LONDON BOROUGH OF EALING
PENSION FUND




ANNUAL REPORT & ACCOUNTS 2008/09

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BEST ACHIEVING COUNCIL 2009 THE MJ 2009 AWARDS

LGC Finance Awards 2009 WINNER

CONTENTS

CHAIRMAN'S STATEMENT

Cllr John Cowing, Chairman of the Pension Fund Panel

It is with pleasure that I introduce to you the London Borough of Ealing Pension Fund Annual Report & Accounts for the accounting year ended 31 March 2009. The Pension Fund Panel, which I chair, has responsibility for overseeing the management of the London Borough of Ealing (LBE) Pension Fund. From this year onwards it is a statutory requirement for all Local Government Pension Scheme (LGPS) schemes to produce a Pension Fund Annual Report. Last year, we produced a comprehensive Pension Fund Annual Report which was published on our website and we sent an abridged version in conjunction with an update of the new look LGPS scheme to all members.

The 2008/2009 financial year has certainly been a challenging one for the LBE Pension Fund, given the introduction of a new LGPS Scheme from 1 April 2008, the volatility in stock markets and the ongoing financial crises. The market turmoil has resulted in a significant fall in the Fund's asset value from £554.5M at the start of the year to £437.6M at the end. Economic downturns are not unique, though the scale and nature of this one has been unprecedented. However, share prices are expected to recover over the long term, though it is too early to predict how soon we will see a full economic recovery. At the time of writing the downward trend appears to have reversed and the Fund's asset values have started to recover.

I must however emphasise that your pension is safe, regardless of whether you are a contributing member, a pensioner or a deferred member. This is because your statutory pension promise is based on final salary and length of service. The effect of market volatility on the assets of the Fund will therefore not affect the pension you currently receive or are entitled to.

Notwithstanding the above, as part of our risk management approach, the Pension Fund Panel (PFP) will continue to monitor its investment strategy very carefully in the coming months, especially in light of the gloomy outlook following the 'credit crunch'. In doing so, we will listen carefully to the views of our advisers, and the employers of the Fund to ensure that we continue to maintain the financial health of the Fund over the long term. The ongoing challenge is to continue to find the optimum balance between securing strong investment returns for the Fund, while looking for opportunities to reduce risk. I am confident that we have the right strategy and the right resources in place to achieve this.

The Local Government Pension Scheme (LGPS) has come under increased scrutiny during the recession as the costs of running the scheme have increased mostly because people are living longer into retirement and asset values have fallen. Government reviews of the LGPS Scheme will undoubtedly continue, but we are committed to working with our advisers to develop dynamic investment strategies and solutions to increase the value of the Fund and therefore reduce costs.

We are continually striving to improve the nature and quality of communication with members. To this end, I hope you enjoy reading this report, but we will welcome any feedback in terms of quality and suitability of the information provided. Contact details are provided in the section “Staff, Advisors and Investment Managers”.

SUMMARY 2008-09

- The value of the Fund fell from £554.5M to £437.6 at the end of the financial year; a decrease of 21.1%

- The year ended 31 March 2009 was the worst fiscal year recorded by the WM Local Authority Universe, (the peer group of some 87 funds against which the authority benchmarks itself) and none of the funds managed to achieve a positive return.

- The introduction of the new-look Scheme in April 2008 made changes to both the benefit structure and employee contributions with the introduction of new tiered contributions in an effort to make the Scheme more equitable and sustainable over the longer term. The Scheme remained a defined benefit final salary scheme with employers continuing to make up any shortfall in funding, although measures are being put in place to introduce a form of cost sharing for the future.

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 Resources & Audit has delegated authority for the day to day operation of the Fund.

MANAGEMENT AND ADVISERS TO THE PENSION FUND

Pension Fund Panel:

Councillors:	Cllr Young (Chairman)
	Cllr Potts
	Cllr Reeves
	CllrJohnson
	Cllr Young
Trade Union Representatives (non-voting):	R Seymour
	C Morey
Admitted Bodies Representative:	H Turner (Thames Valley University)

Investment Adviser:

Until 1 September 2009:	Mercer Investment Consulting
From 1 September 2009:	Hewitt Associates

Actuary:

Mercer Human Resource Consulting

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 Manager.

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.

Name	Political Party
Councillors John Cowing (Chairman)	Conservative
Jagdish Gupta	Conservative
Ian Potts	Conservative
Anthony Young	Conservative
Yvonne Johnson (spokes)	Labour
Brian Reeves	Labour
Ranjit Dheer- New Member for 2009/2010	Labour
Non Voting Members	
Mr C Morey	(Unison)
Ms C Yap	

Contact Details For Pension Fund Panel

Committee Services
Town Hall
Stephen Noble: Telephone: (020) 8825 8007

Panel Member Training 2008-2009

Topic	Provider
Class Actions	Mercer
Bond Market opportunities	Mercer
Emerging Market Equities	Mercer
Governance	Mercer

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 representatives who are members of the Pension Fund Panel are non-voting.

STAFF, ADVISERS AND INVESTMENT MANAGERS

Company Name	Contact	Contact Details
Ealing Officers:		
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:		
Mercers	Paul Middleman	1 Tower Place West Tower Place London EC3R 5BU
Auditors:		
Audit Commission		1st Floor, Millbank Tower, Millbank, London
Investment Consultant:		
Mercer	To 31 August 2009: Sanjay Mistry	1 Tower Place West Tower Place London EC3R 5BU
Hewitt Associates	From 1 September 2009: Ian Bailey David Crum	6 More London Place London SE1 2DA

Legal Advisers:		
	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
Liberata	Tammy Ware	No. 1 Croydon 12-16 Addiscombe Road Croydon CR9 6LL
Custodian:		
BNY Mellon	Colin Waters	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 Company	n/a	525 Ferry Road Edinburgh EH5 2AW

THE SCHEME

The London Borough of Ealing administers the Ealing Pension Fund for its employees and for the employees of admitted and scheduled bodies who are statutorily eligible to participate in the Fund.

The Pension Scheme is 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.

The terms of the Local Government Pension Scheme (LGPS) Regulations set out clearly the guaranteed benefits payable to members. The contributions payable by Scheme members are also defined in the Regulations and therefore members are not reliant on investment performance for their pension benefits. Employing Authorities are required to pay contributions into the Scheme in order to meet the cost of funding employee benefits and are required to meet any shortfall in funding the pension liabilities of Scheme members.

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 final pay 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 now in banded contributions ranging from 5.5% to 7.5%, depending on the level of pay that a member receives. As outlined above, employers also pay contributions to the cost of providing benefits and these are determined every three years following a review by the Fund’s consulting actuary, Mercer.

ADMITTED & SCHEDULED BODIES

The Pension Fund had 22 employers in the Fund during the financial year 2008/09, including the London Borough of Ealing. The other employers in the Fund fall into either scheduled body status or admitted body status. The other employers in the Fund are listed in the section Accounting Policies and Notes to the Accounts.

There are 3 further admitted bodies in the LBEPF in addition to the 22 employers listed in the notes to the statement of accounts.

Scolarest	This body was not admitted until 2009/10
Erinaceous	The company is no longer in operation and made no contributions for 2008/09
Greenwich Leisure	No contributions received in 2008/09 .Contributions due will be accounted for in 2009/10

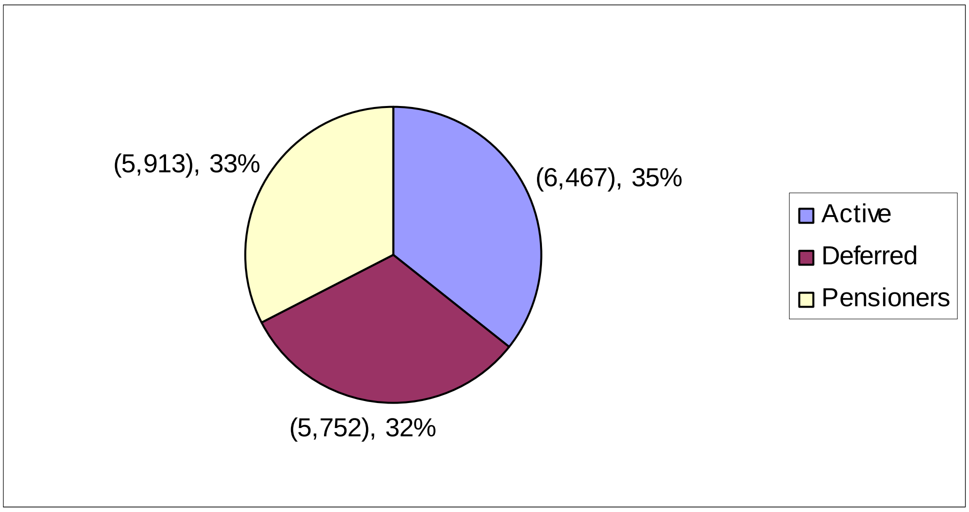
MEMBERSHIP OF THE FUND

Admission to the 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 Local Government Pension Scheme (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:

SCHEME MEMBERSHIP ANALYSIS



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).

EMPLOYEE CONTRIBUTIONS

Pay bands from 1st April 2008:

From 1 April 2008, the pay bands that were used to assess the contribution rate for each scheme member changed for all members.

Full-Time Equivalent Pay Rate is: Contribution rate*

Salary	% Contribution
£0 to £12,600	5.5%
£12,600.01 to £14,700	5.8%
£14,700.01 to £18,900	5.9%
£18,900.01 to £31,500	6.5%
£31,500.01 to £42,000	6.8%
£42,000.01 to £78,700	7.2%
More than £78,700	7.5%

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

*For protected manual workers the contribution rate in 2009/2010 will be 5.50%

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

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 2008-9 and 2007-8 is shown with the reported budget for 2008-9 in the following table:

	Actual 2008-2009 £M	Budget 2008-2009 * £M	Actual 2007-2008 £M
Income			
Income from dealings with members, employers and others directly involved with the scheme	41.6	41.2	43.1
Investment Income	20.9	21.6	18.5
Total Income	**62.5**	**62.8**	**61.6**
Expenditure			
Expenditure relating to dealings with members, employers and others directly involved with the scheme	31.4	31.3	31.9
Fund Management **	1.9	1.9	2.1
Administration***	1.1	1.0	0.6
Total Expenditure	**34.4**	**34.2**	**34.6**
Net Income excluding change in Market Value	**28.1**	**28.6**	**27.0**
Change in Market Value	-145.0		-33.9
Net Decrease in Fund Value	**-116.9**		**-6.9**
Opening Fund Value	554.5		561.4
Closing Fund Value	**437.6**		**554.5**

***** *As reported 11 June 2009*

****** 2007-2008 includes £0.1M administration costs

*** 2007-2008 excludes £0.1M included in fund management costs and £0.2M included in general expenditure. A further £0.1M of 2007-2008 expenditure was charged to 2008-2009

Balances Represented By:	**At 31 March 2009 £M**	**At 31 March 2008 £M**	**Change in Year £M**
Investments (including cash deposits held by Custodian)	417.2	544.3	-127.1
Cash held by Ealing Council	19.3	9.6	9.7
Net Current Assets External Investments	1.3	0.9	0.4
Other Debtors/Creditors	-0.2	-0.3	0.1
Net at 31 March	**437.6**	**554.5**	**-116.9**

Overall the LBEPF achieved a net surplus for the year 2008-9 including investment income of £28.1M. This excludes the effect of the loss in market value on the fund outlined in detail in the Investment Review elsewhere in this report. There was a net decrease in the value of the LBEPF of £116.9M as shown in the above table.

A number of companies maintained or increased dividend distribution despite the challenging market conditions, either to stave off share price volatility or to provide certainty to the markets of their financial well being. However projected dividend income is anticipated to reduce during 2009-2010. The dividend income is paid into the custodian bank accounts for reinvestment.

The amount of cash held by Ealing Council on behalf of the LBEPF increased by £9.7M during 2008-2009. The value of "in year" pension obligations was met during 2008-2009 from the employer and member contributions received without the need to draw on investments.

The LBEPF receives interest from the Council based on an average monthly 7-Day LA BID rate as part of an overall cash flow calculation, which assumes that contributions from all employers in the scheme are due on a monthly basis. This "internal interest" amounted to £0.4M in 2008-2009. A further £0.16M interest relating to 2008-2009 financial year is due to be paid to the LBEPF by the Council in 2009-2010 following a review of the final cash flow position. Individual employers were not charged interest on overdue contributions during the year.

At 31 March 2009 there was a debtor balance of £0.4M in contributions outstanding from employers and a creditor balance of £0.7M for investment and management fees due to be paid by the LBEPF.

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

A copy of the budget report for 2009-2010 can be obtained from the Council's website, or using the file path below.

http://www.ealing.gov.uk/services/council/committees/agendas_minutes_reports/regulatory_committees/pension_fund_panel/19may2009-24may2010.html

The Pension Fund Panel approved the 2009-10 budget report on 11 June 2009.

RISK MANAGEMENT

Risk management constitutes a major part of Pension Fund Governance and is embedded within the ongoing 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:

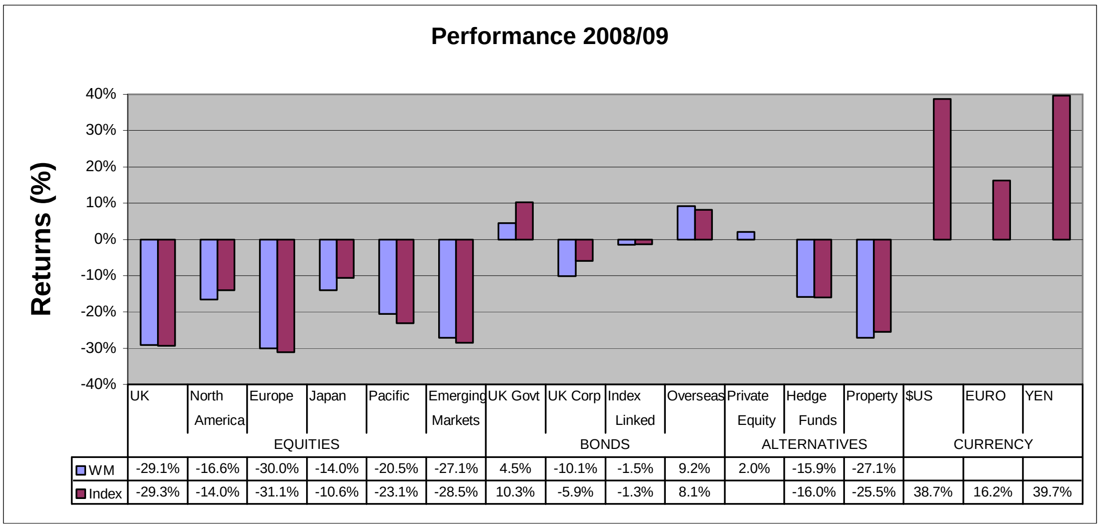
- Monitoring longevity triennially and in discussions with the Fund Actuary on how best to manage the impact on the Fund from people living longer
- Adequate diversification of assets and managers/manager style, quarterly monitoring of investment performance and regular reviews of asset allocation to 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

The reporting period 2008/09 has been an extremely challenging year for all involved in financial markets, with the onset of unprecedented events in world equity markets which resulted in worst year on WM performance measurement record for local authority pension funds. (The investment performance of the Fund is measured by the WM Company against a customised benchmark). It all started with the US sub-prime housing market debacle which led to a severe financial crisis, leading to the collapse of Lehman Brothers Investment Bank in September 2008, the loss of confidence in financial institutions and the near failure of the world financial system. The ensuing downturn in the macroeconomic environment and outlook saw investors take cover in government bonds, which were regarded as a safe haven. Spreads on corporate debt rose to unprecedented levels, with the impending fear of more high profile corporate failures. Governments around the world made a concerted effort to restore confidence in financial markets and stimulate their various economies. It is yet to be seen whether the global government policies put in place will avert a major depression like that of the 1930's.

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



	EQUITIES						BONDS				ALTERNATIVES			CURRENCY		
	UK	North America	Europe	Japan	Pacific	Emerging Markets	UK Govt	UK Corp	Index Linked	Overseas	Private Equity	Hedge Funds	Property	$US	EURO	YEN
WM	-29.1%	-16.6%	-30.0%	-14.0%	-20.5%	-27.1%	4.5%	-10.1%	-1.5%	9.2%	2.0%	-15.9%	-27.1%			
Index	-29.3%	-14.0%	-31.1%	-10.6%	-23.1%	-28.5%	10.3%	-5.9%	-1.3%	8.1%		-16.0%	-25.5%	38.7%	16.2%	39.7%

As outlined above the year to the end of March was the worst fiscal year recorded by the WM Local Authority Universe. The average fund returned -20% and none of the funds managed to achieve a positive return.

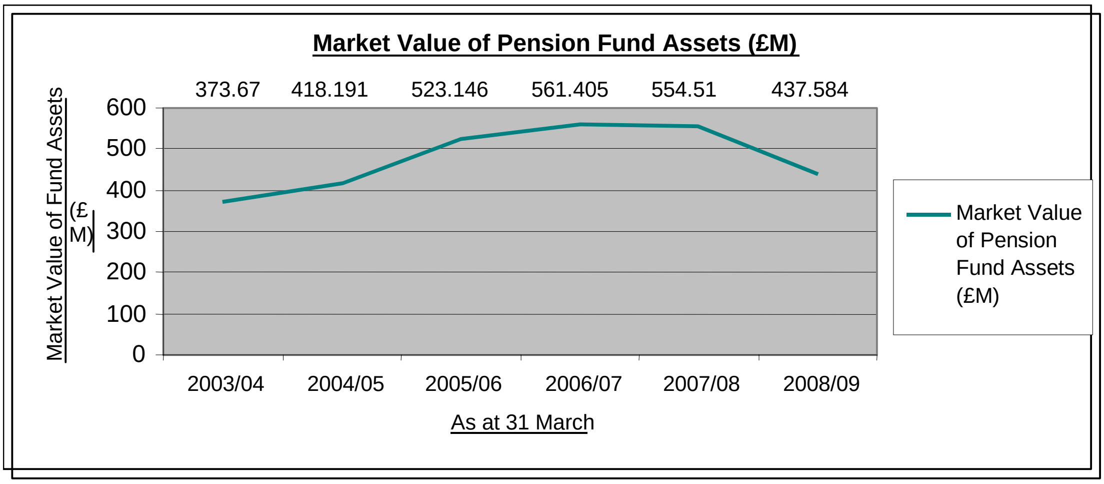
Although government bonds benefited from the 'flight to safety', the value of corporate bonds collapsed and just under half of the UK bond exposure was held as corporate bonds.

Only private equity returned a positive for the year at 2% and according to WM it seems that this will be given up through the remainder of 2009 as valuations are updated.

Currency had a major effect with the Euro gaining 16%, and the yen and the US Dollar almost 40% relative to Sterling over the year. This helped to cushion the decline in overseas equity markets.

Value of the Fund's Assets

At the end of March 2009, the market value of the Pension Fund's total assets was £437.6M; a significant fall from the opening value of £554.5M as at 31st March 2008, a decrease over the year of 21%, reflecting the impact of the credit crisis. The graph below depicts the progress of the Fund's assets over the last 6 years as at the 31st March in each year.

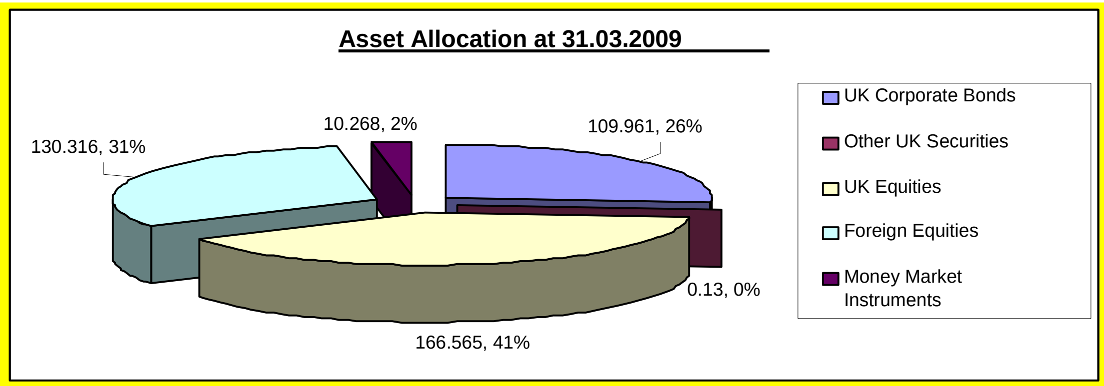


The Pension Fund Revenue Account also shows the impact of poor investment market conditions during the financial year 2008/09 with the net return on investments being a negative of £127M.

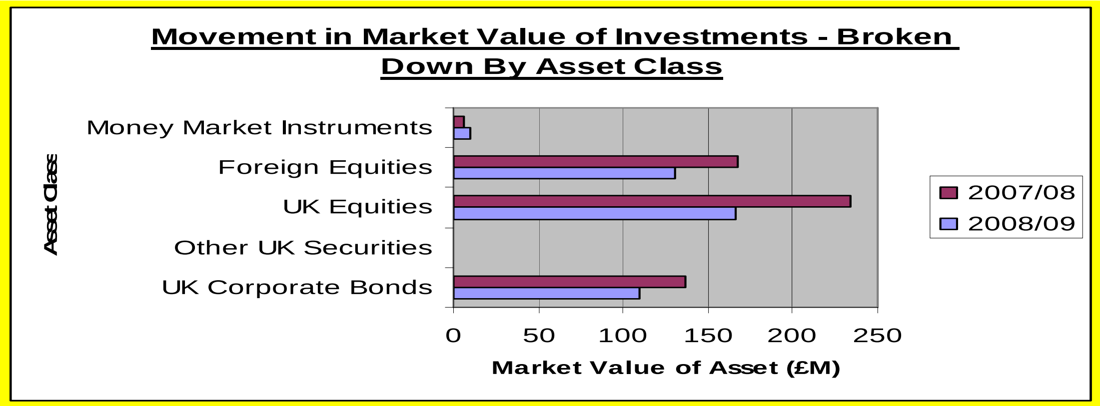
Investment Management

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 and was approved by the Pension Fund Panel in September 2009.

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 2008/09 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 2008 and the end of the current financial year, March 2009. As can be seen from the chart, there has been a significant drop in equity weightings with a commensurate increase in bond weightings reflecting the relative impact of the recent collapse in equity market. There was no top up of assets to make up for fall in values of equity from surplus cash invested within the London Borough of Ealing to protect the fund from the plummeting equity values.



During the year the Fund maintained the three specialist managers:

Manager	Mandate	% of Fund Under Management at 31/3/09
Lazard	UK Equities	37%
RCM	Global Equities	36%
RLAM	UK Corporate Bonds	27%

As outlined above, the Fund has three active managers with a specialist mandate, RLAM with 27% of the Fund under management, and two active global and UK equity managers, RCM with 36% and Lazard with 37% of the Fund as at 31st March 2009. Net current assets held as a proportion of the Fund represented 4.35%; this comprises cash held outside Fund Manager cash holdings and other current assets.

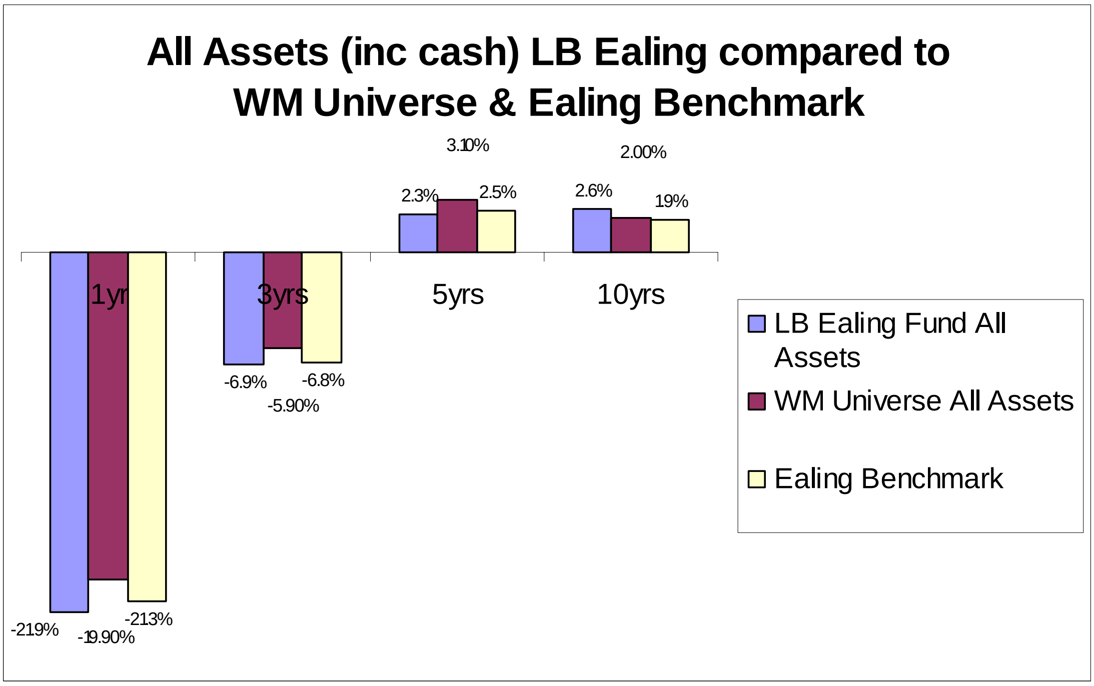
Top fifteen holdings by Market Value as at 31st March 2009

Top 15 Holdings at 31.03.2009	Market Value (£)
Vodafone GR Plc USD 0.114286	13,987,218.89
Royal Dutch Shell Plc Cl A	12,710,750.63
BP Plc	9,406,203.40
BG Group Plc	9,198,186.30
GlaxoSmithKline Plc	8,805,030.75
BHP Billiton Ltd NPV	8,517,434.31
HSBC Holdings ORD USD 0.50	7,445,464.29
Reckitt Benckiser Group Plc	5,378,666.49
Imperial Tobacco Group Plc	5,207,767.80
Prudential Plc 5p	4,455,015.31
Standard Chartered Plc USD 0.5	4,364,204.22
Astrazeneca Plc	4,262,779.20
Nestle SA CHF 0.1	4,206,756.40
BAE Systems Plc	3,710,852.69
East Japan Railway Co NPV	3,672,089.10

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 -21.9% for 2008/09, and an average of -6.9%, 2.3% and 2.6% for the three years, five year and ten years respectively to 31st March 2009.



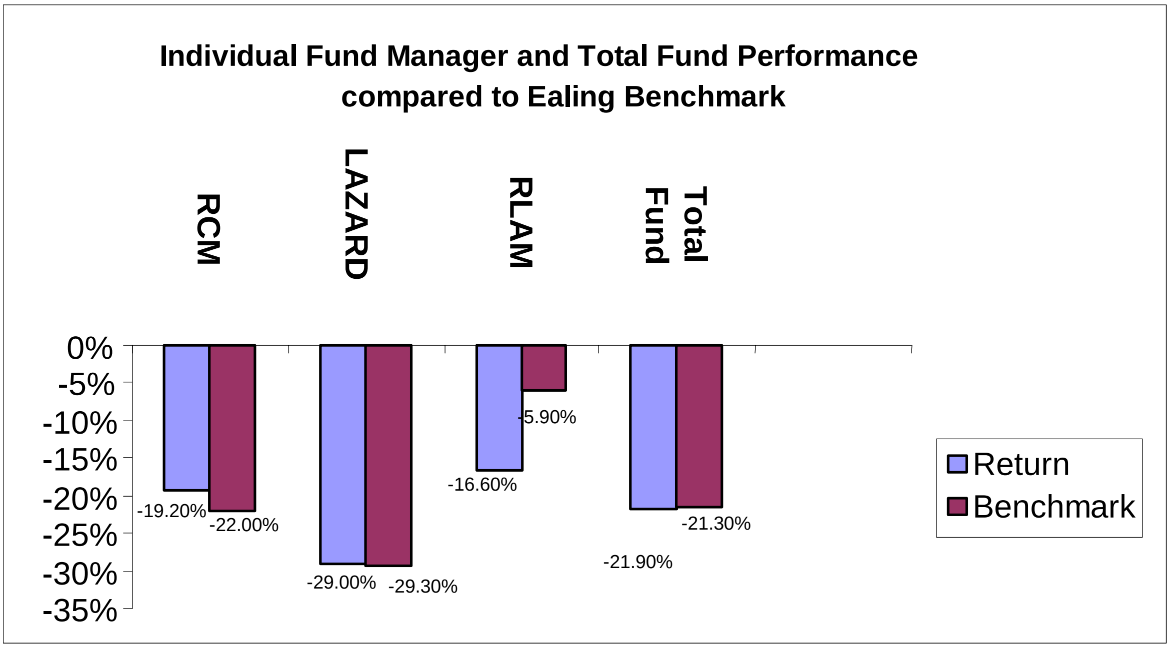
In 2008/09 the Ealing Fund return of -21.9% underperformed the benchmark of -21.3% by -0.6%. The underperformance against the Ealing benchmark and the WM universe arose mainly from RLAM's poor stock selection within the UK corporate bonds sector. Both Lazard and RCM outperformed their benchmarks.

Performance against the WM Local Authority funds shows the Ealing Fund underperformed against its peer group with the average WM Fund only seeing a negative return of -19.9% compared to -21.3% for the Ealing Fund. This is due in part to the relatively high weightings in UK equities, which performed poorly over the year compared to the average. Also the average WM Fund had a significantly higher exposure to overseas equities, and whilst still being a poor performer, due to the weakness of sterling over the year resulted in sterling returns on overseas equities being higher than those for UK equities.

The table below details the performance and the market value for the year to March 2009 for each of the fund managers and the combined fund in relation to the Ealing Specific Benchmark. The fund was ranked in the 70th 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 64th, 66th and 19th percentile respectively.

	Return	**LB Ealing Benchmark**	**Relative Performance**	**Relative Performance**	**Value of the Fund**	**Value of the Fund**
	Year to 31 March 2009	Year to 31 March 2009	2008/09	2007/08	At 31 March 2009	At 31 March 2008
	%	%	%	%	£M	£M
RCM	-19.20	-22.00	2.80	4.30	151.87	188.52
LAZARD	-29.00	-29.30	0.30	-1.80	153.06	219.44
RLAM	-16.60	-5.90	-10.70	-2.10	113.62	137.30
Cash (In House)	3.90	3.60	0.30		19.03	9.25
Total Fund*	**-21.90**	**-21.30**	**-0.60**	**0.60**	**437.58**	**554.51**

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



RCM who manage the global equity portfolio outperformed the benchmark by 2.8%. This out performance is attributable to their sound returns in North America, helped by the loss in value of sterling against the dollar. Lazard out performed the benchmark by 0.3%. RLAM achieved a substantial underperformance of -10.7% as a result of stock selection within the sector.

At the total portfolio level, the Fund performance underperformed the composite benchmark return during the year 2008/09 by -0.6%. The market value of the Fund decreased from £554.5M (as at 31/3/08) to £437.6M (as at 31/3/09).

Long-term performance analysis of the fund managers to March 2009 is not available as all the managers took over management of their respective portfolios in April 2007. Officers will continue to closely monitor the position particularly with reference to RLAM's ongoing under-performance of the benchmark.

Investment Management Expenses

The investment management expenses for the year to 31st March 2009 were £1.885 M, down from the previous year adjusted comparative figure of £2.014M, largely reflecting the fall in value of the funds under management against which investment fees are based. The figure for investment management expenses in the 2007-2008 Pension Fund revenue accounts included some administration expenditure that is now accounted for as investment management expenses. Investment management expenses cover the fees charged by the Fund's individual investment managers, and fees paid to the actuarial advisor, investment advisor and Fund custodian.

ADMINISTRATION REVIEW

Administration Expenses

The relative costs of administering the Fund over the financial year 2008/09 amounted to £1.146M. In the 2007/08 published accounts some administration expenditure was included within investment management expenses and the cost of pensions. A comparative figure to 2008/09 expenditure would be £1.091M for the previous year ended 31st March 2008 .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 Liberata with the contract being overseen by the Payroll and Pensions Team at London Borough of Ealing.

Administration Performance

The total number of cases completed in 2008/09 was 5330

The total number of cases completed within time scale was 5109

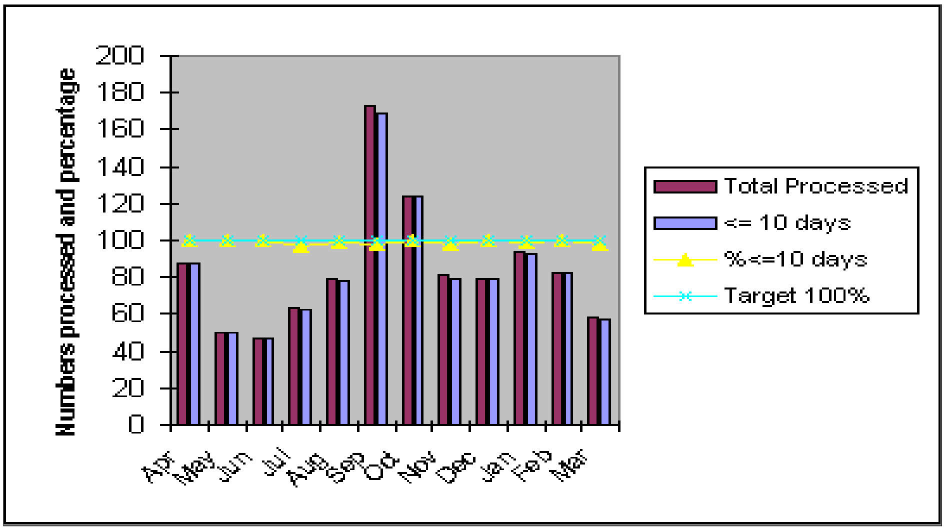
The Percentage of all cases completed within Ealing Standards was 95.85% , against a target of 90%

The performance by Liberata against key indicators is shown in the following tables both in terms of the numbers of cases processed for each month during 2008/2009 compared to the benchmark and also the percentage of cases compared to 100% performance achievement.

Performance statistics are reported to the Pension Fund Panel on a quarterly basis

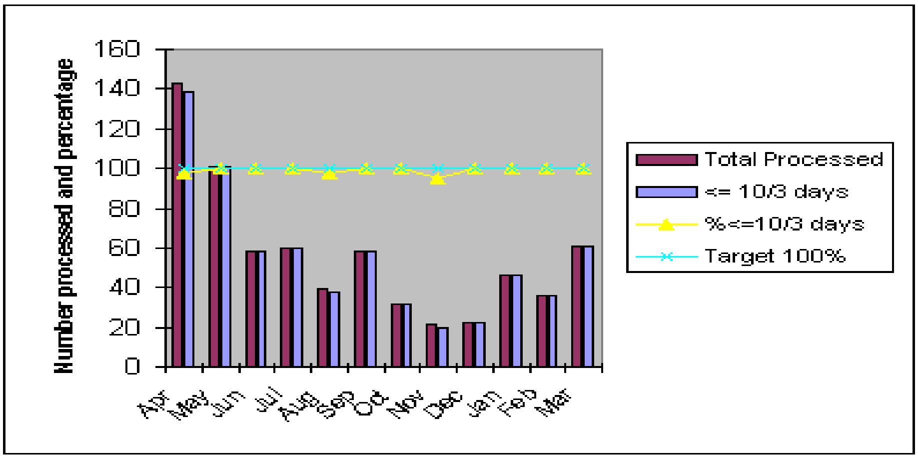
EPEN-01 New Entrants

All new entrants to be set up in AXISe within 10 days of notification



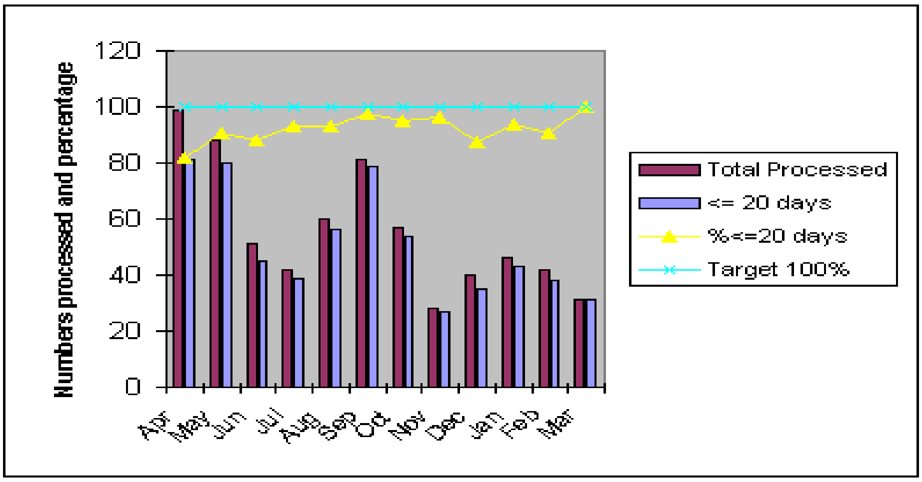
EPEN-02 Correspondence

All Written Correspondence replied to within 10 days & Emails within 3 days



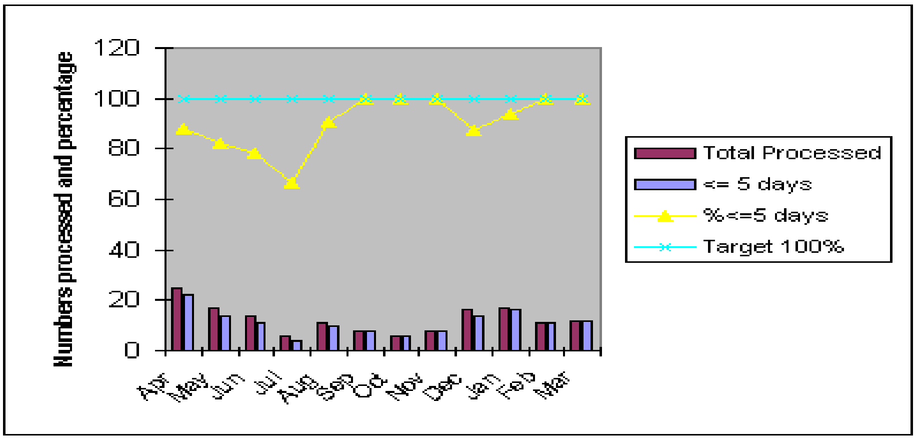
EPEN-03 Deferred Benefits

All Deferred Benefits processed within 20 days



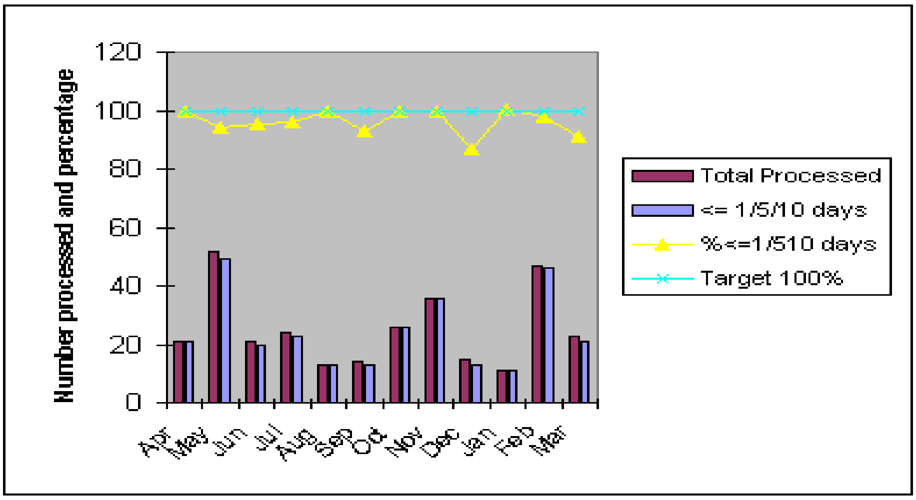
EPEN-04 Refunds Paid

All Refunds processed within 5 days



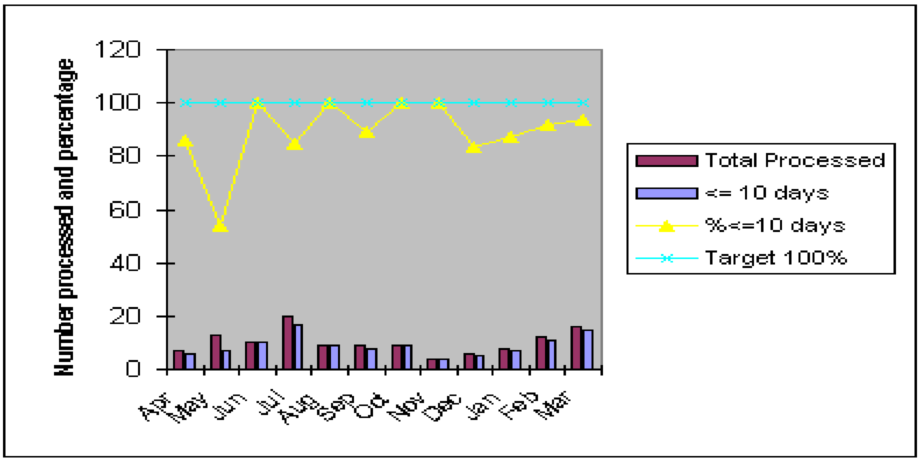
EPEN-05 Estimates

Urgent within 1 day, Departmental within 5 days, via member within 10days



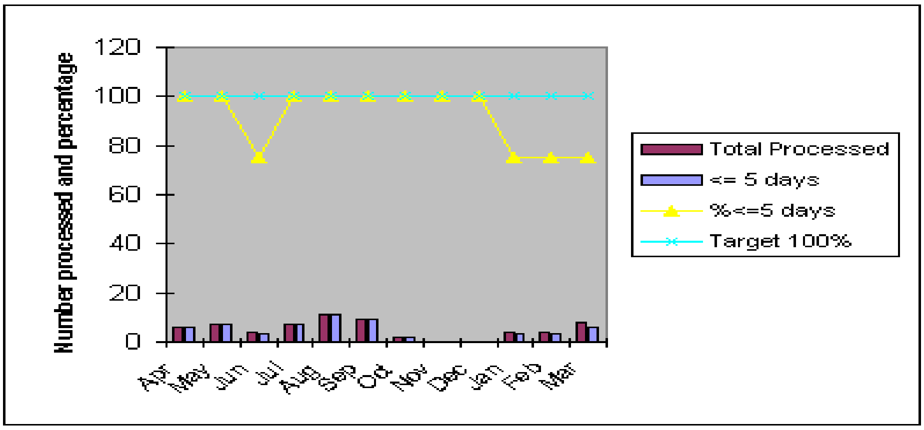
EPEN-06 Transfers/Interfunds-out Quotation

All Transfer/Interfund-out quotations to be processed within 10 days of notification

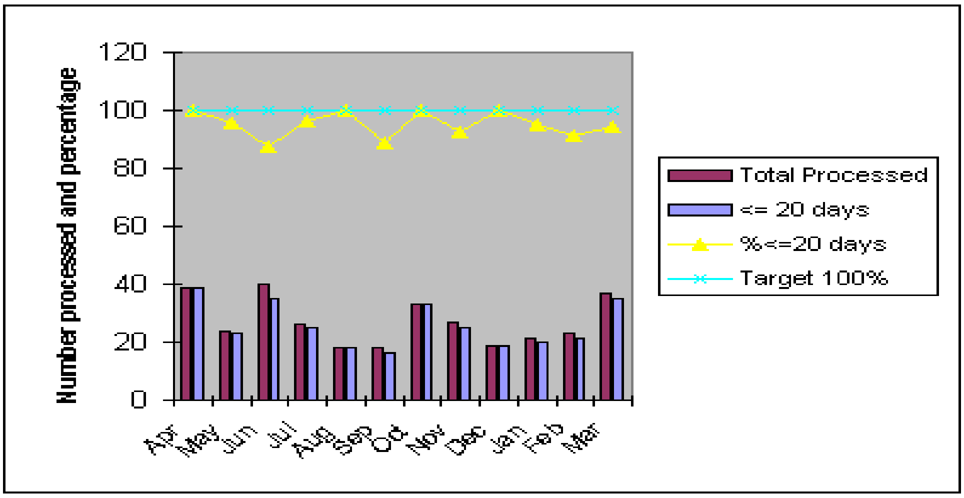


EPEN-07 Transfers/Interfunds-out Payments

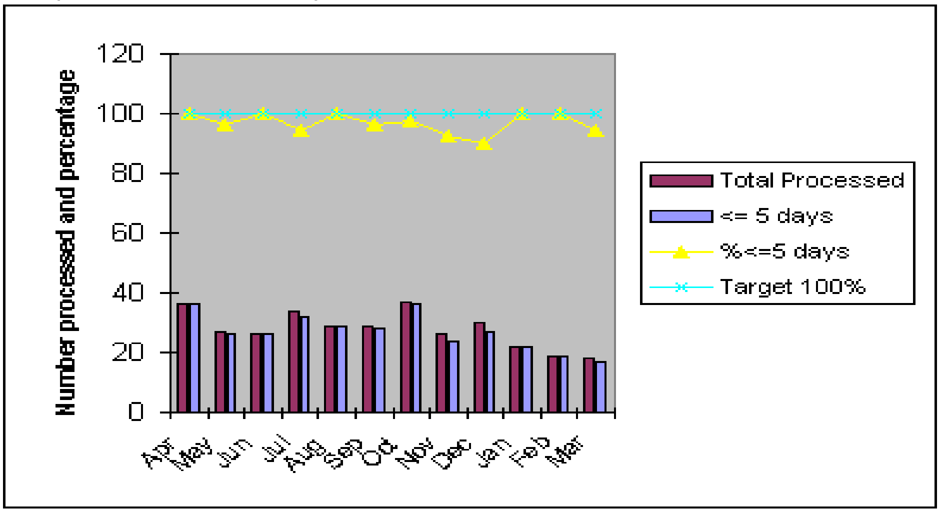
All Transfer/Interfund-out payments to be processed within 5 days of notification



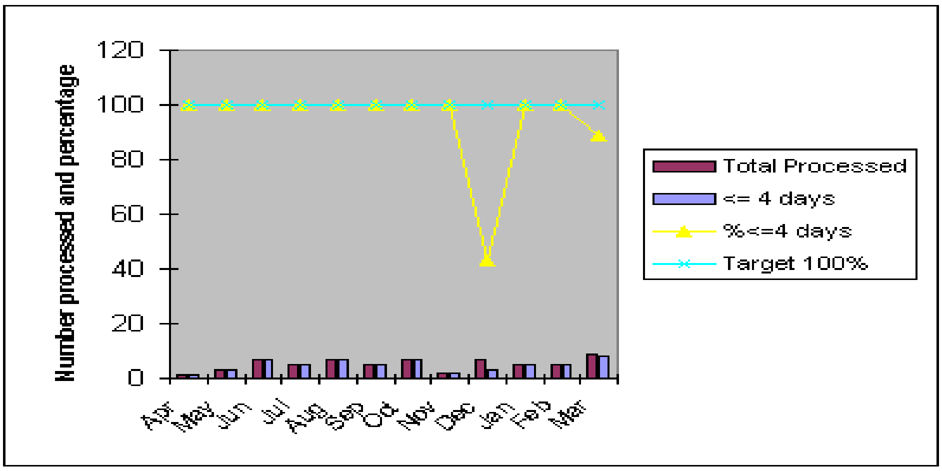
EPEN-08 Retirements
To be processed within 20 days



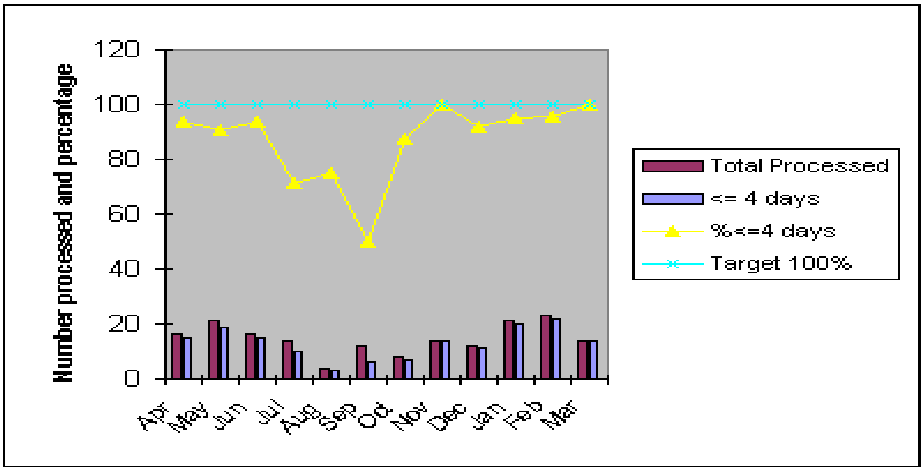
EPEN-09 Retirement Grants
To be processed within 5 days



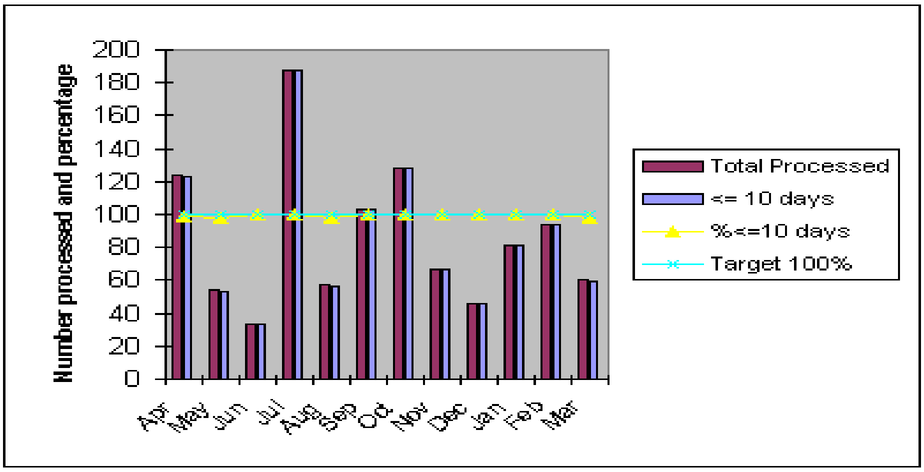
EPEN-10 Death Grants
All Death Grants to be paid 4 days after receipt of necessary information.



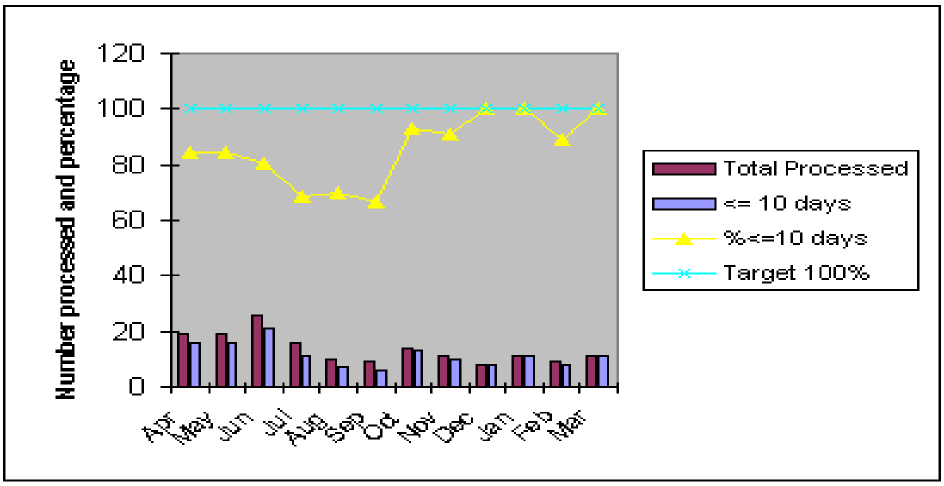
EPEN-11 Notification of Death benefits
All Death benefits notified within 4 days



EPEN-12 Changes of Hours
All Change of Hours processed within 10 days

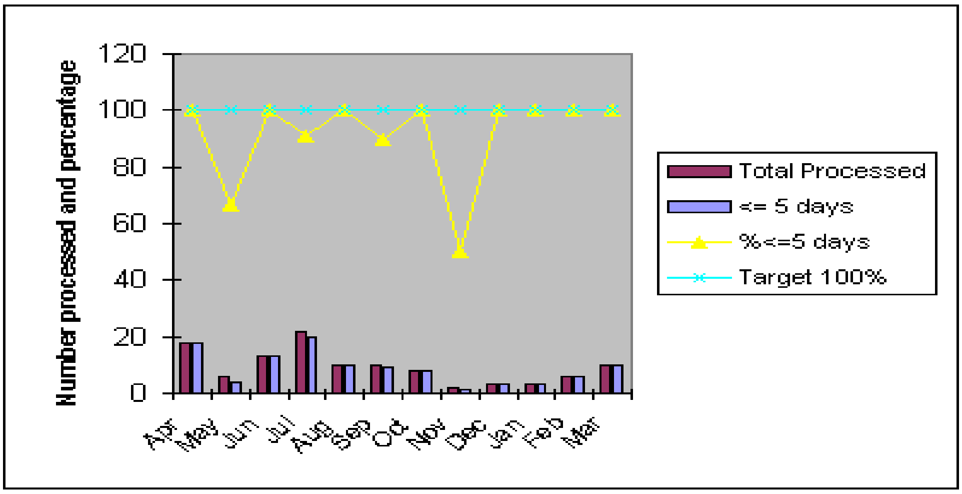


EPEN-13 Transfers/Interfunds-in Quotation
All Transfer/Interfund-in quotations to be processed within 10 days of notification



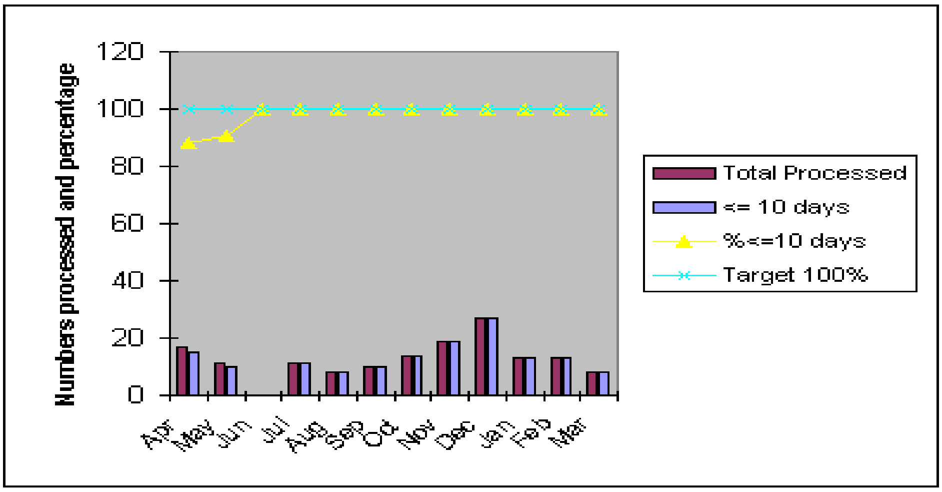
EPEN-14 Transfers/Interfunds-in Payments

All Transfer/Interfund-in payments to be processed within 5 days of notification



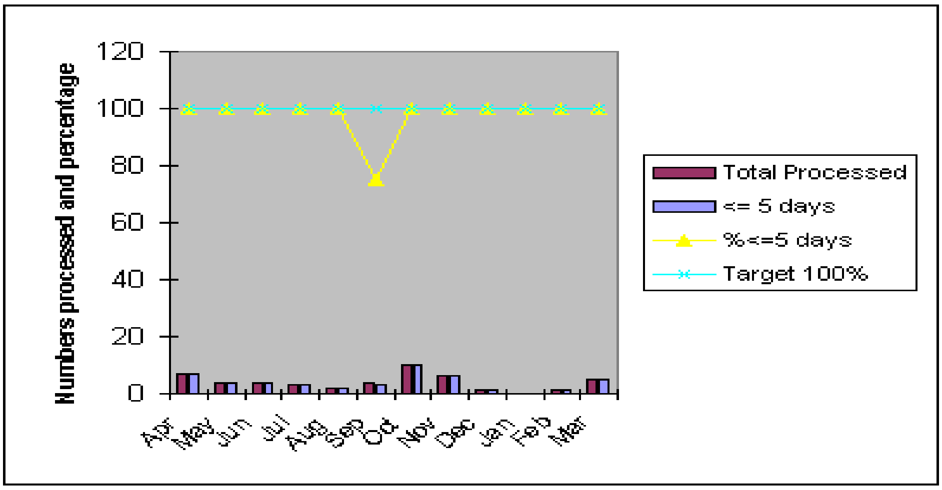
EPEN-15 Opt Outs

All Opt-Outs to be processed/ set up in AXISe within 10 days of notification



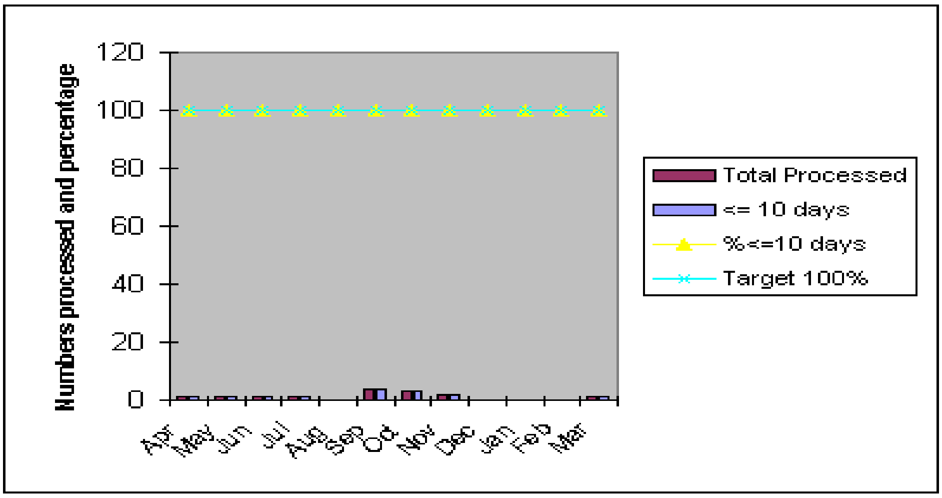
EPEN-16 Redundancy (Over Age 50)

All Redundancies to be processed within 5 days of notification



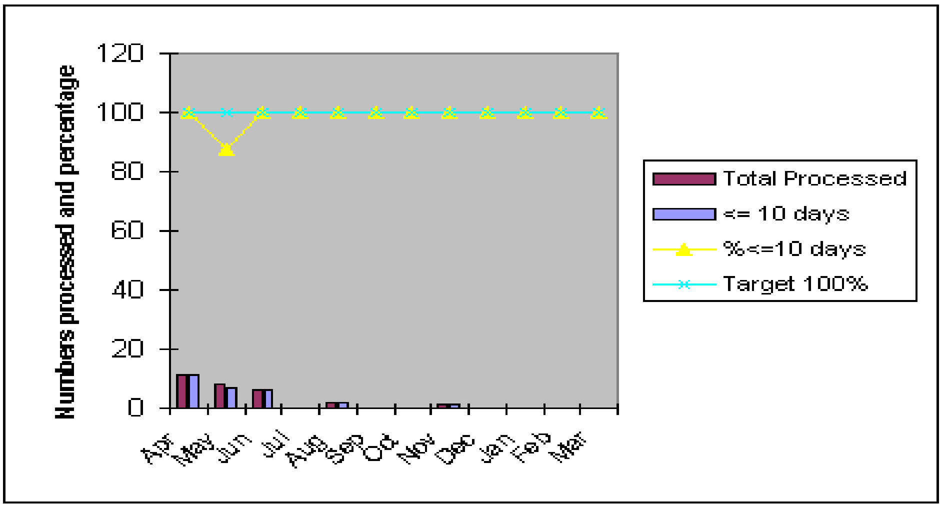
EPEN-17 Re-Employments

All Re-employments to be processed within 10 days of notification



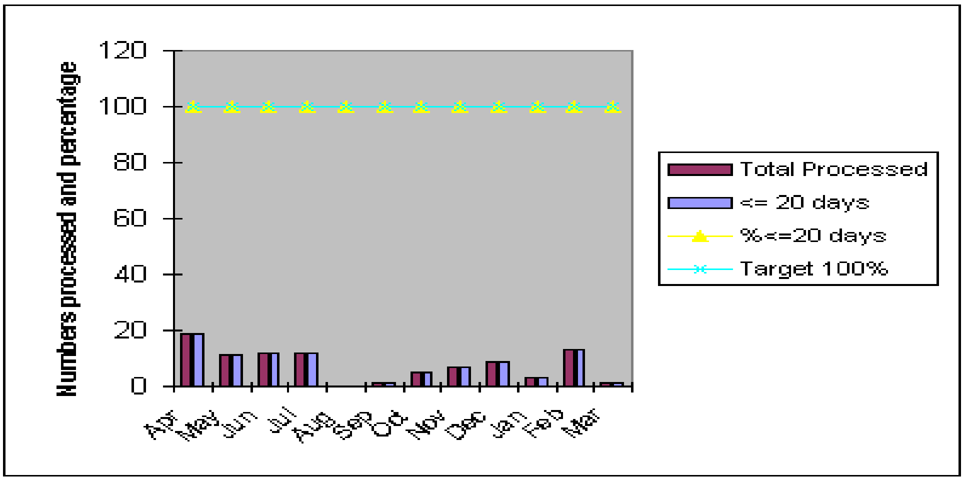
EPEN-18 AVC's/ Added Years

All Actuals to be processed within 10 days of notification



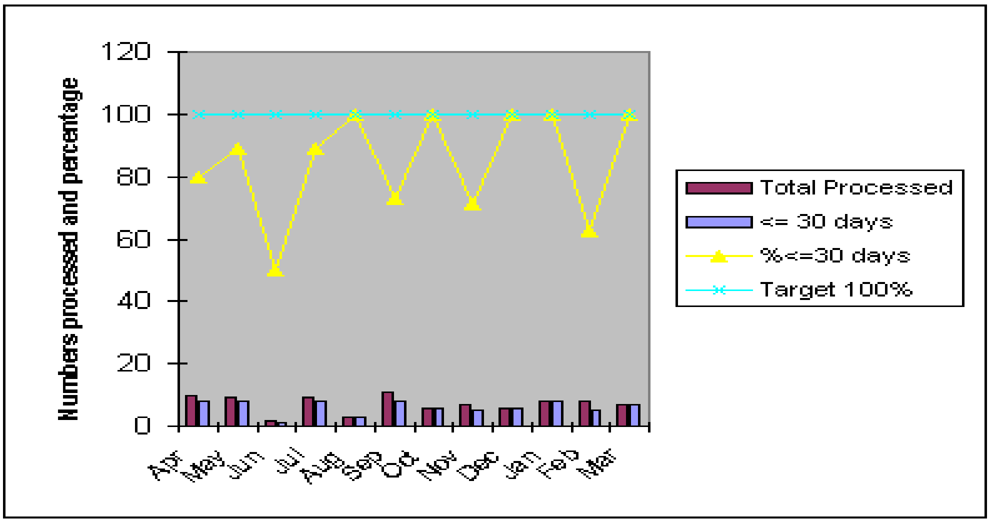
EPEN-19 GMP's

All GMP's to be processed within 20 days of notification



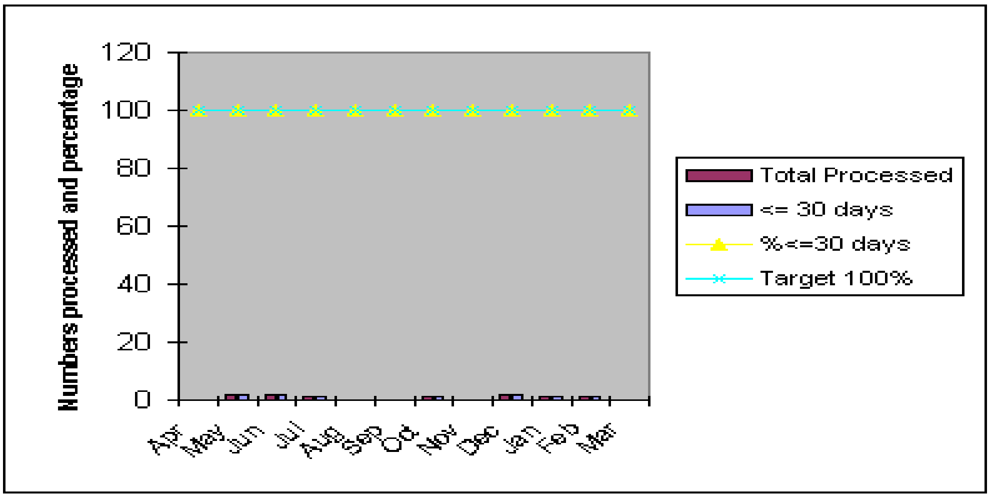
EPEN-20 Maternity/ Unpaid Leave

All Maternitys to be processed within 30 days of notification, and Unpaid Leave within 15 days



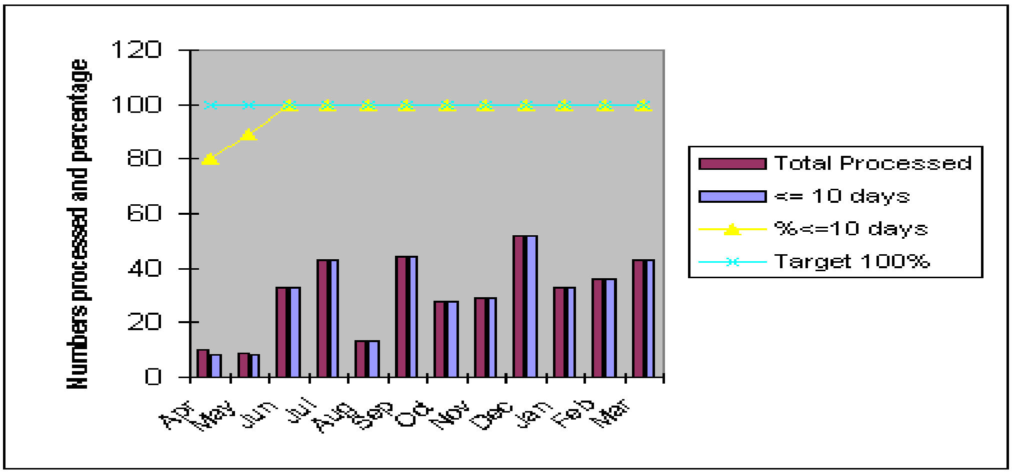
EPEN-21 Divorce

All Divorces to be processed within 30 days of notification



EPEN-22 Change of Address

Change of Address to be processed within 10 days



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

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

STATEMENT OF THE CONSULTING ACTUARY

An actuarial valuation of the London Borough of Ealing Pension Fund was carried out as at 31 March 2007 to determine the contribution rates with effect from 1 April 2008 to 31 March 2011. The results of the valuation are contained in our report dated 31 March 2008. The valuation allowed for the new look LGPS benefit structure which was introduced on 1 April 2008.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets represented 73% of the funding target at the valuation date. The valuation also showed that a common rate of contribution of 12.5% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

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 10.2% of pensionable pay for 17 years. This would imply an average employer contribution rate of 22.7% 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 2008. In addition to the contribution rates shown, 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. For certain employers in accordance with the FSS, an increased allowance has been made for assumed investment returns on existing assets and future contributions for the duration of the employer's deficit recovery period.

The assets were assessed at market value and the value as at 31 March 2007 (excluding AVCs.) was £561.4m.

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

The valuation results as summarised above are based on the financial position and market levels at the valuation date of 31 March 2007. As such, the results do not make allowance for the significant market falls, which have occurred since the valuation date although the implications of the current market volatility are being monitored.

The next triennial actuarial valuation of the fund is due as at 31 March 2010. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2011.

Currently, we are also considering the implications for the 2010 actuarial valuation of the consultation document issued by CLG on 25 June 2009 in relation to the affordability, viability and fairness of the LGPS.

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

Elected Members (the full Council) have overall responsibility for the governance of the Scheme. The governance framework is supported by:

- The Pension Fund Panel
- 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 nine 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.

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, is responsible for implementing Council policy and PFP decisions in the areas of scheme administration, funding, investment, communications and risk management. 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.

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 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 attached as Appendix 1.

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. How far 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 –	Not applicable	The Council does not have a secondary Committee or Panel.
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	Not applicable	The Council does not have a secondary Committee or Panel.
Representation		
That all key stakeholders are afforded the opportunity to be represented. within the main or secondary committee structure. These include :- • employing authorities (including non-scheme employers, eg, admitted bodies); • scheme members (including deferred and pensioner scheme members), • independent professional observers, and expert advisors (on an ad-hoc basis).	Partially Compliant	Representation on the Pension Fund Panel is open to the larger admitted bodies 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 is 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 forum. –	Compliant	Training sessions are conducted at PFP meetings to enable all Panel members to obtain training on topical issues.
Meetings (Frequency/Quorum)		
That an administering authority's main committee or committees meet at least quarterly. –	Compliant	Pension Fund Panel meets at least once a quarter
That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits	Not applicable	No secondary committee
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	Partially Compliant	There are two lay representatives on the panel. Whilst consultation with key stakeholders takes place there is no forum for interests to be directly represented.
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.

STATEMENT OF ACCOUNTS

PENSION FUND REVENUE

Dealings with members, employers and others directly involved in the scheme	2008/2009 £000	2007/2008 £000
INCOME		
Contributions:		
Contributions		
From employers		
-normal	25,322	24,207
-deficit funding	800	800
From members		
-normal	9,043	7,722
Transfers In:		
-individual transfers in from other schemes	4,349	7,046
Other Income (note 10)		
-other (includes strain, internal interest & class actions)	2,127	3,392
	41,641	43,167
EXPENDITURE		
Benefits:		
-pensions	23,174	21,621
-commutation of pensions & lump sum retirement benefits	5,218	5,851
-lump sum death benefits	780	296
Payment to and on account of leavers:		
-refunds of contributions	15	82
-individual transfers out to other schemes	2,176	3,974
Other Payments:		
Administrative expenses	1,146	640
	32,509	32,464
Sub-total: Net additions from dealings with members	9,132	10,703
RETURNS ON INVESTMENTS		
Investment Income		18,461
-income from fixed interest securities	8,975	
-dividends from equities	11,658	
-interest on cash deposits	250	
Change in market value of investments (realised and unrealised)	(145,056)	(33,932)
Investment management expenses	(1,885)	(2,127)
Sub-total: Net returns on investments	(126,058)	(17,598)
Net decrease in the fund during the year	(116,926)	(6,895)
Net assets of the scheme at 1 April	554,510	561,405
Net assets of the scheme at 31 March	437,584	554,510

PENSION FUND NET ASSETS

	2009 £000	2008 £000
INVESTMENT ASSETS		
Fixed Interest Securities		
UK Corporate	109,961	136,781
Other UK	130	-
Foreign	-	-
Equities		
UK	166,565	234,288
North America	47,791	72,220
Europe	40,481	44,660
Japan	14,613	17,840
Pacific	7,813	18,541
Emerging	19,618	14,198
Other Investments		
Venture Capital	-	-
Cash Deposits		
Money Market	10,268	5,742
Total Investments	417,240	544,270
CURRENT ASSETS AND LIABILITIES		
Current Assets		
Debtors		
Dividends	1,341	5,076
Unsettled	921	1,199
Creditors		
Unsettled	(954)	(5,287)
	1,308	988
TOTAL ASSETS (Under External Management)	418,548	545,258
Debtors (including payments in advance)	388	355
Cash in Hand	19,314	9,612
Creditors	(666)	(715)
	19,036	9,252
TOTAL NET ASSETS	437,584	554,510

The financial statements summarise the transactions of the scheme and show the net assets of the fund at the disposal of the Pension Fund Panel. 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 paragraphs 11 to 13.

ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS

Introduction

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.

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

The number of contributing members of the Fund as at 31 March 2009 was 6,467 (6,286 at 31 March 2008) whilst the number of pensioners, widows and dependants was 5,913 (5,730 at 31 March 2008). The deferred members as at 31 March 2009 totalled 5,752. The Council is the administering authority of the scheme and has the major share of contributors and pensioners. There are now 17 contributing scheduled bodies and 4 admitted bodies. All of the bodies shown below contribute to the Fund.

Employers contributing to the Fund as at 31st March 2009 are:

Scheduled Bodies	**Admitted Bodies**
Brentside High School	May Gurney (formerly ECT)
Cardinal Wiseman	Servite
Dormers Wells Infant School	Mitie
Dormers Wells Junior School	Superclean
Dormers Wells High School	
Dormers Wells Trust	
Drayton Manor High School	
Ealing Homes	
Ellen Wilkinson	
Featherstone High School	
Greenford High School	
Northolt High School	
St Ann's School	
Thames Valley University	
West London Academy	
Woodend Infant School	
Woodend Junior School	

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

The Pension Fund accounts have been prepared in accordance with the Code of

Practice on Local Authority Accounting in the UK 2008 issued by CIPFA (Chartered Institute of Public Finance and Accountancy) and in line with Section 5 of the Pensions SORP (Statement of Recommended Practice). The fund accounts are not consolidated with the accounts of the authority.

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

- All UK investments traded within the Stock Exchange Electronic Trading Service (SETS) are valued using the last SETS traded price.
- From 2008/09, all other UK investments are valued on the basis of bid market prices where available or using the most appropriate basis where these prices are not available.
- Unit trust and In-house funds are stated at the bid point of the latest prices quoted by their respective managers.
- Overseas investments are valued using Extel, ISMA or other available price sources on the basis appropriate to the market concerned or at the last trade price at close of business and translated into sterling at the rate prevailing on 31st March 2009.
- Dividends from foreign investments received during the year are accounted for in sterling at the foreign exchange rate prevailing on the day of receipt.

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

Transfers to and from the fund are accounted for on a cash basis, in accordance with CIPFA's Code of Practice.

Investment income is accounted for on an accruals basis for securities quoted ex-dividend as at 31 March, but foreign tax recoverable is accounted for on a cash basis.

Additional costs directly deriving from early retirement pre-2000/01 were charged to the General Fund and the resulting strain on the pensions paid was borne by the Pension Fund. From 2000/01 the Pension Fund has been credited with a one-off capital sum each year to cover the cost of additional years though no such contribution was required in 2008/09. A general contribution of £0.8M was credited to the Pension Fund from the General Fund in 2008/09.

Relevant departments bear all the pension costs of the early retirement (including the 'strain') by payment into the "Compensation For Loss Of Office" Reserve, where a capital sum will accrue over a period of 5 years for credit to the fund in respect of the strain in addition to the added year's capital sum. During 2008/2009 there were 38 early retirements under this rule (56 in 2007/2008) and the sum credited to the Pension Fund is £1.7M (£2.9M in 2007/2008).

Actuarial Valuation

The Fund is valued by an independent actuary every 3 years. An independent valuation was carried out by Mercer Human Resource Consulting as at 31 March 2007 to determine the contribution rate from 1 April 2008 to 31 March 2011. It showed an excess of liabilities over assets of £205M. This excess will be addressed by increases in the employer's contributions as necessary over a 17 year recovery period. The Actuary used a "market value" basis for the valuation of the Fund at 31 March 2007. Assets amounted to £561.4M representing 73% of the Fund's accrued (past service) liabilities of £766.4M.

The contribution required from the Council was 19.6% of pensionable salary during 2008/2009 . The rates for the employers in the scheme are outlined in the table below:

Employer	Total Contribution Rate 2008-9 %
Dunlop Heywood	12.1
Ealing Community Transport Ltd	16.3
Ealing Homes Ltd	21.9
Ealing Borough Council including former grant maintained schools	19.6
Mitie	tbc
Servite Ltd	14.7
Superclean Services	22.7
Thames Valley University	14.1
West London Academy	13.0

The Council is meeting the fund's liabilities by increases that have been certified by the Actuary for the next three years.

The contribution rates were calculated using the projected unit actuarial method and the main assumptions were as follows:

	For Past Service Liabilities	For Future Service Liabilities
Investment Return	6.40%	6.50%
Earnings Growth	4.85%	4.50%
Price Inflation	2.75%	2.75%

Fund Management and Administration

The Fund investment management arrangements were last reviewed in 2006/07. The Panel appointed RCM for Global Equities, Lazards for UK Equities and Royal London Asset Management for UK Corporate Bonds and the transition to the new arrangements was completed in April 2007. The three specialised managers have also been set outperformance targets of 2% pa for Lazard and RCM and 1.0% pa for RLAM against the WM Local Authority Universe of Funds.

The Fund's investments as at 31st March 2009 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 2009 was £153M, £152M and £114M respectively.

Both the costs of the investment management arrangements and pension fund administration expenses are charged to the Fund. As the 2008/09 financial year is the first year the pension fund will be audited separately, the audit cost of £38,000 has been included in the administration expenses.

Investment transactions for the Fund amounted to: sales £239M (2007/08 - £324M) and purchases £253M (2007/08 - £368M). Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £281k. 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.

The total contributions from the administering authority and the admitted and scheduled bodies were £34.4M (2007/08 - £31.9M); of this, £5.2M (2007/08 - £4.6M) was from the admitted and scheduled bodies. All benefits payable were administered by London Borough of Ealing.

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 with the majority of investments being made into a With Profits Cash Accumulation Fund. Contributions received into the AVC facility during the year amounted to £83,070.97 (£53,384.00 in 2007/08).

FRS 8

There are no material transactions with related parties, which are not already disclosed.

Statement of Investment Principles (SIP)

The Statement of Investment Principles (SIP) for the Ealing Pension Fund was reviewed as part of the Funding Strategy Statement and approved by the Pension Fund Panel as Trustees of the Fund on 4th September 2007. The SIP is published on Ealing's website and is available to all interested parties.

Explanation on Accounts

The Council's Pension Fund Net Assets decreased by £116.9M during the year to a value of £437.6M, a decrease of 21.1%. This is due to the fall in equity values as a result of the recession. However, as the liabilities of the fund have also decreased, the effect has been a reduction of £10.1M in the Council element of the pension fund deficit on the FRS17 calculated basis.

The Council's actuary carried out a formal actuarial review as at 31 March 2007 which calculated the assets to liabilities ratio at 73%. This was an improvement from a ratio of 68% at the previous actuarial review at 31 March 2004. The 2007 actuarial review recommended that the deficit be recovered over 17 years as from 1 April 2008. Like all other authorities, Ealing will need to plan for and respond effectively to the next triennial actuarial valuation in 2010, where the impact of the economic downturn will be reflected.

The Council's statements of accounts have been produced under the CIPFA/LASAAC Code of Practice on Local Authority Accounting and comply with UK GAAP.

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 2009 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 the London Borough of Ealing Pension Fund

I have audited the pension fund accounts for the year ended 31 March 2009. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of the 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 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

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

The Executive Director of Corporate Resources is responsible for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008. In preparing the pension fund accounts, the Responsible Financial Officer is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgments and estimates that were reasonable and prudent;
- keeping proper accounting records which were up to date;
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

My responsibility is to audit the pension fund accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year. I also report to you whether, in my opinion, the information which comprises the commentary on the financial performance included within the Pension Fund Annual Report, is consistent with the pension fund accounts. That information comprises the Chairman's Statement.

I review whether the governance compliance statement published in the Pension Fund Annual Report reflects compliance with the requirements of Regulation 34(1)(e) of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I report if it does not meet the requirements specified by the Department of Communities and Local Government or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

I read other information published with the pension fund accounts and related notes and consider whether it is consistent with the audited pension fund accounts. This other information comprises the remaining elements of the Pension Fund Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounts and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit

Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounts and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.
I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounts and related notes.

Opinion

In my opinion:

- the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund's assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year; and

- the information given in the commentary on financial performance included within the Pension Fund Annual Report is consistent with the pension fund accounts.

Kash Pandya
District Auditor
Audit Commission, Millbank Tower, London SW1P 4HQ
17 November 2009

FUNDING STRATEGY STATEMENT (FSS)

This Statement has been prepared by London Borough of Ealing (the Administering Authority) to set out the funding strategy for the London Borough of Ealing Pension Fund (the LBEPF), in accordance with Regulation 76A of the Local Government Pension Scheme Regulations 1997 (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 (England and Wales) (Amendment) Regulations 2004 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 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (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 Regulations 1997 (as amended), “the Regulations”). The required levels of employee contributions are also specified in the Regulations.

Employer contributions are determined in accordance with the Regulations (principally Regulation 77) 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 2007 actuarial valuation:

- A grouped approach will be adopted for certain employers in the LBEPF.
- A maximum deficit recovery period of 17 years will apply. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers

where the Administering Authority considers this to be warranted (see Deficit Recovery Plan below).

- Where increases in employer contribution rates are required from 1 April 2008, following completion of the 2007 actuarial valuation, the increase from the rates of contribution payable in the year 2007/08 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. Details of the approach to be adopted for such an assessment on termination will be set out in the separate Admission Bodies Policy document.

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

- the responses made to the consultation with employers on the FSS principles
- relevant guidance issued by the CIPFA Pensions Panel
- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose, and
- the Administering Authority's views on the strength of the participating employers' financial covenants in achieving the objective.

Deficit Recovery Plan

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

Additional contributions will be expressed as a level percentage of pensionable payroll.
In determining the actual recovery period to apply for any particular employer to employer grouping, the Administering Authority may take into account some or all of the following factors:

- the size of the funding shortfall;
- the business plans of the employer;
- the assessment of the financial covenant of the Employer;
- any contingent security available to the LBEPF or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

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.

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 2007 valuation show the liabilities to be 73.3% covered by the current assets, with the funding deficit of 26.7% 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 2007 valuation would have been significantly higher, by approximately 30% and the declared funding level would be correspondingly reduced to approximately 57%.

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 target 75% in equities and 25% in bonds.

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	42%	FTSE All Share (TR)	2% to 5.5%	2.0%pa
RCM	Global Equities (inc UK)	33%	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
Total		**100%**	**100%**	**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%**

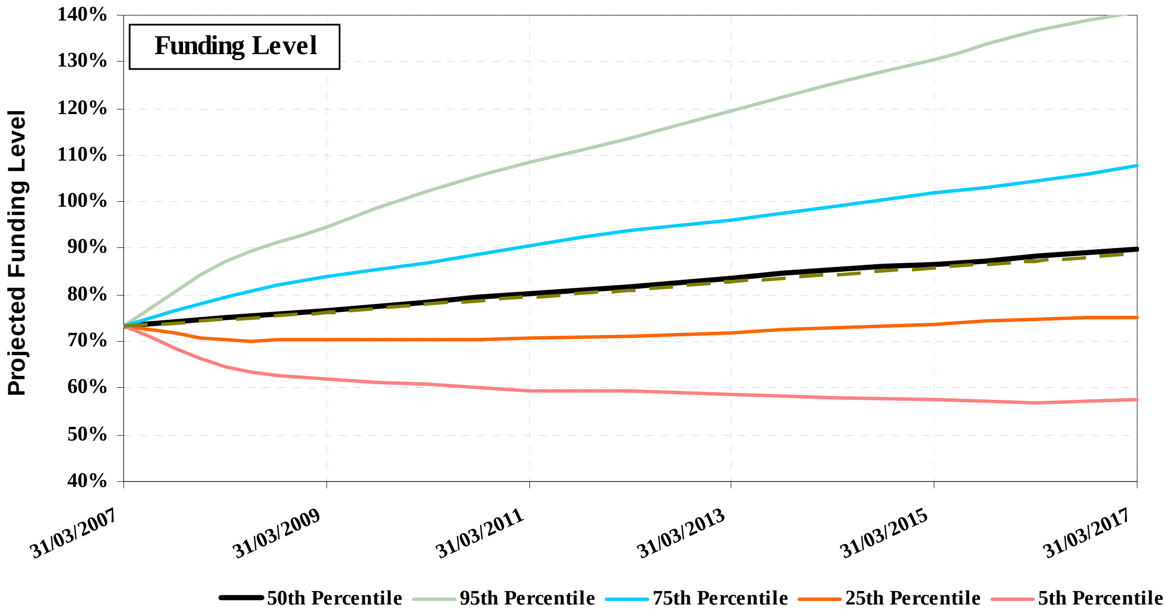
The funding strategy adopted for the 2007 valuation is based on an assumed asset out-performance of 2% in respect of liabilities pre-retirement, and 1% in respect of post-retirement liabilities. Based on the liability profile of the LBEPF at the valuation, this equates to an overall long-term asset out-performance 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.

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 2007 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 2007 actuarial valuation results as a starting point, and allows for the expected contributions into the LEBPF assuming a 17 year recovery period. An overall out-performance of 3.7% p.a. over and above gilts yields 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 retirements

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 2007

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.

Inflation (Retail Prices Index)

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

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

Demographic assumptions

Mortality

The mortality assumptions will be based on the most up-to-date information published by the Continuous Mortality Investigation Bureau, making allowance for future improvements in longevity and the experience of the scheme. For retirements in good health the mortality tables used are PA92 Year of Birth tables with medium cohort improvements, with an age rating reflecting Scheme specific experience of +1 years.

Members who retire on the grounds of ill heath are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 5 years older.

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.

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 2.75% per annum. These two assumptions give rise to an overall discount rate of 6.5% 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. In market conditions at the effective date of the 2007 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 2007 actuarial valuation

Long-term gilt yields	
Fixed interest	4.4% p.a.
Index linked	1.3% p.a.
Implied RPI price inflation	3.1% p.a.
Past service Funding Target financial assumptions	
Investment return pre-retirement	6.4% p.a.
Investment return post-retirement	5.4% p.a.
Salary increases	4.85% p.a.
Pension increases	3.1% p.a.
Future service accrual financial assumptions	
Investment return	6.5% p.a.
RPI price inflation	2.75% p.a.
Salary increases	4.5% p.a.
Pension increases	2.75% p.a.
Demographic assumptions	
Non-retired members' mortality	PA92 MC YoB tables + 1 year (+6 years for retirements in ill health)
Retired members' mortality	PA92 MC YoB tables + 1 year (+6 years for retirements in ill health)
Commutation	One half of members take maximum lump sum, others take 3/80ths
Withdrawal	Increased allowance compared to 2004 valuation for younger members to leave service
Other demographics	As for 2004 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 7.4% 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 2007 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 1999 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.

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, its investment consultants and actuary, and has consulted the Local Agenda 21 group, 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 on 23rd May 2000 and reviewed on 7th May 2003 and 25th May 2006. 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 Finance and Business Support and Director of Corporate Finance and an Investment Consultant. The Panel is responsible for setting investment policy, appointing persons to implement that policy and carrying out regular reviews and monitoring of investment performance. The Panel meets quarterly.

The Fund 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 2004 and the next review, based on the position of the Fund as at 31 March 2007, will be reported in autumn 2007.

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	42%	FTSE All Share (TR)	2% to 5.5%	2.0%pa
RCM	Global Equities (inc UK)	33%	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
Total		**100%**	**100%**	**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%**

In 2003 the Pension Fund Panel, taking advice from their Investment Adviser, completed a review of investment strategy by taking consideration of the Plan's liabilities and the Panel's tolerance to investment risk. In accordance with the recommendation of the Myners Review the Panel have agreed a fund specific benchmark based on the 2003 review and the Panel has set an asset allocation of 75% equities and 25% corporate bonds. The Panel review the suitability of the investment strategy on a regular basis, typically around the triennial Actuarial Valuation.

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 1998).

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

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.
- Direct Property and any collective investment schemes, which invest in property, are not permitted.
- Borrowing money on behalf of the Fund is not permitted except where necessary for transaction settlements.

Social, Environmental and Ethical Considerations

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'

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

COMPLIANCE WITH MYNERS PRINCIPLES

JUNE 2007

	PRINCIPLE	CURRENT POSITION
Effective Decision Making		
1	Decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.	The Fund has a clear scheme of delegation and arrangements for the provision of investment advice. On going training is provided through presentations, visits and seminars
2	Trustees should ensure that they have sufficient in-house staff to support them in their investment responsibilities. Trustees should also be paid, unless there are specific reasons to the contrary.	There are sufficient in-house staff to support Members in their investment responsibilities.
3	It is good practice for trustee boards to have an investment subcommittee to provide the appropriate focus.	Not applicable. The Council has a designated Pension Fund Panel.
4	Trustees should assess whether they have the right set of skills, both individually and collectively, and the right structures and processes to carry out their role effectively. They should draw up a forward-looking business plan.	Training is made available for Trustees on appropriate topics (e.g. fund manager selection), to enhance their knowledge in relation to Fund Management activities. Training is provided for Pension Fund Panel members in accordance with a programme agreed at the September Panel meeting, shown in the Panels work Plan. The Funding Strategy Statement serves as the Business Plan. The annual budget is prepared and presented to the PFP in February/March each year.
Clear Objectives		
5	Trustees should set out an overall investment objective for the fund that: Represents their best judgement of what is necessary to meet the Fund's liabilities given their understanding of the contributions likely to be received from employer(s) and employees; and takes account of their attitude to risk, specifically their willingness to accept underperformance due to market conditions.	The Panel have set the three fund managers clear overall investment objectives that are in compliance with this principle as set out in the SIP paragraph 4.1

	PRINCIPLE	CURRENT POSITION
6	Objectives for the overall fund should not be expressed in terms, which have no relationship to the Fund's liabilities, such as performance relative to other pension funds, or to a market index.	The Fund's overall objective is to achieve 100% funding of its liabilities by 31st March 2024. In determining the investment strategy 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.
Focus On Asset Allocation		
7	Strategic asset allocation decisions should receive a level of attention (and, where relevant, advisory or management fees) that fully reflects the contribution they can make towards achieving the Fund's investment objective.	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.
8	Decision-makers should consider a full range of investment opportunities, not excluding from consideration any major asset class, including private equity.	The Panel review the suitability of the investment strategy on a regular basis, typically around the triennial Actuarial Valuation.
9	Asset allocation should reflect the fund's own characteristics, not the average allocation of other funds.	Under the current position a fund specific allocation has been set.
Expert Advice		
10	Contracts for actuarial services and investment advice should be opened to separate competition.	
11	The fund should be prepared to pay sufficient fees for each service to attract a broad range of kinds of potential providers.	Separate tenders were prepared for the actuarial service and investment advice. Both were awarded to Mercer following a competitive process. The contracts will be subject to separate tender for contract renewal at the appropriate time.

	PRINCIPLE	CURRENT POSITION
Explicit Mandates		
12	Trustees should agree with both internal and external investment managers an explicit written mandate covering agreement between trustees and managers on: • An objective, benchmark(s) and risk parameters that together with all the other mandates are coherent with the fund's aggregate objective and risk tolerances; • The manager's approach in attempting to achieve the objective; and • Clear timescale(s) of measurement and evaluation, such that the mandate will not be terminated before the expiry of the evaluation timescale for underperformance alone.	Full compliance with this principle, with the Panel adopting a 3 manager specialist structure in 2007, each with explicit mandates. Full details can be found in each Managers Investment Management Agreement and an overview can be found under paragraph 4.2 of the SIP.
13	The mandate and trust deed and rules should not exclude the use of any set of financial instruments, without clear justification in the light of the specific circumstances of the fund.	Constraints on the type of investment in the mandates are in line with regulations.
14	Trustees, or those to whom they have delegated the task, should have a full understanding of the transaction-related costs they incur, including commissions. They should understand all the options open to them in respect of these costs, and should have an active strategy – whether through direct financial incentives or otherwise – for ensuring that these costs are properly controlled without jeopardising the fund's other objectives.	Officers review annual reports of transaction relation costs incurred by managers and subsequent fee scales have been implemented to control these cost.
15	Trustees should not without good reason permit soft commissions to be paid in respect of their fund's transactions	Managers are not permitted to use soft commission arrangements (the arrangement whereby a fund manager directs commissions to a broker which are then used to purchase goods or services from a third party for the benefit of the fund manager) and this is set out in the Investment Management Agreements

	PRINCIPLE	CURRENT POSITION
Activism		
16	The mandate and trust deed should incorporate the principle of the US Department of Labor Interpretative Bulletin on activism.	Reference is made to activism under paragraph 7 of SIP. The Trustees have delegated responsibility for shareholder activism to encourage high standards of corporate governance and corporate responsibility performance to the investment managers.
17	Trustees should also ensure that managers have an explicit strategy, elucidating the circumstances in which they will intervene in a company; the approach they will use in doing so; and how they measure the effectiveness of this strategy.	The investment Managers are expected to be proactive in their dealings with companies on corporate governance issues where it is deemed to be in shareholders best interests.
Trustees Should:		
18	• Explicitly consider, in consultation with their investment manager(s), whether the index benchmarks they have selected are appropriate; in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies; • If setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selections; • Consider explicitly for each asset class invested, whether active or passive management would be more appropriate given the efficiency, liquidity and level of transaction costs in the market concerned; and • Where they believe active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving the managers the freedom to pursue genuinely active strategies.	The Pension Fund Panel considered all of these issues as part of the full investment strategy review following the 2004 actuarial valuation. The Pension Fund Panel, when setting the investment strategy, took the view that active management of particular assets does have the potential to achieve higher returns than passive management. The Council has set appropriate benchmarks for its fund managers. Individual target allocations of the Fund were adjusted to reflect benchmarking and more detail is set out in paragraph 4.2 of the SIP. The mandates awarded to managers allow the managers to use appropriate levels of risk in order to achieve the required returns.

	PRINCIPLE	CURRENT POSITION
Performance Measurement		
19	Trustees should arrange for measurement of the performance of the fund and make formal assessment of their own procedures and decisions as trustees.	Investment Managers provide detailed portfolio valuations and transaction reports on a quarterly basis. The WM company measures the funds performance quarterly independent of the Fund managers.
20	They should also arrange for a formal assessment of performance and decision-making delegated to advisers and managers	The Panel reviews the investment decisions undertaken by officers and by the Panel to check their appropriateness and whether outcomes might have been improved. This includes how the overall Funds benchmark has performed relative to liabilities and relative to its LGPS peers (the local authority universe). Performance of the funds is also subject to annual review by external auditors (KPMG) and by internal audit through regular audits programmed into the Audit Plan.
Transparency		
21	A strengthened Statement of Investment Principles should set out: • Who is taking which decisions and why this structure has been selected; • The fund's investment objective; • The fund's planned asset allocation strategy, including projected investment returns on each asset class, and how the strategy has been arrived at; • The mandates given to all advisers and managers; and • The nature of the fee structures in place for all advisers and managers, and why this set of structures has been selected.	The current SIP has been reviewed and updated and provides all the information required for compliance.
Regular Reporting		
22	Trustees should publish their Statement of Investment Principles and the results of their monitoring of advisers and managers.	The revised SIP will be published as soon as Trustees agree the amended statement document.

	PRINCIPLE	CURRENT POSITION
23	They should send key information from these annually to members of these funds, including an explanation of why the fund has chosen to depart from any of these principles.	Ealing's SIP is published on its website. The results of the monitoring of the managers are published on the agenda papers of the Pension Fund Panel, which are also published on the website. Ealing has not communicated directly to fund members on investment issues because their contributions and benefits are determined by statute and are not linked to investments returns. The full pension fund accounts are published as part of the Councils Annual Report and Accounts and available to all members of the public.

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
- Retired Scheme members are communicated with via newsletters, the annual pensions increase advice. Also, individual queries are processed by Liberata, the 3rd party

administrators.

- Deferred members are communicated with through Annual Benefits Statements. Also, individual queries are processed by Liberata, the 3rd party administrators.
- 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 receive material for the Pension Fund Forum.

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.

Last reviewed/Approved: April 2006

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