London Borough of Ealing Pension Fund

Funding Strategy Statement 2013

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

1. INTRODUCTION

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

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

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

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

The benefits provided by the LBEPF are specified in the governing legislation (the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) (“the BMC Regulations) and the Administration Regulations. New legislation contained in the Local Government Pension Scheme Regulations 2013 (“the 2013 regulations”) governs the LBEPF from 1 April 2014. The required levels of employee contributions from 1 April 2014 are also specified in the 2013 Regulations.

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

2. PURPOSE OF THE FSS IN POLICY TERMS

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

The purpose of this Funding Strategy Statement is:

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

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

3. AIMS AND PURPOSE OF THE LBEPF

The aims of the Fund are to:

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

- manage employers' liabilities effectively

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

- maximise the returns from investments within reasonable risk parameters.

The purpose of the Fund is to:

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

- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses, as defined in the Local Government Pension Scheme (Administration) Regulations 2008 (as amended), the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended), the 2013 Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

4. RESPONSIBILITIES OF THE KEY PARTIES

The Administering Authority should:

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

The Individual Employer should:

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

The Fund actuary should:

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

5. SOLVENCY ISSUES AND TARGET FUNDING LEVELS

Funding Objective

To meet the requirements of the Regulations the Administering Authority's long-term funding objective is to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities, (the funding target) assessed on an ongoing basis including allowance for projected final pay. In the long term, the employer rate would ultimately revert to the Future Service Rate

Determination of the Funding Target and Recovery Period

The principal method and assumptions to be used in the calculation of the funding target are set out in Appendix 1.

Underlying these assumptions are the following two tenets:

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

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

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

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

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

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2013 actuarial valuation:

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

- In addition, a maximum deficit recovery period of 17 years will apply. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan below).

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

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

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

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

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

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

Deficit Recovery Plan

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

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

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

the size of the funding shortfall;

the business plans of the employer;

the assessment of the financial covenant of the Employer; and the security of future income streams

any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

length of expected period of participation in the Fund.

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

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

The Normal Cost of the Scheme (Future Service Contribution Rate)

In addition to any contributions required to rectify a shortfall of assets below the funding target, contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the "normal cost"). The method and assumptions for assessing these contributions are also set out in Appendix 1.

Pooling

In certain instances, there will be employers in the Fund who will be pooled with Ealing Council for determining contributions payable following the valuation. Those employers who are pooled with the Council will typically be either post-coalition academies, who will have formally signed up to pooling with the Council following conversion, or transferee admission bodies, for whom the admission agreement will set out the mechanics by which contribution rates are to be determined. The Fund's Academies Policy is being considered at the present time and remains to be formally adopted.

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

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

In assessing the value of the LBEPF's liabilities above, allowance has been made for asset out-performance as described in Appendix 1, taking into account the investment strategy adopted by the LBEPF, as set out in the SIP.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts. Investment of the LBEPF's assets in line with the least risk portfolio would minimise fluctuations in the LBEPF's ongoing funding level between successive actuarial valuations.

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

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

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

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

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

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

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

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

7. IDENTIFICATION OF RISKS AND COUNTER MEASURES

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

The Administering Authority has been advised by the actuary that the greatest risk to the LBEPF's funding is the investment risk inherent in the predominantly equity (or return seeking) based strategy, so that actual asset out-performance between successive valuations could diverge significantly from the overall out performance assumed in the long term.

What are the Risks?

Financial

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

Demographic

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

Insurance of certain benefits

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

Regulatory

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

Governance

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

8. Monitoring and Review

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

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

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

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy

- if there have been significant changes to the LBEPF membership, or LGPS benefits

- if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy

- if there have been any significant special contributions paid into the LBEPF.

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

APPENDIX 1

ACTUARIAL VALUATION AS AT 31 MARCH 2013

Method and assumptions used in calculating the funding target

Method

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

Financial assumptions

Investment return (discount rate)

A yield based on market returns on UK Government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the Scheme's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") 1.4% per annum.

The asset out-performance assumptions represent the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the Fund relative to the yields available on long dated gilt stocks as at the valuation date.

Inflation (Consumer Prices Index)

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

- an allowance for supply/demand distortions in the bond market is incorporated, and
- due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index, The overall reduction to RPI inflation at the valuation date is [1.0]% per annum.

Salary increases

The assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.75% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long term salary increase assumption, at the discretion of the administering authority and based on evidence provided by employers, allowance has been made for expected short / medium term pay restraint for certain employers of 1% per annum for 3 years followed by Inflation (CPI) for 3 years before reverting to the long-term assumption. For other employers in the Fund, allowance will be made for short-term pay restraint only of 1% p.a. for 3 years only.

Pension increases/Indexation of CARE benefits

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

Demographic assumptions

Mortality

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

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

Commutation

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

Other Demographics

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

Expenses

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

Discretionary Benefits

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

Method and assumptions used in calculating the cost of future accrual

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

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

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

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of 3.0% per annum, with a long term average assumption for consumer price inflation of 2.6% per annum. These two assumptions give rise to an overall discount rate of 5.6% p.a (i.e. 3.0% plus 2.6%).

Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the “Common Rate” of contributions. In market conditions at the effective date of the 2013 valuation this approach gives rise to a slightly more optimistic stance (i.e. allows for a higher AOA) in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of the funding target.

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

Summary of key whole Fund assumptions used for calculating funding target and cost of future accrual (the "normal cost") for the 2013 actuarial valuation

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

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

Demographic assumptions

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

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

Other demographic assumptions are noted below:

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

APPENDIX 2

Assumptions used in calculating contributions payable under the recovery plan

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

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

Increases in yields on fixed and index linked gilts

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

As indicated above, this variation to the assumptions in relation to the recovery plan can only be applied for those employers which the Administering Authority deems to be of sufficiently high financial covenant to support the anticipation of increased gilt yields over the entire duration of the recovery period. No such variation in the assumptions will apply in any case to any employer which does not have a funding deficit at the valuation (and therefore for which no recovery plan is applicable). Where a funding deficit exists the impact of the anticipated increases in gilt yields will be limited so that the total employer contributions emerging from the valuation will be no less the 2014/15 levels that would have been payable under the previous funding plan unless agreed with the Administering Authority.

STATEMENT OF INVESTMENT PRINCIPLES

Introduction

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

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

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

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

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

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

Investment Responsibilities

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

The Fund currently has three investment managers who have responsibility for the day-to-day management of the assets and the selection of individual investments subject to the investment guidelines and restrictions agreed with the

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

Liabilities

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

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

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

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

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

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

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

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

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

Eligible Assets

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

Acceptable Asset Classes are:

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

There are some Investment Restrictions:

- Stock lending is not permitted without the prior consent of the Director of Corporate Finance.
- Underwriting requires specific written approval.
- Physical assets (such as gold or any other commodity) are not permitted without specific written approval.
- Borrowing money on behalf of the Fund is not permitted except where necessary for transaction settlements.

Social, Environmental and Ethical Considerations

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

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

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

Corporate Governance

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

The Council's voting policies reflect these main concerns:

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

Compliance

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

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

- The Government's response to the 'Review of Institutional Investment in the UK' undertaken by Paul Myners and published in 2001 has led to a proposed voluntary code 'Best Practice'. The LGPS (Management and Investment of Funds) (Amendment) Regulations 2002 issued on 9th August 2002, requires administering authorities to prepare and publish a revised SIP setting out the extent to which they comply with the ten investment principles contained in the Chartered Institute of Public Finance and Accounting (CIPFA) document, 'Principles for Investment Decision Making in the Local Government Pension Scheme in the UK'.
- In 2008 the NAPF were charged with reviewing the extent to which trustees were applying the Myners recommendations and whether scheme governance had improved and any gaps needed to be addressed. Following this review the Myners Principles were revised with the introduction of six new, less prescriptive, principles.
- The position in relation to the six principles has been evaluated and the current position is set out in the section Compliance with Myners Principles.

COMPLIANCE WITH MYNERS PRINCIPLES

Myners Updated Investment Principles – Compliance Statement

Updated Myners Principles were published in October 2008.

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

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

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

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

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

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

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

Principle

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

Best Practice Guidance

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

✓ **Full compliance. The Fund's objectives are set out in the Statement of Investment Principles. Fund managers operate to detailed written mandates that give clear investment objectives and timescales for measurement (rolling three years) set out in their Investment Management Agreement. A number of benchmark indices have been set for each asset class. Control ranges are in place consistent with performance targets to which the fund managers should work.**
The fund has three specialist mandates and three property mandates. The fund considered the full range of asset classes when setting its strategic asset allocation in 2003. In doing so, it had regard to its objective of moving from a funding level of 68% in 2004 to 100% by 31st March 2030. Alternative asset classes are reviewed from time to time and researched as appropriate. `Management styles and the impact of investment management costs are considered at the time of the regular procurement exercises.

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

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

Principle 3: Risk and liabilities (Current Principle 3)

Principle

In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities.

These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

Best Practice Guidance

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

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

Fund Managers' performance is kept under continuous review.

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

Principle 4: Performance assessment (Current Principle 8)

Principle

Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers.

Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Best Practice Guidance

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

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

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

Principle 5: Responsible ownership (Current Principle 6)
Principle
Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.
A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles.
Trustees should report periodically to members on the discharge of such responsibilities.
Best Practice Guidance

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

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

Trustees review the Exercise of voting rights at quarterly meetings.

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

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

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

Member engagement meetings or surgeries are held annually, alternating between the two each year.