease £000
UK Bonds	174,533	7.5	187,623	161,443
UK Equities	228,127	14.6	261,434	194,820
Overseas Equities	230,239	14.9	264,545	195,933
Pooled Investment Vehicles	3,931	7.5	4,226	3,636
Other non-market balances	20,677	0.0	20,677	20,677
Total Net Assets	**657,507**		**738,505**	**576,509**

19.3. Inflation Risk

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

19.4. Interest Rate Risk

Cash balances and Fixed interest securities have a more direct exposure to interest rate movements than equities. The cash flows of the former and market value of the latter are influenced by movements in market interest rates. The sensitivity analysis below looks at the effect of a change in year of 0.5% (GBP 7 day LIBID).

Asset Type	2011/12 £000	% change	Increase £000	Decrease £000
Fixed Interest Securities	190,987	0.5	191,942	190,032
Cash held externally	13,130	0.5	13,196	13,064
Cash held internally	16,076	0.5	16,156	15,996
Total	**220,193**		**221,294**	**219,092**

Asset Type	2010/11 £000	% change	Increase £000	Decrease £000
Fixed Interest Securities	174,533	0.5	175,406	173,660
Cash held externally	7,123	0.5	7,159	7,087
Cash held internally	7,318	0.5	7,355	7,281
Total	**188,974**		**189,920**	**188,028**

19.5. Foreign Exchange risk

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

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

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

The table below analyses the effect of exchange rate changes on the Pension Fund. Potential currency fluctuations were calculated by our performance analysts The WM Company.

Asset Type	2011/12 £000	% change	Increase £000	Decrease £000
North America	73,275	9.2	80,016	66,534
Europe	106,179	7.8	114,461	97,897
Japan	16,407	13.3	18,589	14,225
Pacific	18,497	7.2	19,829	17,165
Emerging Markets	10,919	7.9	11,782	10,056
Other balances	466,255	0	466,255	466,255
Total	**691,532**		**710,932**	**672,132**

Asset Type	2010/11 £000	% change	Increase £000	Decrease £000
North America	59,295	9.2	64,750	53,840
Europe	107,497	7.8	115,882	99,112
Japan	22,061	13.3	24,995	19,127
Pacific	18,166	7.2	19,474	16,858
Emerging Markets	17,492	7.9	18,874	16,110
Other balances	432,996	0	432,996	432,996
Total	**657,507**		**676,971**	**638,043**

IAS 24 Related Party Transactions

20. The London Borough of Ealing is the administrator of the London Borough of Ealing Pension Fund. The Council charged the Pension Fund £732k for expenses incurred in administering the fund in 2011/12 (£697k 2010/11). The Council paid £8k interest in respect of 2011/12 cash balances held on behalf of the Pension Fund (£35k 2010/11). The total cash balance held by the Council at 31 March 2012 on behalf of the Pension Fund was £2.2M (£7.3M at 31 March 2011).

    Members of the Pension Fund panel are required by law to declare certain interests when they become a Councillor and a full register is kept by the Head of Democratic Services and published on the Council's website. Councillor Johnson is portfolio holder for Finance and Performance at Ealing Council and Councillor Sabiers is deputy. Councillor Manro is Governor of Greenford High School, a Scheduled body in the Pension Fund. Councillor Potts, Councillor Young and Councillor Manro are all members of the Pension Fund. There were no other relevant declarations of interest by members of the Pension Fund panel.

    All Council employees acting as officers of the Pension Fund were members of the Pension Fund during 2011/12.

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

    £364k was due in contributions from employers of admitted and scheduled bodies contributing to the fund at 31 March 2012.

    There are no known material transactions with related parties that are not already disclosed.

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

LONDON BOROUGH OF EALING PENSION FUND
Accounts for the year ended 31 March 2011
Statement by Consulting Actuary

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.

In order to assess the value of the benefits on this basis, we have used the same actuarial assumptions as those used for funding purposes, other than the discount rate where we have used a rate of 5.6% p.a. both before and after retirement, rather than the rates as outlined above. We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. On this basis, the value of the Fund's promised retirement benefits as at 31 March 2010 is £916 million.

We have also carried out similar calculations as at the previous actuarial valuation date of 31 March 2007, using the same actuarial assumptions as those used for funding purposes at that date, other than the discount rate where we have used a rate of 5.4% p.a. both before and after retirement. On this basis, the value, for IAS 26 purposes, of the Fund's promised retirement benefits at that date was £822 million.

Paul Middleman
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2011

Explanation on Accounts

The Council's Pension Fund net assets increased from £616.1m (the restated value) to £657.5m during the year: an increase of 6.7%. This, combined with a reduction in liabilities, led to a reduction of £90m in the Council element of the pension fund deficit (as calculated on the IAS19 basis).

The council's actuary undertook the triennial review as at March 2010 resulting in three noteworthy actions, following from the calculated assets to liabilities ration of 70%

1. The recovery period was extended from 17 years to 20 years.
2. The employee contribution rates were held at the previous levels.
3. Employee contributions in their totality are now fixed at a cash level, to give the fund confidence in its revenue stream going forward. This will be monitored annually.

The Council's statement of accounts has been produced under the CIPFA/LASAAC Code of Practice on Local Authority Accounting and complies with International Financial Reporting Standards.

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 Director of Corporate Finance & Audit

The Director of Corporate Finance & Audit 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 Director of Corporate Finance & Audit 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 Director of Corporate Finance & Audit 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 2012 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.

Simon George

Director of Corporate Finance & Audit

AUDIT OPINION

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF EALING PENSION FUND

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of London Borough of Ealing in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Corporate Finance and Audit and auditor

As explained more fully in the Statement of the Director of Corporate Finance and Audit Responsibilities, the Director of Corporate Finance and Audit is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Corporate Finance and Audit and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if, in my opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I have nothing to report in this respect.

Andrea White
District Auditor
First Floor Millbank Tower
Millbank
London
SW1P 4HQ

28 September 2012

FUNDING STRATEGY STATEMENT (FSS)

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

Introduction

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

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

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

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

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

Purpose of the FSS in policy terms

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

The purpose of this Funding Strategy Statement is:

- **to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;**
- **to support the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and**
- **to take a prudent longer-term view of funding those liabilities.**

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

Aims and purpose of the LBEPF

The aims of the fund are to:

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies
- manage employers' liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due, and
- maximise the returns from investments within reasonable risk parameters.

The purpose of the fund is to:

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

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

Responsibilities of the key parties

The Administering Authority should:

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

The Individual Employer should:

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

The Fund actuary should:

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

The funding objective

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

Determination of the funding target and recovery period

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

Underlying these assumptions are the following two tenets:

- that the Scheme is expected to continue for the foreseeable future; and

- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer (or employer grouping), following a principle of no cross-subsidy between the various employers in the Scheme. In attributing the overall investment performance obtained on the assets of the Scheme to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole.

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

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

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

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

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

Deficit Recovery Plan

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

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

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

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

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

Employer Contributions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

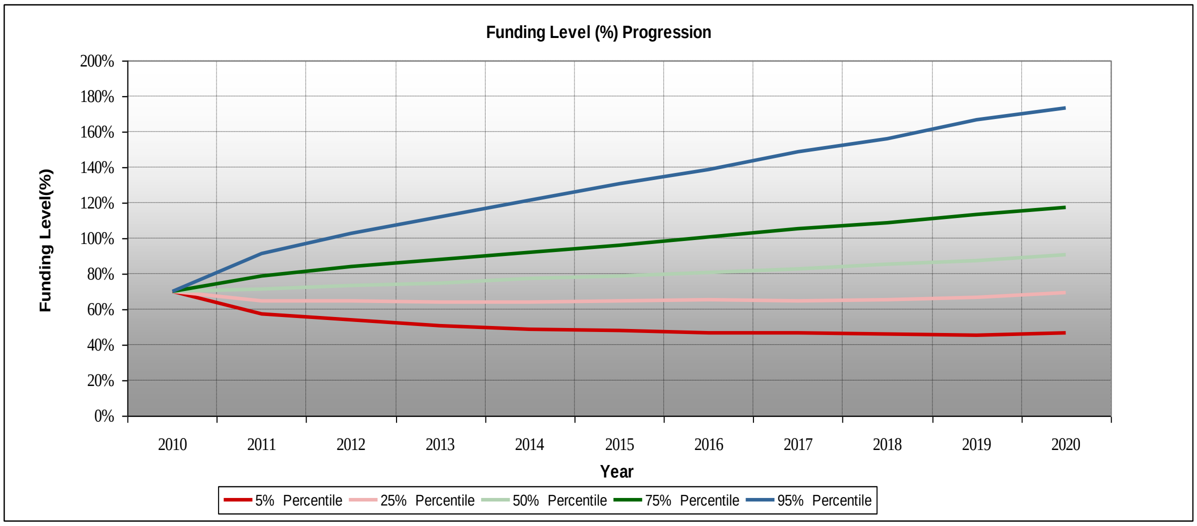
The funding strategy adopted for the 2010 valuation is based on an assumed asset out-performance of 2% in respect of liabilities pre-retirement, and 1% in respect of post-retirement liabilities. Based on the liability profile of the LBEPF at the valuation, this equates to an overall long-term asset out-performance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

Identification of risks and counter-measures

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

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

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



The CIPFA guide identifies the following key risks:

Financial

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

Demographic

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

Regulatory

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

Governance

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

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

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

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

Monitoring and Review

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

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

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

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

APPENDIX TO FSS

Actuarial Valuation as at 31 March 2010

Method and assumptions used in calculating the funding target

Method

The actuarial method to be used in the calculation of the funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted (the Attained Age method), which makes advance allowance for the anticipated future aging and decline of the current closed membership group.

Financial assumptions

Investment return (discount rate)

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

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

Individual Employers

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

Price Inflation (Consumer Prices Index)

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

Salary increases

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

Pension increases

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

Demographic assumptions

Mortality, Ill-Health and Proportions Married

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

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

Commutation

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

Early Retirement

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

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

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

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

Method and assumptions used in calculating the cost of future accrual

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

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

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

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

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

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

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

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

Assumptions used in calculating contributions payable under the recovery plan

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

Investment return on existing assets and future contributions

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

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

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

STATEMENT OF INVESTMENT PRINCIPLES

Introduction

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

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

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

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

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

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

Investment Responsibilities

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

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

Liabilities

The Pension Fund is a defined benefit scheme, which provides main benefits related to final salary for members. Each member's main benefits are specified in terms of a formula based on salary and service and are unaffected by the investment return achieved on the assets. There are some discretionary benefits, which can be agreed by the Council but these additional benefits will be considered in the light of the overall level of funding in the scheme. Full scheme benefit details are set out in the LGPS regulations.

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

The Council is responsible for the investment return achieved on the Fund's assets. The investment objective is to maximise investment returns over the long term within specified risk tolerances. Investment returns are defined as the overall rates of return (capital growth and income). The Pension Fund Panel has decided that, given the financial circumstances of the Fund, it can afford to take on some risk in the pursuit of incremental return. However, the Panel has decided that the risk level should be such that the possibility of the funding level falling by 25% from the current level, over the next five years, is small.

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

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

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

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

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

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

The individual managers' current activity and transactions are reported quarterly to the Pension Fund Panel who question and seek explanations from the investment consultant and investment managers (when asked to attend Panel meetings) on their activities and performance. The investment performance of the managers is calculated independently by the WM Company.

Eligible Assets

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

Acceptable Asset Classes are:

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

There are some Investment Restrictions:

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

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

Social, Environmental and Ethical Considerations

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

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

The Panel require the Fund's Investment Managers to have a formal policy on how they take social and environmental issues into account when investing on behalf of the Fund. The Panel will review these policies from time to time and will, where it is deemed necessary, engage the Investment Manager in discussion on these policies. It will, however, be made clear to the Investment Managers that any decisions by the Investment Managers should be in the best long term financial interest of the Fund and its stakeholders.

Corporate Governance

The Council wishes to be an active shareholder and exercise its voting rights to promote and support good corporate governance principles in particular with regard to management and reporting. In practice, investment managers have delegated authority to exercise the Funds' voting rights in this respect, subject to the Council's prerogative to give specific instructions to the investment managers to vote in accordance with Council's voting policies.

The Council's voting policies reflect these main concerns:

- To protect its rights as a shareholder.
- To ensure that corporate governance standards are consistent with protecting shareholder value.
- To promote good corporate governance standards in order to enhance longer term value.
- To protect and promote the interests of the Council and its residents and workforce.

Compliance

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

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

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

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

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

COMPLIANCE WITH MYNERS PRINCIPLES

Myners Updated Investment Principles – Compliance Statement

Updated Myners Principles were published in October 2008.

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

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

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

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

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

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

Principle 2: Clear objectives (Current Principles 2, 5 and 7)

Principle

Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

Best Practice Guidance

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

✓ **Full compliance. The Fund's objectives are set out in the Statement of Investment Principles. Fund managers operate to detailed written mandates that give clear investment objectives and timescales for measurement (rolling three years) set out in their Investment Management Agreement. A number of benchmark indices have been set for each asset class. Control ranges are in place consistent with performance targets to which the fund managers should work.**

The fund has three specialist mandates. The fund considered the full range of asset classes when setting its strategic asset allocation in 2003. In doing so, it had regard to its objective of moving from a funding level of 68% in 2004 to 100% by 31st March 2024. Alternative asset classes are reviewed from time to time and researched as appropriate. Members have agreed to diversify their return seeking assets and invest in UK commercial property accessing this asset class via a pooled vehicle. It Is anticipated that property managers will be in place by 2013.

Management styles and the impact of investment management costs are considered at the time of the regular procurement exercises.

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

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

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

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

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

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

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

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

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

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

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Principle 5: Responsible ownership (Current Principle 6)

Principle

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

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

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

Best Practice Guidance

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

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

Trustees review the Exercise of voting rights are quarterly meetings.

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

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

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

COMMUNICATIONS POLICY STATEMENT

London Borough Of Ealing Pension Fund

Communications Policy Statement

Introduction

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

Communications Objectives

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

Stakeholders

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

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

Policy

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

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

Scheme members:

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

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

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

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

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

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

Review of this Communications Statement

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

GLOSSARY

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

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

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

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

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

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

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

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

Advisory boards
A private equity board of external advisers, which provides advice and is a focus for sharing information, provided by a private equity company.

Alternative assets
These are investments such as high yield bonds, hedge funds and private equity. They are introduced into a portfolio to diversify risk and enhance returns.

Asset allocation
The apportionment of a fund's assets between asset classes and/or markets (also see Bet). Asset allocation may be either strategic i.e. long-term, or tactical i.e. short-term, aiming to take advantage of relative market movements.

Asset classes
A specific category of assets or investments, such as stocks, bonds, cash, international securities and real estate. Assets within the same class generally exhibit similar characteristics, behave similarly in the marketplace and are subject to the same laws and regulations.

Benchmark
A ‘notional’ fund or model portfolio which is developed to provide a standard against which a manager’s performance is measured, e.g. for a global equity fund the benchmark against which it will be measured could be made up of 70% UK equities and 30% overseas equities. A target return is generally expressed as some margin over the benchmark.

Bond
A security issued by a corporate or government body borrowing in the capital markets. Bonds promise to pay interest (coupons) during the life of the bond plus the main amount borrowed. Corporate bonds may be secured over the assets of the firm or they can be unsecured.

Corporate bond
A term used for all bonds other than government bonds.

Corporate governance
Governance for local authorities is defined as how they ensure that they do the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. It comprises the systems processes, culture and values, by which local government bodies are directed and controlled, and through which they account to, engage with and where appropriate lead their communities.

Custody/custodian
Safe-keeping of securities by a financial institution. The custodian keeps a register of holdings and will collect income and distribute monies according to client instructions.

Defined benefit scheme
A scheme where the benefits are defined and paid, irrespective of contributions or investment performance.

Diversification
The spreading of a fund’s investments among different asset classes, markets and geographical areas in order to reduce risk. Diversification is a basic principle of multi-asset management.

Dividend
A payment distributed by a company to equity shareholders

Duration
A measure of a bond’s sensitivity to a change in yield. It can be measured in years.

Ethical investment
Where investment is restricted to companies undertaking business in accord with an ethical definition. This could cover companies not engaging in arms manufacture.

Equities
The general term for ordinary shares issued in UK and overseas companies.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Securities
Investments in company shares, fixed interest or index-linked stocks.

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

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

Sovereign debt
Bonds issued by a government.

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

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

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

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

Transaction costs
Costs resulting from managing a portfolio.

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

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

Yield
A measure of the return earned on an investment.

Source CIPFA Tisonline Pensions June 2009