

London Borough of Ealing Pension Fund Annual Report & Accounts

2014/15

EALING COUNCIL

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CHAIR'S STATEMENT



Cllr Yvonne Johnson, Chair of the Pension Fund Panel

It is my pleasure to once again present the London Borough of Ealing's Pension Fund annual report for the year ending 31st March 2015.

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

There were four panel meetings over the reporting year at which Members reviewed a broad range of strategic issues in addition to meeting and probing some of our Fund Managers on their rolling three year performance against which we set them an out performance target. Members of the panel also explored a range of investment opportunities, reviewed the schemes governance arrangements and discussed options for the constitution of our local Pension Board in accordance with new regulations. New ways of collaborating across LGPS schemes improve knowledge and resource sharing and reduce scheme cost remained high up on our agenda.

We are seeing slow but steady economic recovery both in the UK and across the globe although a number of downside risks still remain. I am delighted to report for the 6th consecutive year that the scheme assets rose in value from £867.4m to £967.3m (11.5%) over the financial year. Our fund slightly under-performed our benchmark return by 0.2% in relative terms. However, we out-performed the average return of a peer group universe of other LGPS funds being ranked in the top 27% of performers over a rolling three year period. The latest triennial valuation of the fund carried out on 31 March 2013 indicated the funding level of the fund was 72% compared to the last valuation funding level of 70%.

The Fund's investment mix is continually reviewed to ensure we achieve the optimal returns to minimise the amount the Council needs to contribute as the scheme sponsor. We continue to review the governance arrangements in our drive to offering and maintaining quality scheme and service to scheme participants. In addition to quarterly PFP meetings, the Treasury Risk and Investment Board (TRIB), a sub group of officers, meet monthly to actively assist to the PFP in monitoring risk, and to generate new ideas on the full range of PFP issues as well as speeding up the implementation of strategic decisions taken by the PFP.

Public sector pensions are still undergoing major changes to reduce the costs of running the scheme and to ensure fairness of the distribution of costs across generations. I have previously informed you about the changes to the scheme. These changes have now been finalised and took effect from 1 April 2014.

Wider changes have also been proposed for the governance and structure of the LGPS and the outcomes of consultations are currently underway.

We continue to keep abreast of all proposed regulatory changes and ensure that where possible we participate in industry debate to contribute towards securing a sound and sustainable scheme. We are closely involved in reviewing the options for collaborative investing across London schemes. We will continue to keep you updated of proposed changes to the scheme through various communication channels including our website, newsletters and our annual general meeting. The Annual General Meeting was held on 5 March 2015 which incorporated presentations from several experts. Feedback from those who attended was excellent and next year we will once again be holding a member engagement day with one to one surgeries for some members to discuss individual queries.

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

Once again I encourage you to provide us with feedback to assist us in improving the way we communicate with you and the quality of the information you receive. Contact details can be found in the section 'Staff, Advisors and Investment Managers.'

HIGHLIGHTS 2014-15

- The value of the Fund rose from £867.4m to £967.5m at the end of the financial year; an increase of 11.5%.
- 67% of assets under management are held in equities, 25% in corporate bonds, and 8% in UK pooled property funds.
- The Pension Fund performance dropped slightly from previous years, underperforming its benchmark by 0.2% in 2014/15, however the fund performed in the 27th percentile against its peer group of other Local Authority Funds over a rolling three year period.
- The Pension Fund's investments have outperformed the actuarial assumptions and contributed positively to the funding level by £83m since the last triennial valuation.
- Overall in 2014/15 the scheme again remained cash flow positive (when investment income is included), with income to the scheme (contributions and investment income) at £76.8m, 48% more than the outgoings of £51.8m, enabling the Council to invest sensibly for the longer term without worrying about short term market movements.

MANAGEMENT STRUCTURE

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

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

PENSION FUND PANEL

Terms of Reference

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

| Members during 2014/15 | Political Party |
|---|----------------------------------|
| Councillors Cllr Yvonne Johnson (Chair) | Labour |
| Cllr Shital Manro | Labour |
| Cllr Kamaljit Kaur Nagpal | Labour |
| Cllr Swaran Padda | Labour |
| Cllr Mik Sabiers | Labour |
| Cllr Andrew Steed | Liberal Democrat |
| Cllr Anthony Young | Conservative |
| Non-Voting Members | |
| Sukhminder Kalsi | (Unison) |
| Helen Turner | (Scheme Employer representative) |

Contact Details for Pension Fund Panel

Committee Services (Perceval House)
Joseph Anstee - Telephone: 0208 825 6588

Panel Member Training 2014/15

| Topic | Provider |
|-----------------------------|------------------------|
| Infrastructure Investments | Jardine Lloyd Thompson |
| Multi Asset Credit Strategy | Henderson |

Panel Voting Rights:

The voting rights for the panel are as follows:

- Councillors who are members of the Pension Fund Panel have voting rights.
- Trade union and scheme employer representatives who are members of the Pension Fund Panel are non-voting.

STAFF, ADVISERS AND INVESTMENT MANAGERS

| Company Name | Contact | Contact Details |
|--|---|--|
| Ealing Officers: | | 0208 825 5000 |
| Executive Director, Corporate Resources | Ian O'Donnell | Perceval House 14-16 Uxbridge Road London W5 2HL |
| Director of Finance | Maria G. Christofi | Perceval House 14-16 Uxbridge Road London W5 2HL |
| Group Manager, Treasury & Investments | Bridget Uku | Perceval House 14-16 Uxbridge Road London W5 2HL |
| Consulting Actuaries: | | |
| Mercer | Ian Kirk | 1 Tower Place West Tower Place London EC3R 5BU |
| Auditors: | | |
| KPMG | Stephen Lucas | 12 th Floor, 15 Canada Square, Canary Wharf, London |
| Legal Advisers: | | |
| In-House Team | Helen Harris – Director of Legal and Democratic Services | Perceval House 14-16 Uxbridge Road London W5 2HL |
| Pension Administration Services: | | |
| In-House Team | Fiona Canney – HR Contracts & Pensions Manager | Perceval House 14-16 Uxbridge Road London W5 2HL |
| London Pensions Fund Authority (LPFA) | Ealing Pension Team | Dexter House 2 Royal Mint Court London EC3N 4LP |
| Custodian: | | |
| BNY Mellon | Rachel Richer | BNY Mellon Asset Servicing UK |

| Company Name | Contact | Contact Details |
|--|-------------------|---|
| | | Pension Team 3 rd Floor, 160 Queen Victoria Street London EC4V 4LA |
| Investment Managers: | | |
| Lazard – UK Equity Mandate | Louisa Vincent | 50 Stratton Street London W1J 8LL |
| Allianz – Global Equity Mandate | Michelle Bailey | 155 Bishopsgate London EC2M 3AD |
| RLAM – UK Corporate Bond Mandate | James Stoddart | 55 Gracechurch Street London EC3V 0UF |
| Lothbury – UK Property Mandate | Thomas Jansen | 155 Bishopsgate, London, EC2M 3TQ |
| Standard Life – UK Property Mandate | Euan Baird | 1 George St, Edinburgh, EH2 2LL |
| Hermes – UK Property Mandate | Geoffrey Reynolds | 1 Portsoken Street, London, E1 8HZ |
| Performance Measurement Services: | | |
| WM Performance Services State Street | Karen Thrumble | 525 Ferry Road Edinburgh EH5 2AW |
| Pension Body Membership: | | |
| National Association of Pension Funds - represents the interests of the occupational pensions movement, organises conferences and training programs for members. | n/a | Cheapside House 138 Cheapside London EC2V 6AE |
| Local Authority Pension Fund Forum - promotes the investment interests of local authority pension funds, and to maximise their influence as shareholders. | David Sellors | Email: David.Sellors@lapfforum.org Telephone: +44(0) 7920 809 515 |

THE SCHEME

The London Borough of Ealing administers the Ealing Pension Fund for the active members, pensioners and deferreds of the Council and other scheme employers.

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

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

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

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

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

The pay bands and the rates that applied from April 2014 to March 2015 were:

| Full-time Pensionable Pay | % Contribution |
|---------------------------|----------------|
| £0 to £13,500 | 5.5% |
| £13,501 to £21,000 | 5.8% |
| £21,001 to £34,000 | 6.5% |
| £34,001 to £43,000 | 6.8% |
| £43,001 to £60,000 | 8.5% |
| £60,001 to £85,000 | 9.9% |
| £85,001 to £100,000 | 10.5% |
| £100,001 to £150,000 | 11.4% |
| Over £150,000 | 12.5% |

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

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

The contribution rate for Councillors is 6% of eligible allowances, councillors pensions are currently under review.

LGPS 2014

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

| | |
|---|---|
| 1 | A Career Average Revalued Earnings (CARE) scheme using CPI as the revaluation factor (prior to 31 st March 2014, the scheme was a final salary scheme). |
| 2 | The accrual rate is 1/49th (this used to be 1/60th). |
| 3 | There is no normal scheme pension age, instead each member's Normal Pension Age (NPA) will be their State Pension Age (the NPA used to be 65). |
| 4 | Average member contributions to the scheme are 6.5% (same as before) with the rate determined on actual pay (before the scheme determined part-time contribution rates on full time equivalent pay). While there was no change to average member contributions, the lowest paid pay the same or less and the highest paid pay higher contributions on a more progressive scale after tax relief. |
| 5 | Members who have already or are considering opting out of the scheme can instead elect to pay half the contributions for half the pension, while still retaining the full value of other benefits. This is known as the 50/50 option (before, the scheme had no such flexible option). |
| 6 | For current scheme members, benefits for service prior to 1st April 2014 are protected, including remaining 'Rule of 85' protection. Protected past service continues to be based on final salary and current NPA. |
| 7 | Where scheme members are outsourced they will be able to stay in the scheme on first and subsequent transfers (currently this is a choice for the new employer). |

SCHEME EMPLOYERS

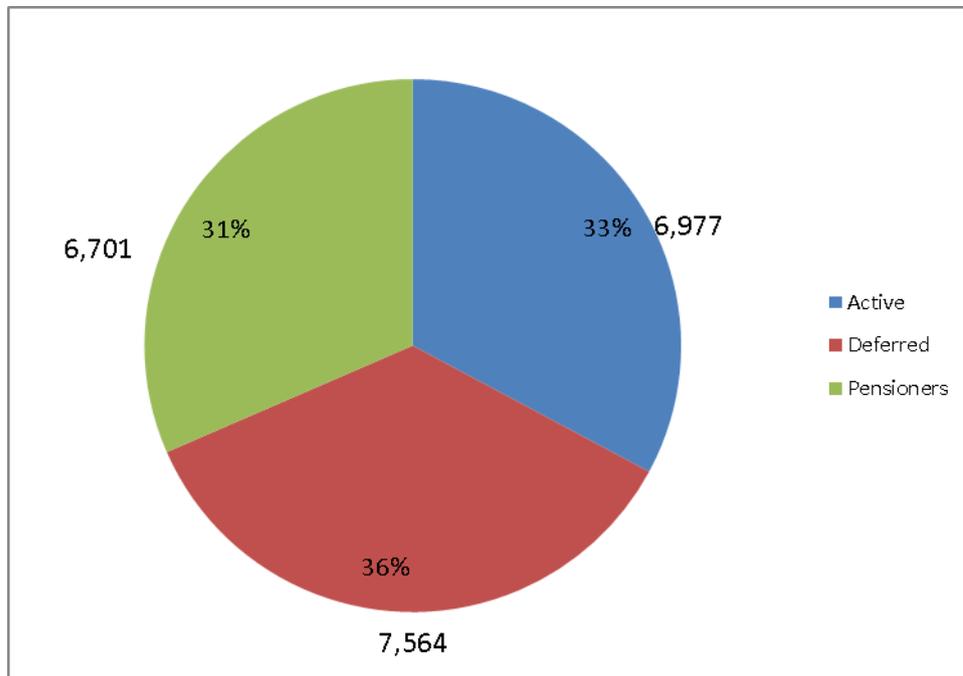
The Pension Fund had 18 employers in the Fund during the financial year 2014/15, including the London Borough of Ealing. These employers in the Fund are listed in the section Accounting Policies and Notes to the Accounts.

MEMBERSHIP OF THE FUND

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

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

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



Definitions:

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

BUDGETARY ESTIMATE REVIEW

The Pension Fund Panel reviews the budgetary estimate for the Pension Fund on an annual basis. In the table below income and expenditure for 2014/15 and 2013/14 is shown with the agreed budget for 2015/16:

| | Actual 2013/14 £m | Forecast 2014/15 £m | Actual 2014/15 £m | Variance | | Budget* 2015/16 £m |
|---|-------------------------|---------------------------|-------------------------|-------------|------------|--------------------------|
| Income | | | | | | |
| Employer Contributions | 39.2 | 29.9 | 31.3 | 5% | 1.4 | 29.5 |
| Employee Contributions | 9.3 | 8.9 | 9.9 | 11% | 1.0 | 8.3 |
| Transfer In | 2.7 | 2.7 | 3.2 | 20% | 0.5 | 2.7 |
| Total Income | 51.2 | 41.5 | 44.4 | 7% | 2.9 | 40.5 |
| Expenditure | | | | | | |
| Pensions | 32.7 | 33.8 | 33.8 | 0% | 0.0 | 34.2 |
| Lump sum retirement benefits | 6.6 | 8.0 | 6.2 | -22% | -1.8 | 8.8 |
| Lump sum death grants | 0.5 | 0.8 | 0.8 | 4% | 0.0 | 0.7 |
| Transfers out (inc. refunds) | 2.8 | 2.7 | 5.7 | 112% | 3.0 | 3.0 |
| Fund Management expenses | 2.5 | 3.1 | 3.0 | -3% | -0.1 | 3.5 |
| Administration expenses | 1.0 | 0.9 | 0.9 | 3% | 0.0 | 0.9 |
| Total Expenditure | 46.1 | 49.2 | 50.4 | 2% | 1.2 | 51.1 |
| Net Income/(Expenditure) | 5.1 | (7.8) | (6.0) | -23% | 1.8 | (10.6) |
| Investment Income generated by Fund Managers | 30.8 | 30.5 | 31.0 | 2% | 0.5 | 32.4 |
| Total Income (inclusive of income held with Fund Managers) | 35.9 | 22.7 | 25.0 | 10% | 2.3 | 21.8 |

Overall the London Borough of Ealing Pension Fund achieved a net surplus for the year 2014/15 of £25.0m (£35.9m in 2013/14). This excludes the effect of the rise in market value of the Fund's investments which was £75.1m (£31.6m in 2013/14).

During 2014/15 non-investment income was not enough to cover pension benefits and expenses. This trend is expected to continue due to the rising cost of pension benefits and stagnating contribution levels. Current cash levels will not be sufficient to meet forecasted pension obligations in 2015/16, so withdrawal of cash from investments will be necessary to cover this shortfall.

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

A copy of the budgetary estimate report for 2014/15 can be obtained from the Council's website, or using the file path below.

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

The Pension Fund Panel approved the 2014/15 budgetary estimate report on 31 March 2015.

RISK MANAGEMENT

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

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

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

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

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

The key risks to the fund are:

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

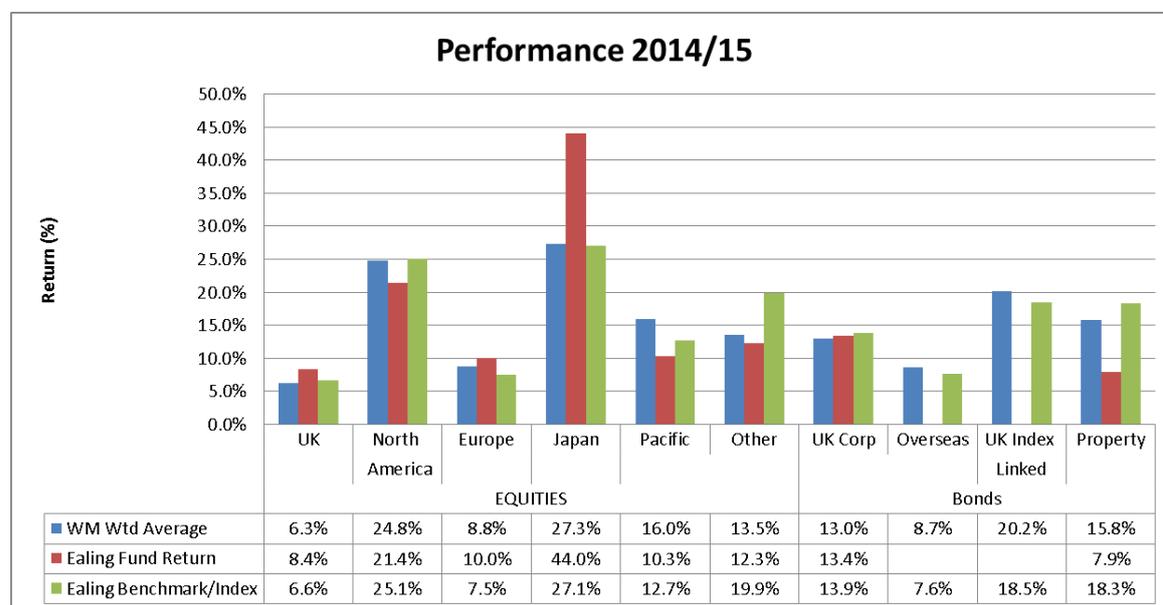
Although the above risks relate primarily to external risk, measures are in place to monitor and manage these risks. These include:

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

INVESTMENT REVIEW

Investment Background

The average local authority pension fund returned 13.2% in 2014/15. The graph below shows the performance of various markets over the last financial year compared to the WM* universe:



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

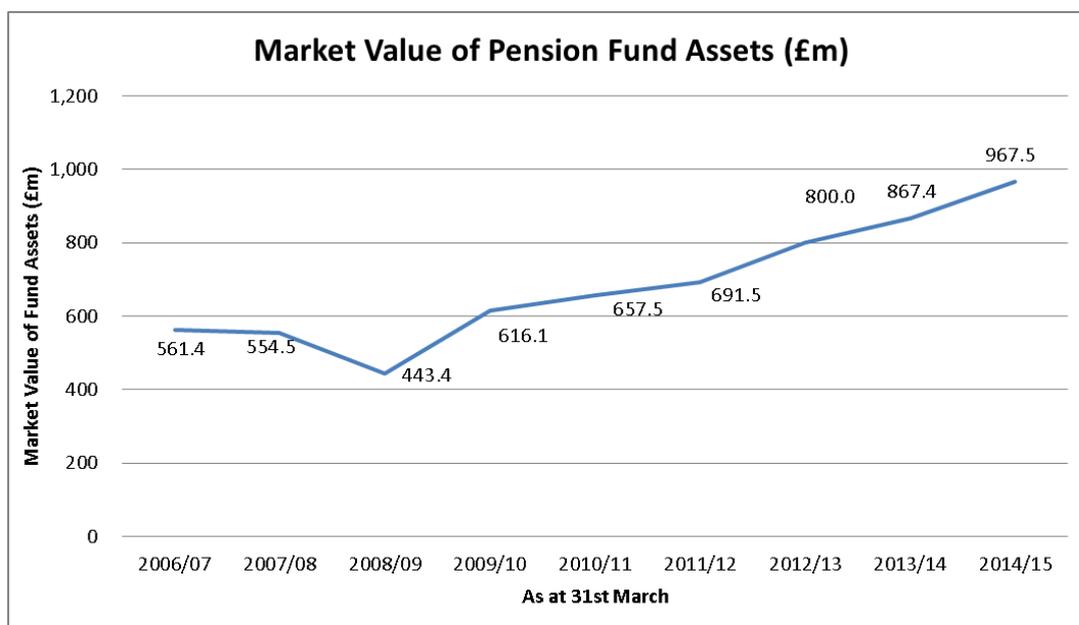
Equity markets performed strongly but with marked regional differences. Domestic equities returned only 6% for the year with investors concerned about the possibility of political uncertainty resulting from a hung parliament post the general election. Japan was the strongest performing of the major overseas markets returning over 30% to local investors, but a slightly lower 27% to UK investors as the Yen continued to weaken against Sterling. Conversely UK investors benefited from the strength of the US Dollar over the year which represented almost half of the US equity return of 25%. Pacific and emerging markets returned 16% and 14% respectively whilst Europe returned a respectable 9% for the year.

After the near flat outcome in 2013/14, UK bonds bounced back strongly, producing double digit returns. Duration was the big story of the latest year with marked differences in return depending upon where funds were invested across the yield curve. Long dated gilts produced returns approaching 30% as yields reached historic lows. Investors needing to hold them for liability matching purposes continued to buy them at any price. On the other hand, short dated bonds returned only 3% for the year. The index linked story for the year was much the same; funds returning 20% on average with the return driven by longer dated issues.

Alternative investments in aggregate also enjoyed a good year. Private equity returned 16% whilst hedge funds averaged 9%. Pooled multi-asset (diversified growth) investments, which have recently been gaining traction amongst funds, returned a strong 10%, well ahead of most funds' targets for this asset class. Property returned 16% for the year.

Value of the Fund's Assets

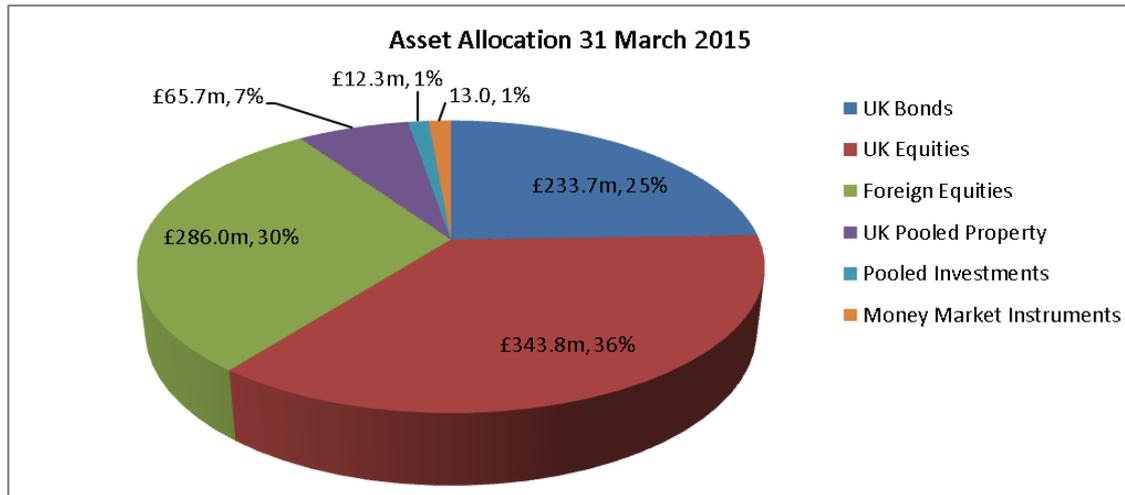
At the end of March 2015 the market value of the Pension Fund's total assets was £967.5m; a rise of 11.5% from the opening value of £867.4m. The graph below depicts the progress of the Fund's assets over the last 9 years (as at the 31 March in each year).



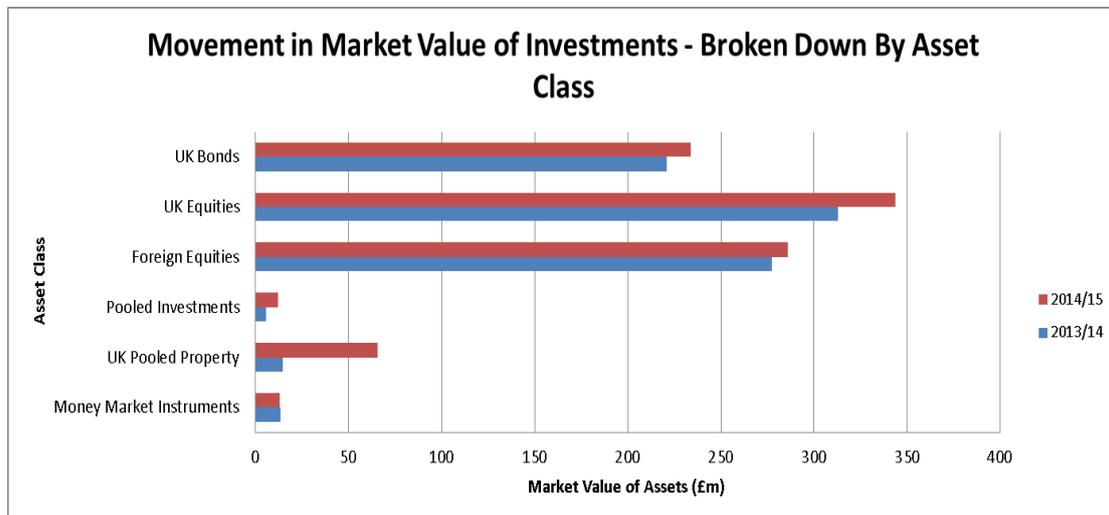
Investment Management

The management of the Fund's assets is determined by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The regulations enable authorities to appoint investment managers to manage and invest Pension Fund assets on their behalf, subject to being satisfied with their experience, competence and risk control, with appropriate arrangements for monitoring performance. The Local Government Pension Scheme Regulations 2013 require the Fund to publish a Statement of Investment Principles (SIP), which sets out the main parameters and responsibilities for the management of the Fund. The SIP covers the investment style for fund managers e.g. balanced active/passive, types of investment to be permitted and the relative proportions between them, performance objectives for fund managers, socially responsible investment standards to be applied, and corporate governance matters to be exercised relating to the Fund's shareholding interests. A copy of the current SIP is included as appendix D this report.

The Fund appointed three new specialist managers in April 2007, with a UK Equity, Global Equity and UK Corporate Bond mandate, in 2011 it was agreed to fund a new pooled property mandate. The allocation to the various asset classes as at the end of 2014/15 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 2014, and the end of the current financial year, March 2015. As can be seen from the chart, the main change has been the increased allocation to pooled property funds.



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

| Manager | Mandate | % of Fund Under Management at 31/3/15 |
|---------------|--------------------|---------------------------------------|
| Lazard | UK Equities | 37% |
| Allianz | Global Equities | 30% |
| RLAM | UK Corporate Bonds | 25% |
| Lothbury | UK Pooled Property | 4% |
| Standard Life | UK Pooled Property | 3% |
| Hermes | UK Pooled Property | 1% |

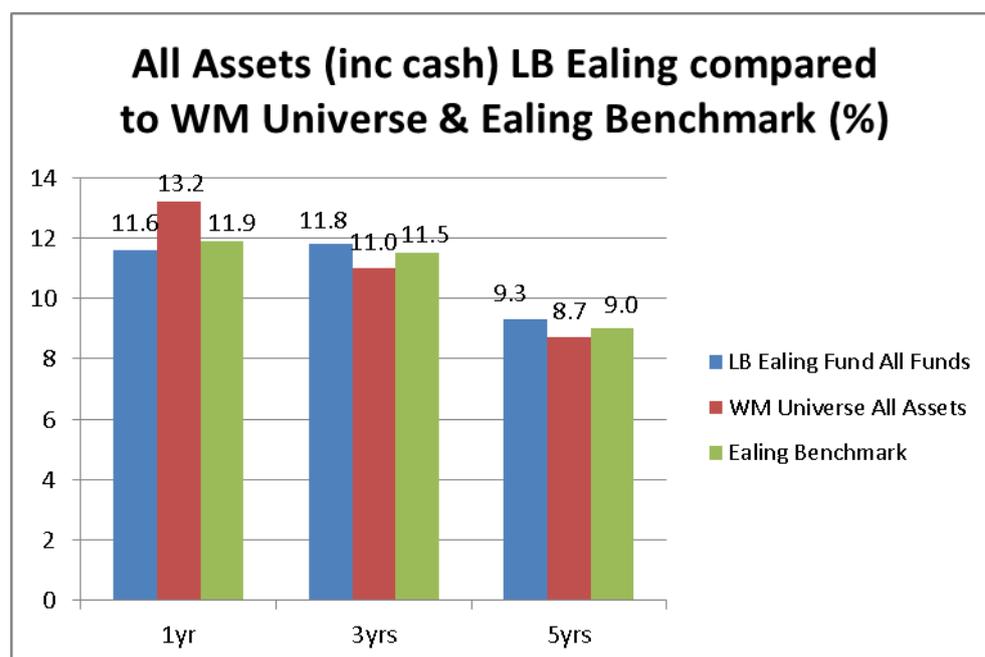
Top fifteen holdings by Market Value as at 31st March 2015

| Top 15 Holdings at 31 st March 2015 | Market Value (£000) |
|--|---------------------|
| LOTHBURY PROPERTY FUND | 34,496 |
| STANDARD LIFE LONG LEASE | 25,945 |
| ROYAL DUTCH SHELL | 16,009 |
| BP | 15,282 |
| BRITISH AMERICAN TOBACCO | 13,712 |
| ASTRAZENECA | 11,958 |
| VODAFONE GROUP | 11,534 |
| SHIRE | 10,856 |
| HSBC HOLDINGS | 10,472 |
| LLOYDS BANKING GROUP | 10,007 |
| DIAGEO | 9,761 |
| RIO TINTO | 9,737 |
| PRUDENTIAL | 9,343 |
| BARCLAYS | 9,076 |
| ROYAL LONDON STERLING | 8,894 |

Performance of Fund

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

As set out in the graph below, the fund has returned 11.6% for 2014/15, and an average of 11.8% and 9.3% for the three years and five years respectively to 31 March 2015.



In 2014/15 the Ealing Fund return of 11.6% underperformed the benchmark of 11.9% with a relative return of -0.2%. It also underperformed the WM Local Authority Universe which achieved 13.2%. This underperformance was mainly attributable to asset allocation, as the fund is more highly weighted towards UK stock which did not perform as well as other stock markets, e.g. Europe and North America. However, for the three and five year rolling performance metrics, the

fund outperformed both the specific benchmark, and the peer group of other local authority funds.

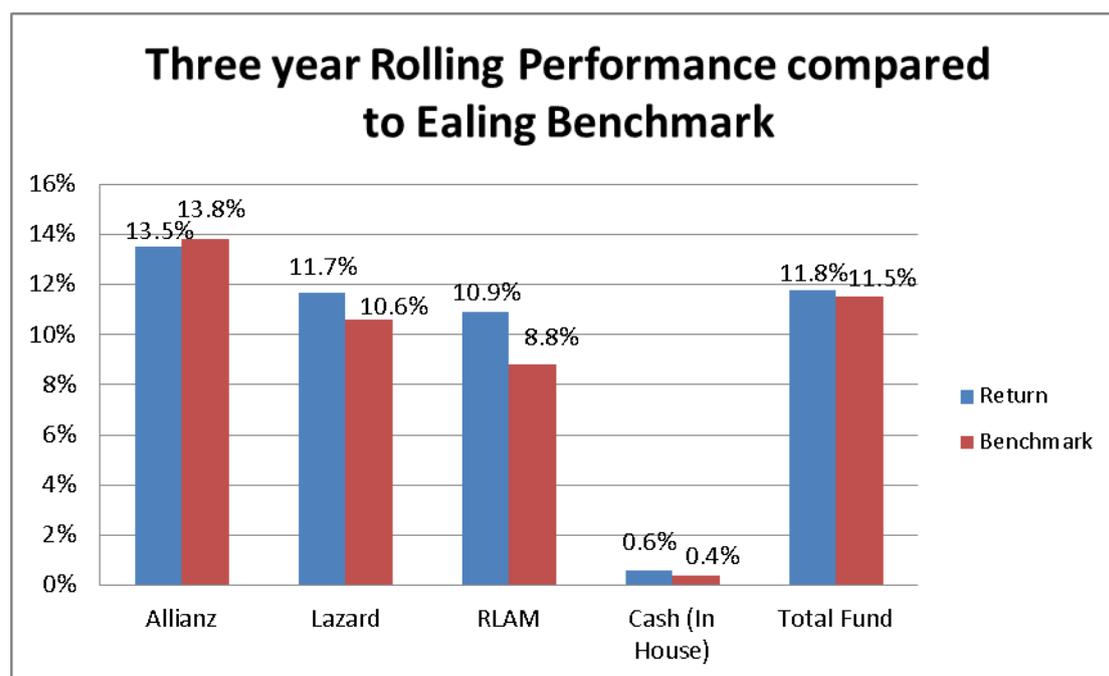
The table below details the performance for the year to March 2015 for each of the fund managers and the combined fund in relation to the Ealing Specific Benchmark.

| | Return | LB Ealing Benchmark | Relative Performance* | Relative Performance* |
|-------------------|-----------------------|----------------------------|------------------------------|------------------------------|
| | Year to 31 March 2015 | Year to 31 March 2015 | 2014/15 | 2013/14 |
| | % | % | % | % |
| Allianz | 16.7 | 16.1 | -0.5 | -0.1 |
| Lazard | 7.3 | 6.6 | 0.7 | 1.8 |
| RLAM | 13.2 | 13.3 | 0.0 | 2.6 |
| Cash (In House) | 0.4 | 0.3 | 0.1 | 0.3 |
| Total Fund | 11.6 | 11.9 | -0.2 | 0.8 |

*relative performance is a geometric not arithmetic calculation

At the overall portfolio level, the Fund underperformed the composite benchmark return during the year 2014/15 by 0.2%.

Long-term 3 year rolling performance analysis of the fund managers to March 2014 shows that Lazard and RLAM have outperformed their benchmarks.



Investment Management Expenses

The investment management expenses for the year to 31 March 2015 were £3,002k, up from the previous year figure of £2,513k, mainly due to increases in fund management fees as a result of the rising market value of assets.

ADMINISTRATION

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

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

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

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

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

Ealing Council
Payroll Department
Perceval House
5th Floor SW
14-16 Uxbridge Road
London
W5 2HL
Telephone: 0208 825 9000

Administration Expenses

The relative costs of administering the Fund over the financial year 2014/15 amounted to £912k (£1,016k in 2013/14). The administration expenses cover the costs involved in administering the Pension Scheme, including actuarial costs, audit, payroll and pension administration.

Administration Performance

The performance of LPFA is measured against four criteria:

Accuracy – Whether the figures provided have been accurately computed.

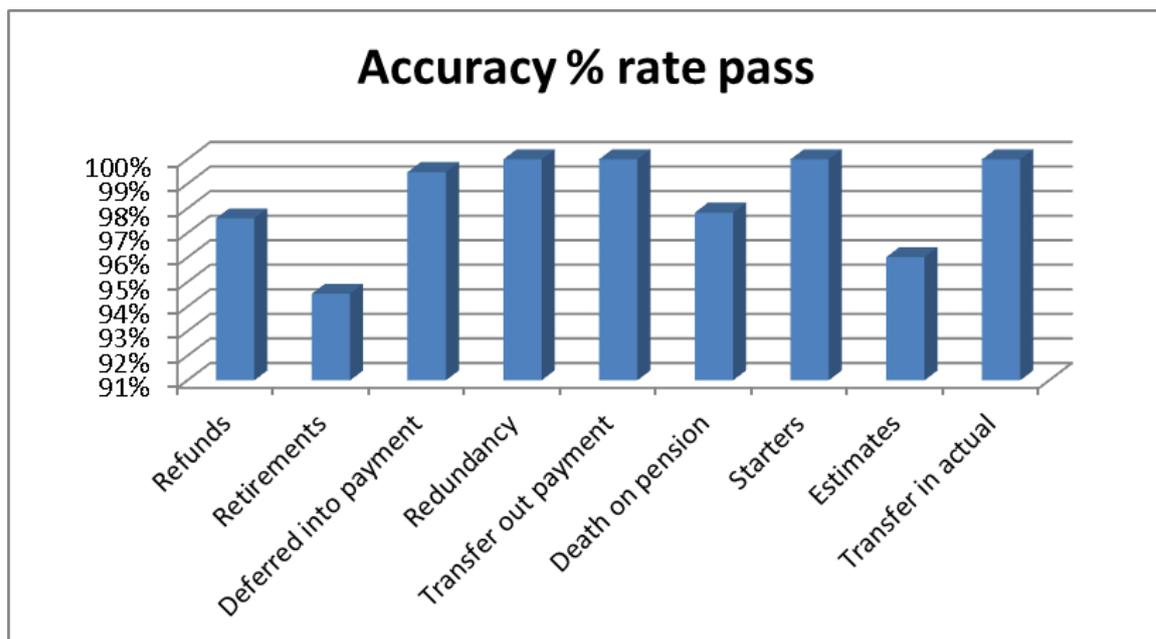
Timeliness – Have cases been processed in a timely manner.

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

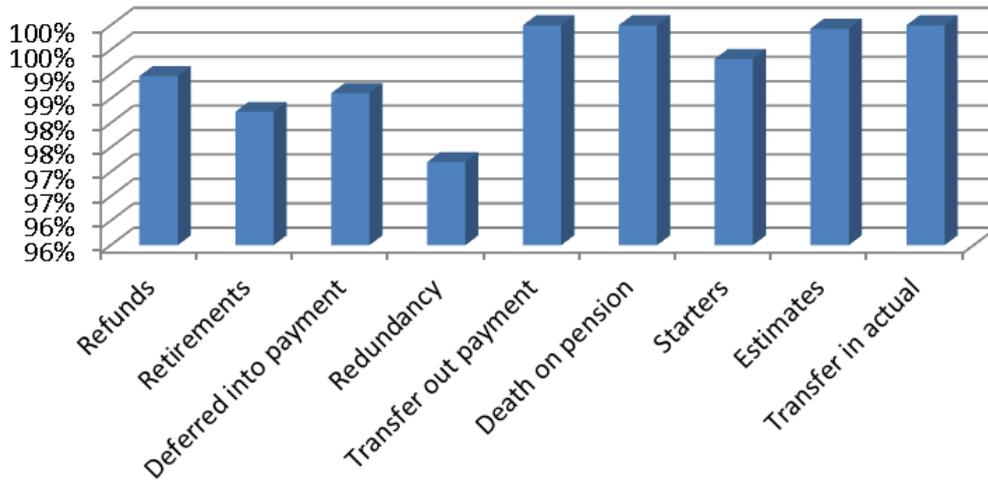
Altair – Does the pension administration system correctly reflect the activity processed.

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

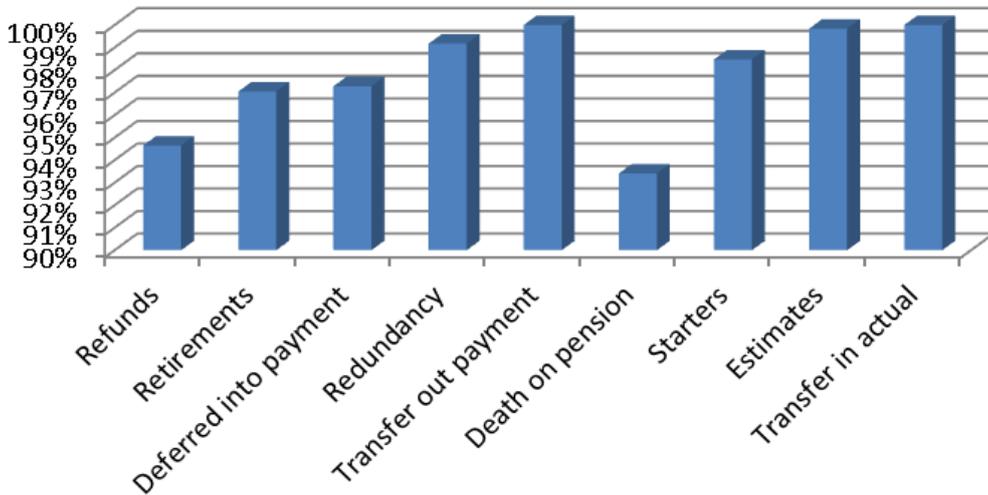
Below are performance graphs showing the pass rate LPFA achieved for 2014/15 across some of the most common and active areas within LPFA's remit.

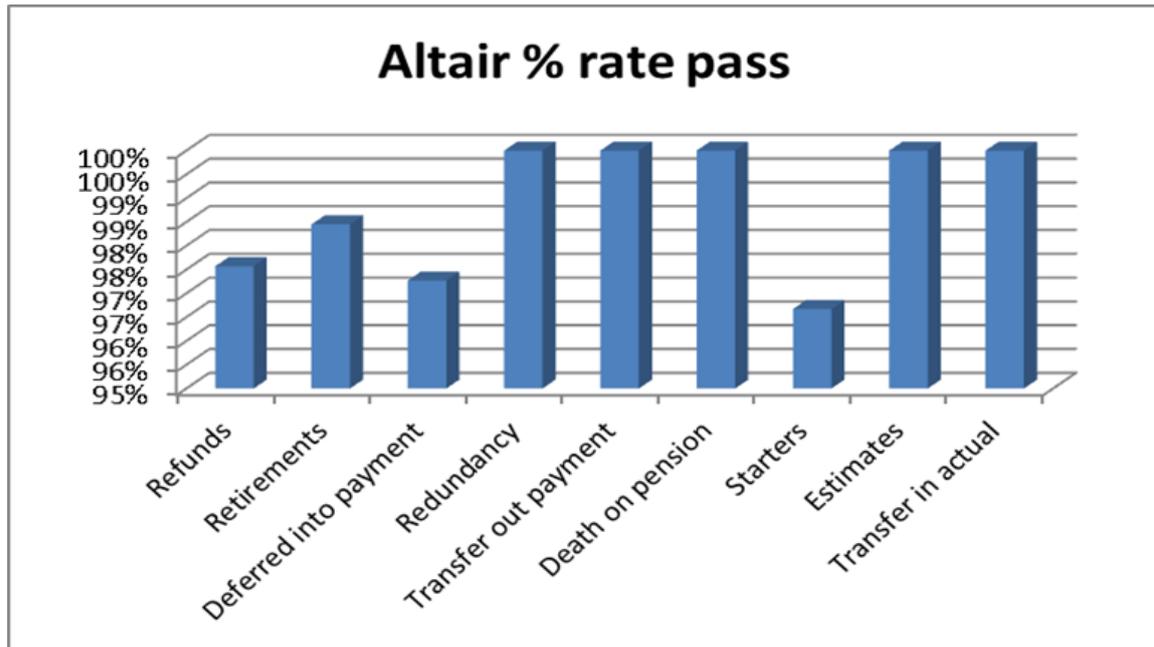


Timeliness % rate pass



Documentation % rate pass





Internal Disputes Resolution Procedure

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

If the complainant is still dissatisfied with the decision they then have the right to refer the matter to the Stage 2 Deciding Officer to consider the matter under dispute. The Stage 2 Deciding Officer is David Veale, Assistant Director of HR, Ealing Council.

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

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

Self-Service

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

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

Current users of PIN: Members who currently hold a PIN to access member self-service will need to go through a simple re-registration process to set yourself a password and username.

This is only a couple of screens and there is a Re-registration option as you enter member self-service. If you had bookmarked the previous online site this will no longer be valid and you will need to bookmark the next screen instead.

<https://axise.yourpension.org.uk>

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

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

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

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

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

Please note this service is available for active members and members with a frozen pension but not Ealing pensioners.

Notification of Change of Address

As statements are sent out on an annual basis showing the current value of your benefits it is vitally important that you notify the LPFA of any change of address.

This becomes especially important when the benefits are due to be paid.

Please send written notification of any change of address you may have to the LPFA at the address shown above.

STATEMENT OF RESPONSIBILITIES

The London Borough of Ealing is the Administering Authority of the London Borough of Ealing Pension Fund and is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its Officers has the responsibility for the administration of those affairs. In this Council, that Officer is the Executive Director of Corporate Resources;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the Statement of Accounts.

Responsibilities of the Executive Director of Corporate Resources

The Executive Director of Corporate Resources is responsible for the preparation of the Pension Fund Statement of Accounts in accordance with proper practices as set out in CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom ("the Code of Practice").

In preparing this Statement of Accounts, the Executive Director of Corporate Resources has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent; and
- Complied with the Code of Practice, except where otherwise stated.

The Executive Director of Corporate Resources has:

- Kept proper accounting records which were up to date; and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Responsible Financial Officer's Certificate:

I certify that the Accounts set out below have been prepared in accordance with proper practices and present fairly the transactions of the London Borough of Ealing Pension Fund for the year ended 31st March 2015 and financial position of the Fund at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the year end.

Ian O'Donnell

Executive Director of Corporate Resources

AUDIT OPINION

The audit opinion for these accounts is given in conjunction with the Council's main statement of accounts which can be found on the Ealing website at: www.ealing.gov.uk

POLICY STATEMENTS AND ACCOUNTS

The following appendices contain various policy statements, and the 2014/15 pension fund accounts. The pension fund accounts contain the Actuary's statement for the year.

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

GOVERNANCE POLICY AND COMPLIANCE STATEMENT

Governance Policy Statement

Introduction

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

Governance Framework

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

The governance framework is supported by:

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

Delegation of Function

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

Meetings

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

The Executive Director of Corporate Resources (Section 151 Officer), supported by the Director of Finance, is responsible for implementing Council policy and PFP decisions. Operating through the Treasury Risk and Investment Board (TRIB) a body that convenes monthly, the Section 151 officer and his deputy together with other officers of the Council ensure the smooth implementation of PFP policies on administration, funding, investment, communication and risk management of the fund. This ensures continuity of review of pensions fund matters in between quarterly PFP meetings. The chair and deputy chair are kept updated and informed of any decisions taken within the remit of the delegations granted by the PFP and Council to the Executive Director of Corporate Resources.

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

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

Training

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

Pension Fund Panel Terms of Reference

The Terms of Reference of the PFP is as follows:

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

The Pension Board

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

Review of this Policy Statement

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

London Borough of Ealing's Current Compliance Position

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

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

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

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

| REQUIREMENT | COMPLIANCE | COMMENT |
|---|---------------------|---|
| | | between quarterly PFP meetings. Good communications flows have been established between this board and the PFP and officers from this board also sit on the PFP. |
| That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel. | Partly Compliant | The Council does not have a secondary Committee or Panel. However, they are supported by the TRIB, and at least two members from this body also attend the PFP meetings. |
| Representation | | |
| That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include :- <ul style="list-style-type: none"> • employing authorities (e.g. scheme employers), • scheme members (including deferred and pensioner scheme members), • independent professional observers, • expert advisors (on an ad-hoc basis). | Partially Compliant | Representation on the Pension Fund Panel is open to the larger scheme employers and two trade union representatives sit on the panel. The Panel has not appointed an independent professional observer but has appointed expert advisors who can attend Panel meetings when required. |
| That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights. | Compliant | Committee papers are published prior to the meeting and where issues affect other employers or scheme members information is provided and opportunities for consultation exist within the current framework. |
| Selection & Role Of Lay Members | | |
| That committee or panel members are made fully aware of the status, role and function they are required to | Compliant | Members are aware of their roles and responsibilities as members of the Pensions Fund Panel, their terms of |

| REQUIREMENT | COMPLIANCE | COMMENT |
|--|---------------------|---|
| perform on either a main or secondary committee. | | reference are set out in the constitution. |
| Voting | | |
| The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees. | Partially Compliant | The constitution does not provide for non-Councillor members to be given voting rights. |
| Training/Facility Time/Expenses | | |
| That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. | Compliant | Training is provided to members of the Pension Fund Panel to assist with the decision making process. All members have the opportunity to attend particular training meetings and there is a training budget to fund these. |
| That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary 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. | Partly Compliant | No secondary committee., but the supporting body meet monthly. |
| That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key | Compliant | There are two lay representatives on the panel. Consultation with key stakeholders takes place and there is an AGM to which all members are invited. |

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

LONDON BOROUGH OF EALING PENSION FUND ACCOUNTS

INTRODUCTION TO THE FUND, ACCOUNTING POLICIES AND PRINCIPLES

Introduction

1. The London Borough of Ealing Pension Fund is part of the Local Government Pension Scheme (LGPS), which is a statutory, funded pension scheme. The LGPS benefits are defined and set out in law, there were significant changes to the LGPS scheme in the year 2014/15.
2. LGPS scheme changes came into effect from 1st April 2014. The main points to note are:

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

Further details can be found at <http://lgps2014.org/>.

3. 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.

4. The Fund is operated under regulations made by the Department of Communities and Local Government under Section 7 of the Superannuation Act 1972. The rules of the scheme are set out in LGPS (Benefits, Membership and Contributions) Regulations 2007, the LGPS (Administration) Regulations 2008 and the LGPS (Investment and Management of Funds) Regulations 2009, as amended. New governance arrangements have been introduced from 1 April 2014 under regulations made under the Public Service Pensions Act 2013.
5. Membership of the fund consists of contributing members, deferred members, pensioners, widows and dependants as shown below.

| | 31 st March 2015 | 31 st March 2014 |
|-----------------------------------|-----------------------------|-----------------------------|
| Contributing members | 6,977 | 6,565 |
| Deferred members | 7,564 | 7,232 |
| Pensioners, widows and dependants | 6,701 | 6,511 |
| Total | 21,242 | 20,308 |

The Council is the administering authority of the scheme and has the major share of contributors and pensioners. There are now 17 scheme employers as shown below, all of the bodies contribute to the Fund.

SCHEME EMPLOYERS as at 31 March 2015

Scheduled Bodies

Alex Reed Academy
 Ark Priory Primary Academy
 Brentside Primary
 Drayton Manor High
 Featherstone High
 St Mary's Academy
 Twyford CE Academy Trust
 University of West London
 Wood End Academy

Admitted Bodies

Carillion
 EC Harris
 Greenwich Leisure
 Mitie
 NSL Parking
 Serco
 SLM
 Viridian Housing

6. Some investments are managed under segregated mandates by external fund managers: Lazard Asset Management Ltd for UK Equities, Allianz Global Investors (previously RCM Ltd) for Global Equities and Royal London Asset Management Ltd for Corporate Bonds. In addition, we currently invest directly in three pooled property funds managed by Lothbury Investment Management, Standard Life Investment Management, and Hermes Investment Management.

Accounting Policies

7. The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2014/15 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The accounting policies contained in the Code apply International Financial Reporting Standards as adapted or interpreted for the public sector. IAS19 Employee Benefits and IAS26 Accounting and Reporting by Retirement Benefit Plans are of particular relevance to these statements. Where IAS26 is less detailed in its reporting requirements and this leads to lack of clarity then due to the hierarchy of standards recourse is to UK GAAP and thus the Pension Statement of Recommended Practice (SORP). The fund accounts are not consolidated with the accounts of the authority.
8. Pension benefits, expenses, contributions from employees and employers and transfers in and out of the fund are accounted for on an accruals basis i.e. income/expenditure is recognised in the period it is earned/incurred, rather than when the cash is received.
9. Investment income is also accounted for on an accruals basis for all securities.
10. Both the costs of the investment management arrangements and Pension Fund administration expenses are charged to the Fund.
11. As per the Code cash balances, consist of cash in hand, fixed term deposits, certificates of deposit, floating rate notes and other cash instruments.
12. Apart from the actuarial valuation there are no estimated figures that can have a significant risk of materially adjusting assets or liabilities within the next financial year.
13. Notes 7 and 9 from the 2013/14 accounts (administrative and investment management expenses) have been amalgamated into one note in this set of accounts, as per CIPFA guidance on accounting for management expenses.

Actuarial Valuation

14. The Fund is valued by an independent actuary every 3 years. An independent valuation was carried out by Mercer Limited as at 31 March 2013 to determine the contribution rate from 1 April 2014 to 31 March 2017. The Actuary used a "market value" basis for the valuation of the Fund at 31 March 2013. Assets amounted to £800m and accrued liabilities to £1,116m, resulting in a funding deficit of £316m (a funding level of 72%).
15. Contributions to the Scheme by employers are set at rates determined by the Scheme's Actuary and approved by the London Borough of Ealing Pension Fund Panel. The Council is meeting the fund's liabilities by a recovery plan that has been certified by the Actuary for the next three years. The 2013 Actuarial Valuation report

is available on the Council's website.

16. In accordance with IAS26 the actuarial present value of promised retirement benefits are shown in the attached report by the Actuary, Appendix A. This report also details the discount rates used and other financial assumptions in assessing the liabilities of the fund.

Basis for Valuation

17. Investments are shown in the accounts at market value, which is determined as follows:
 - 17.1. All valuations for investments at 31 March 2015 and transactions during 2014/15 financial year are obtained from the accounting records of the Custodian Bank of New York Mellon (BNYM). This is the same principle as applied in the 2013/14 accounts.
 - 17.2. All UK investments are valued using an official vendor feed, usually International Data Corporation (IDC), but data from other vendors is used as appropriate in line with the Custodian BNYM Global Pricing Guidelines.
 - 17.3. All Fund investments (excluding cash) have their fair value derived from unadjusted quoted prices in active markets. Actively traded investments are valued on the basis of bid market prices.
 - 17.4. Unit trust and other pooled funds are valued according to the pricing structure applicable to them – dual price funds based on the bid price, single price funds based on that single price and where the value of underlying assets of a fund are based on valuation techniques then the net asset value per unit is used.
 - 17.5. Overseas investments are valued using official vendor feeds in accordance with BNYM's Global Pricing Guidelines and translated into sterling at the rate prevailing on 31st March 2015. IDC is usually used for foreign equities except US equities that are typically priced using Interactive Data Pricing and Reference Data Inc (IDSI).
 - 17.6. Dividends received from foreign investments during the year are accounted for in sterling at the foreign exchange rate prevailing on the day of receipt.
18. The Custodian BNYM completes a monthly reconciliation of its portfolio valuation to external fund manager at a line-by-line security level. The custodian works to the following tolerances
 - Nominal Value: Zero tolerance
 - Market Value: 200 basis points at an individual line level
20 basis points at a portfolio level

Accruals: 1,000 currency units per line

Statement of Investment Principles (SIP)

19. The Statement of Investment Principles for Ealing Pension Fund is reviewed annually and was updated to incorporate an allocation to property in 2011/12. The SIP is published on Ealing Council's website and is available to any interested party.

PENSION FUND - FUND ACCOUNT

| | | 2014/15 | 2013/14 |
|--|-------|------------------|-----------------|
| | | £000 | £000 |
| | Notes | | |
| Dealings with members, employers and others directly involved in the scheme | | | |
| Contributions | 4 | (41,190) | (48,533) |
| Transfers in from other pension funds | | (3,206) | (2,681) |
| | | (44,396) | (51,214) |
| Benefits | 5 | 40,812 | 39,816 |
| Payment to and on account of leavers | 6 | 5,679 | 2,780 |
| Management expenses | 7 | 3,914 | 3,529 |
| | | 50,405 | 46,125 |
| Net (additions) / withdrawals from dealings with members | | 6,009 | (5,089) |
| Returns on investments | | | |
| Investment Income | 8 | (32,443) | (31,882) |
| Taxes on Income | | 1,417 | 1,149 |
| Profit and losses on disposal of investments and changes in value of investments | 9 | (75,125) | (31,580) |
| Net returns on investments | | (106,151) | (62,313) |
| (Surplus) / deficit of the fund for the year | | (100,142) | (67,402) |

PENSION FUND - NET ASSETS STATEMENT

| | Notes | 2014/15 £000 | 2013/14 £000 |
|---|-------|-----------------|-----------------|
| Investment assets | 9 | 952,792 | 839,189 |
| Cash deposits | 9 | 23,559 | 30,764 |
| | | 976,351 | 869,953 |
| Investment liabilities | 9 | (8,525) | (2,062) |
| | | 967,826 | 867,891 |
| Current assets | 11 | 534 | 391 |
| Current liabilities | 12 | (864) | (928) |
| Net Assets of the fund available to pay benefits at year end | | 967,496 | 867,354 |

NOTES TO THE ACCOUNTS

NOTE 1. MANAGEMENT OF INVESTMENTS

In 2006/07 the Pension Fund Panel appointed Allianz (formerly RCM) to manage global equities, Lazards for UK equities and Royal London Asset Management (RLAM) for fixed interest securities and the transition to the new arrangements was completed in April 2007. The three specialised managers were set rolling 3 year out-performance targets of 2.0% pa for Lazard and Allianz and 1.0% pa for RLAM against their selected benchmarks. In January 2011 the Pension Fund Panel approved an allocation to property via pooled investment vehicles of up to 10% of the Fund. The Statement of Investment Principles was updated to reflect revised target allocations for the existing managers as shown below.

| MANAGER | Mandate | FUNDS UNDER MANAGEMENT as at 31.03 | | | | Target Allocation |
|---------------|-----------------|---------------------------------------|-------------|----------------|-------------|----------------------|
| | | 2014/15 | | 2013/14 | | |
| | | £000 | % | £000 | % | |
| Lazard | UK Equities | 360,750 | 37% | 330,224 | 38% | 37% |
| Allianz | Global Equities | 285,683 | 30% | 278,130 | 33% | 28% |
| RLAM | Fixed Interest | 247,288 | 25% | 231,339 | 27% | 25% |
| Lothbury | UK Property | 34,803 | 4% | 9,960 | 1% | } 10% |
| Standard Life | UK Property | 25,945 | 3% | 5,034 | 1% | |
| Hermes | UK Property | 5,346 | 1% | - | - | |
| Total | | 959,815 | 100% | 854,687 | 100% | 100% |

NOTE 2. INVESTMENT TRANSACTION COSTS

Investment transactions costs for the Fund amounted to £997k in 2014/15 (£1,014k in 2013/14). These transaction costs are included in the cost of purchases and in the proceeds from sales. Transaction costs charged directly to the scheme include fees, commissions, stamp duty and other levies. In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on tradeable investments including within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

NOTE 3. SECURITIES ABOVE 5% OF AN ASSET CLASS

| Asset Class / Security | 2014/15 | % of Asset Class | 2013/14 | % of Asset Class |
|--|---------|------------------------|---------|------------------------|
| | £000 | | £000 | |
| Property: | | | | |
| Lothbury Property Trust | 34,496 | 53% | 9,834 | 66% |
| Standard Life long lease property fund | 25,945 | 39% | 5,035 | 34% |
| Hermes Property Unit Trust | 5,295 | 8% | - | - |

There are no individual securities which exceed 5% of net assets

NOTE 4. CONTRIBUTIONS

| | 2014/15 £000 | 2013/14 £000 |
|---|-----------------|-----------------|
| By category | | |
| Employer contributions | (31,278) | (39,245) |
| Member contributions | (9,912) | (9,288) |
| | (41,190) | (48,533) |
| By authority | | |
| Administering authority (LB Ealing) | (36,021) | (44,517) |
| Scheduled bodies | (4,390) | (3,476) |
| Admitted bodies | (779) | (540) |
| | (41,190) | (48,533) |
| By type | | |
| Employees' normal contributions | (9,912) | (9,288) |
| Employers' normal contributions | (19,382) | (16,696) |
| Employers' deficit recovery contributions | (10,483) | (21,025) |
| Employers' augmentation contributions | (1,413) | (1,524) |
| | (41,190) | (48,533) |

NOTE 5. BENEFITS

| | 2014/15 £000 | 2013/14 £000 |
|--|-----------------|-----------------|
| By category | | |
| Pensions | 33,772 | 32,700 |
| Commutation of pensions & lump sum retirement benefits | 6,196 | 6,580 |
| Lump sum death benefits | 844 | 536 |
| | 40,812 | 39,816 |
| By authority | | |
| Administering authority (LB Ealing) | 38,410 | 37,957 |
| Scheduled bodies | 1,957 | 1,625 |
| Admitted bodies | 445 | 234 |
| | 40,812 | 39,816 |

NOTE 6. PAYMENT TO AND ON ACCOUNT OF LEAVERS

| | 2014/15 £000 | 2013/14 £000 |
|--------------------------------|-------------------------|-------------------------|
| Refunds of contributions | 61 | 22 |
| Transfers out to other schemes | 5,618 | 2,758 |
| | <u>5,679</u> | <u>2,780</u> |

NOTE 7. MANAGEMENT EXPENSES

| | 2014/15 £000 | 2013/14 £000 |
|---------------------------------------|-------------------------|-------------------------|
| Administrative Expenses | | |
| Pension administration & payroll | 763 | 802 |
| Other Administrative expenses | 109 | 113 |
| | <u>872</u> | <u>915</u> |
| Investment Management Expenses | | |
| Fund management | 2,486 | 2,092 |
| Custodian | 148 | 108 |
| Other Investment expenses | 19 | 19 |
| | <u>2,653</u> | <u>2,219</u> |
| Oversight and Governance Costs | | |
| Actuarial expenses | 26 | 82 |
| External audit | 14 | 19 |
| Investment consultancy | - | 3 |
| Administering authority (LB Ealing) | 349 | 291 |
| | <u>389</u> | <u>395</u> |
| | <u>3,914</u> | <u>3,529</u> |

NOTE 8. INVESTMENT INCOME

| | 2014/15 £000 | 2013/14 £000 |
|---------------------------------------|-----------------|-----------------|
| Income from fixed interest securities | (12,087) | (12,099) |
| Dividends from equities | (18,132) | (19,266) |
| Pooled funds | (2,110) | (430) |
| Interest on cash deposits | (23) | (86) |
| Other | (91) | (1) |
| | (32,443) | (31,882) |

NOTE 9. INVESTMENTS

| | 2014/15 £000 | 2013/14 £000 |
|--------------------------------|-----------------|-----------------|
| INVESTMENT ASSETS | | |
| Fixed Interest Securities | 233,618 | 220,839 |
| Equities | 629,785 | 590,172 |
| Pooled Investment Vehicles | 77,987 | 20,475 |
| Cash Deposits | 23,559 | 30,764 |
| Other Investment Balances | 11,402 | 7,703 |
| Total Investment Assets | 976,351 | 869,953 |
| INVESTMENT LIABILITIES | | |
| Other Investment Balances | (8,525) | (2,062) |
| NET INVESTMENTS | 967,826 | 867,891 |

NOTE 9a. RECONCILIATION OF MOVEMENTS IN INVESTMENTS

| | Net Assets of Scheme 31/03/2014 £000 | Purchases of Investments and cash deposits £000 | Sales of Investments and cash withdrawals £000 | Change in Market Value during year £000 | Net Assets of Scheme 31/03/2015 £000 |
|------------------------------|--|--|---|--|--|
| Fixed Interest Securities | 220,839 | 33,862 | (39,438) | 18,355 | 233,618 |
| Equities | 590,172 | 224,308 | (236,030) | 51,335 | 629,785 |
| Pooled Investment Vehicles | 20,475 | 57,944 | (6,012) | 5,580 | 77,987 |
| Cash Deposits | 30,764 | 787,469 | (794,529) | (145) | 23,559 |
| | 862,250 | 1,103,583 | (1,076,009) | 75,125 | 964,949 |
| Other Investment Assets | 7,703 | | | | 11,402 |
| Other Investment Liabilities | (2,062) | | | | (8,525) |
| NET INVESTMENT ASSETS | 867,891 | | | 75,125 | 967,826 |

| | Net Assets of Scheme 31/03/2013 £000 | Purchases of Investments and cash deposits £000 | Sales of Investments and cash withdrawals £000 | Change in Market Value during year £000 | Net Assets of Scheme 31/03/2014 £000 |
|------------------------------|--|--|---|--|--|
| Fixed Interest Securities | 220,624 | 54,581 | (51,710) | (2,656) | 220,839 |
| Equities | 546,056 | 266,069 | (256,025) | 34,072 | 590,172 |
| Pooled Investment Vehicles | 5,087 | 15,054 | - | 334 | 20,475 |
| Cash Deposits | 26,090 | 638,714 | (633,870) | (170) | 30,764 |
| | 797,857 | 974,418 | (941,605) | 31,580 | 862,250 |
| Other Investment Assets | 7,459 | | | | 7,703 |
| Other Investment Liabilities | (4,894) | | | | (2,062) |
| NET INVESTMENT ASSETS | 800,422 | | | 31,580 | 867,891 |

NOTE 9b. ANALYSIS OF INVESTMENTS

| | 2014/15 | 2013/14 |
|--------------------------------------|----------------|----------------|
| | £000 | £000 |
| INVESTMENT ASSETS | | |
| Fixed Interest Securities | | |
| UK Corporate | 230,755 | 219,763 |
| Public Sector | 2,863 | 481 |
| Overseas Corporate | - | 595 |
| Equities | | |
| UK | 343,832 | 312,946 |
| Europe | 147,041 | 138,036 |
| North America | 95,282 | 90,897 |
| Japan | 23,794 | 21,524 |
| Pacific | 10,953 | 8,387 |
| Emerging Markets | 8,883 | 10,518 |
| Other | - | 7,864 |
| Pooled Investment Vehicles | | |
| Property | 65,736 | 14,868 |
| Fixed Interest | 8,894 | 5,607 |
| Equity | 3,357 | - |
| Cash Deposits | | |
| Cash held by Administering Authority | 7,669 | 13,205 |
| Cash held by Custodian | 2,869 | 3,989 |
| Money market instrument | 13,021 | 13,570 |
| Other Investment Balances | | |
| Debtors | | |
| Interest due | 4,288 | 4,370 |
| Dividends due | 3,335 | 2,506 |
| Recoverable tax | 583 | 424 |
| Unsettled sales | 3,044 | 206 |
| Other income receivable | 152 | 197 |
| Total Investment Assets | 976,351 | 869,953 |
| INVESTMENT LIABILITIES | | |
| Other Investment Balances | | |
| Creditors | | |
| Unsettled purchases | (8,256) | (1,868) |
| Taxes payable | (237) | (194) |
| Other payables | (32) | - |
| NET INVESTMENTS | 967,826 | 867,891 |

NOTE 10. FINANCIAL INSTRUMENTS

| | 2014/15 | | | 2013/14 | | |
|--|------------------------------------|-----------------------|--|------------------------------------|-----------------------|--|
| | Fair value through profit and loss | Loans and receivables | Financial liabilities at amortised costs | Fair value through profit and loss | Loans and receivables | Financial liabilities at amortised costs |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Financial Assets | | | | | | |
| Fixed Interest Securities | 233,618 | | | 220,839 | | |
| Equities | 629,785 | | | 590,172 | | |
| Pooled Investment Vehicles | | | | | | |
| - Property | 65,736 | | | 14,868 | | |
| - Fixed Interest | 8,894 | | | 5,607 | | |
| - Equity | 3,357 | | | | | |
| Cash Deposits: | | | | | | |
| - Cash held by Administering Authority | | 7,669 | | | 13,205 | |
| - Cash held by Custodian | | 2,869 | | | 3,989 | |
| - Money market instrument | 13,021 | | | 13,570 | | |
| Other Investment Balances | 11,402 | | | 7,703 | | |
| Current Assets | | 534 | | | 391 | |
| Total Financial Assets | 965,813 | 11,072 | - | 852,759 | 17,585 | - |
| Financial Liabilities | | | | | | |
| Other Investment Balances | (8,525) | | | (2,062) | | |
| Current Liabilities | | | (864) | | | (928) |
| Total Financial Liabilities | (8,525) | - | (864) | (2,062) | - | (928) |
| Net Financial Assets | 957,288 | 11,072 | (864) | 850,697 | 17,585 | (928) |

Note that the valuation of financial instruments are classed into 3 levels according to the quality and reliability of the data used to determine fair values. All assets shown above carried at fair value apart from pooled property funds are valued at Level 1 where the fair values are derived from unadjusted quoted prices in an active market. The pooled property funds are valued at Level 2 as the prices of the underlying assets are derived from independent valuation techniques.

NOTE 10a. Nature and extent of risks arising from Financial Instruments

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

- Credit risk - the possibility that other parties might fail to pay amounts due to the Fund.
- Liquidity risk - the possibility that the Fund might not have funds available to meet its commitments, in particular pension benefits.
- Market risk - the possibility that financial loss might arise for the Fund as a result of changes in interest rates and stock market movements.

Credit Risk

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

10.3 The fixed interest securities mandate allows investment in a range of bonds with a minimum of 70% in investment grade corporate bonds and specified maximum limits for other categories. The bond manager has a comprehensive set of risk controls against which all portfolios are measured and monitored. Portfolio risk is evaluated using UBS Delta allowing them to Value At Risk (VAR). Portfolios are monitored on a live basis on a fund management system, 'ThinkFolio', where applicable mandate guidelines are built in.

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

10.5 Non-investment transactions go through Ealing Council's bank account and balances are transferred throughout the year. As Ealing Council is a local authority the Pension Fund's credit risk is considered negligible.

10.6 The table below highlights the credit risk exposure to internally managed Pension Fund cash as at 31st March 2015.

| Counterparty | Fitch Long Term Rating | 2014/15 £m | 2013/14 £m |
|-----------------------|-------------------------------|-----------------------|-----------------------|
| Lloyds TSB Bank plc | A+ | 6 | 0 |
| RBS Banking Group plc | BBB+ | 0 | 10 |

| | | | |
|--------------------------|-----|----------|-----------|
| HSBC Bank plc | AA- | 0 | 0 |
| London Borough of Ealing | N/A | 2 | 2 |
| Total | | 8 | 12 |

10.7 Payments are received from scheme employers in relation to employer and employee contributions for LGPS members. Based on experience of default and uncollectability over the last five financial years, the risk of default in the future is considered very low. Bond agreements are in place for scheme employers to ensure liabilities would be met in the event a contractor were to be dissolved, wound-up, liquidated or cease to exist.

Liquidity Risk

10.8 The Pension Fund transactions are actioned through the Administering Authority's bank account and the monthly balance will be transferred between the authority and the fund throughout the year. The Pension Fund maintains the liquidity of its internal cash balances by investing in call accounts or short term deposits. This enables instant access to cash to meet expenditure liabilities as they fall due.

10.9 The Pension Fund internal cash position is kept under review and budgeting and forecasting exercises are carried out to monitor this situation. The Pension Fund could draw money down from the Fund managers' investment portfolios if internal cash balances reached very low levels, as the scheme is invested in highly marketable securities.

Market Risk

Actuarial Risk

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

10.11 The Administering Authority has been advised by the actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity-based strategy, so that actual asset out-performance of gilts between successive valuations could diverge significantly from the overall 1.4% per annum currently required on the basis of the 2013 valuation assumptions.

Price Risk

10.12 The Fund invests in equity shares; consequently it is exposed to losses arising from movements in the prices of shares. The investment objective is to maximise

investment returns over the long term within specified risk tolerances and in accordance with the LGPS investment regulations. 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.

- 10.13 The Council seeks to diversify risk through having more than one investment management firm with different strategies and investment philosophies to manage the assets of the Fund. The investment policy is to appoint expert investment managers with clear performance benchmarks and to place maximum accountability for out performance against those benchmarks on the investment manager. Ealing has adopted an active specialist approach to investment management.
- 10.14 The individual managers' current activity and transactions are reported quarterly to the Pension Fund Panel who question and seek explanations from investment managers (when asked to attend Panel meetings) on their activities and performance. The investment performance of the managers is calculated independently by the WM Company. Performance is monitored against the benchmark and a peer group universe of other local authorities.
- 10.15 The Fund invests in fixed interest securities, which also exposes the Fund to losses arising from movements in price and creditworthiness. Bonds in general are considered less risky than stocks, because bonds carry the promise of their issuer to return the face value of the security to the holder at maturity.
- 10.16 The table below is a sensitivity analysis looking at the effect of market movements on the Total Net Asset Value. Potential price changes (calculated by our performance analysts The WM Company) are determined based on the observed historical volatility of asset class returns. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years.

| Asset Type | 2014/15 £000 | % change | Increase £000 | Decrease £000 |
|---------------------------|-----------------|-------------|------------------|------------------|
| UK Equities | 347,189 | 10.5% | 383,748 | 310,630 |
| Overseas Equities | 285,953 | 9.5% | 313,204 | 258,702 |
| Fixed Interest Securities | 242,512 | 5.6% | 256,044 | 228,980 |
| Cash Deposits | 23,559 | 0.0% | 23,561 | 23,557 |
| Pooled Property Funds | 65,736 | 3.0% | 67,728 | 63,744 |
| Total Assets | 964,949 | | 1,044,285 | 885,613 |

| Asset Type | 2013/14 £000 | % change | Increase £000 | Decrease £000 |
|---------------------------|-----------------|-------------|------------------|------------------|
| UK Equities | 312,946 | 13.4% | 354,849 | 271,042 |
| Overseas Equities | 277,226 | 13.0% | 313,321 | 241,131 |
| Fixed Interest Securities | 226,446 | 5.3% | 238,358 | 214,535 |
| Cash Deposits | 30,764 | 0.0% | 30,770 | 30,758 |
| Pooled Property Funds | 14,868 | 2.7% | 15,275 | 14,461 |
| Total Assets | 862,250 | | 952,573 | 771,927 |

Inflation Risk

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

Interest Rate Risk

10.18 Cash balances and fixed interest securities have a more direct exposure to interest rate movements than equities. The cash flows of the former and market value of the latter are influenced by movements in market interest rates. The sensitivity analysis below looks at the effect of a change in year of 0.50%, being a possible change in the UK base rate (previously a rate of 0.25% was used).

| Asset Type | 2014/15 £000 | % change | Increase £000 | Decrease £000 |
|---------------------------|-----------------|-------------|------------------|------------------|
| Fixed Interest Securities | 242,512 | 0.50 | 243,725 | 241,299 |
| Cash deposits | 23,559 | 0.50 | 23,677 | 23,441 |
| Total Assets | 266,071 | | 267,402 | 264,740 |

| Asset Type | 2013/14 £000 | % change | Increase £000 | Decrease £000 |
|---------------------------|-----------------|-------------|------------------|------------------|
| Fixed Interest Securities | 226,446 | 0.50 | 227,578 | 225,314 |
| Cash deposits | 30,764 | 0.50 | 30,918 | 30,610 |
| Total Assets | 257,210 | | 258,496 | 255,924 |

Foreign Exchange risk

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

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

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

10.21 The fixed interest securities mandate permits investments in the UK, Europe and North America, most of which is denominated in Sterling but may also include a maximum of 10% non-Sterling investments.

10.22 The table below analyses the effect of exchange rate changes on the Pension Fund. Typically, around 30% of the Fund is denominated in a foreign currency. Potential currency fluctuations were calculated by our performance analysts The WM Company.

| Currency | 2014/15 £000 | % change | Increase £000 | Decrease £000 |
|---------------------|-------------------------|---------------------|--------------------------|--------------------------|
| Australian Dollar | 8,504 | 8.9% | 9,258 | 7,750 |
| Brazilian Real | 2,879 | 11.7% | 3,216 | 2,542 |
| Danish Krone | 2,780 | 6.2% | 2,952 | 2,608 |
| EURO | 70,454 | 6.1% | 74,787 | 66,121 |
| Hong Kong Dollar | 5,365 | 7.7% | 5,780 | 4,950 |
| Japanese Yen | 24,024 | 11.0% | 26,673 | 21,375 |
| Swedish Krona | 5,351 | 7.3% | 5,742 | 4,960 |
| Swiss Franc | 22,990 | 9.3% | 25,138 | 20,842 |
| US Dollar | 101,573 | 7.8% | 109,477 | 93,669 |
| Total Assets | 243,920 | | 263,023 | 224,817 |

| Currency | 2013/14 £000 | % change | Increase £000 | Decrease £000 |
|---------------------|-------------------------|---------------------|--------------------------|--------------------------|
| Australian Dollar | 8,527 | 9.8% | 9,363 | 7,691 |
| Brazilian Real | 4,977 | 12.7% | 5,609 | 4,345 |
| EURO | 58,075 | 6.3% | 61,740 | 54,410 |
| Japanese Yen | 21,794 | 11.5% | 24,309 | 19,279 |
| Swedish Krona | 4,236 | 7.0% | 4,534 | 3,938 |
| Swiss Franc | 24,592 | 7.4% | 26,417 | 22,767 |
| US Dollar | 114,054 | 8.1% | 123,258 | 104,850 |
| Total Assets | 236,255 | | 255,230 | 217,280 |

NOTE 11. CURRENT ASSETS

| | 2014/15 | 2013/14 |
|---------------------------------------|----------------|----------------|
| | £000 | £000 |
| Debtors | | |
| Contributions due from employers | 444 | 384 |
| Payments in advance | - | 4 |
| Other debtors | 90 | 3 |
| | <u>534</u> | <u>391</u> |
| Total Current Assets | <u>534</u> | <u>391</u> |
| Analysis of debtors | | |
| Central government bodies | - | - |
| Local authorities | 128 | 93 |
| NHS bodies | - | - |
| Public corporations and trading funds | - | - |
| Other entities and individuals | 406 | 298 |
| | <u>534</u> | <u>391</u> |

NOTE 12. CURRENT LIABILITIES

| | 2014/15 | 2013/14 |
|---------------------------------------|---------|---------|
| | £000 | £000 |
| Creditors | | |
| Unpaid benefits | (213) | (308) |
| Accrued expenses | (651) | (620) |
| | (864) | (928) |
| Analysis of Creditors | | |
| Central government bodies | (100) | (78) |
| Local authorities | (7) | (30) |
| NHS bodies | - | - |
| Public corporations and trading funds | - | - |
| Other entities and individuals | (757) | (820) |
| | (864) | (928) |

NOTE 13. ADDITIONAL VOLUNTARY CONTRIBUTIONS

13.1 The Fund provides an Additional Voluntary Contribution (AVC) scheme for its contributors, the assets of which are invested and accounted for 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.

13.2 Employee contributions made into the AVC facilities during the year were:

| | 2014/15 | 2013/14 |
|---|---------|---------|
| | £000 | £000 |
| Scottish Widows with Profits Fund (31st March 2015) | 69 | 54 |
| Total Value of Equitable Life Funds (31st October 2014) | 2 | 4 |

13.3 The latest available fund valuations are as follows:

| 2014/15 | 2013/14 |
|---------|---------|
| £000 | £000 |
| | |

| | | |
|---|--------------|--------------|
| Scottish Widows with Profits Fund (31st March 2015) | 750 | 700 |
| Equitable Life with Profits Fund | 141 | 157 |
| Equitable Life Unit Linked Fund | 83 | 174 |
| Equitable Deposit Account Fund | 31 | 53 |
| Total Value of Equitable Life Funds (31st October 2014) | 255 | 384 |
| Total All Funds | 1,050 | 1,084 |

NOTE 14. IAS 24 Related Party Transactions

- 14.1 The London Borough of Ealing is the administering authority of the London Borough of Ealing Pension Fund. The Council charged the Pension Fund £834k for expenses incurred in administering the fund in 2014/15 (£776k 2013/14). The total cash balance held by the Council at 31 March 2015 on behalf of the Pension Fund was £1,626k (£2,907k at 31 March 2014).
- 14.2 Members of the Pension Fund panel are required by law to declare certain interests when they become a Councillor and a full register is kept by the Head of Democratic Services and published on the Council's website. Below is a summary of each Pension Fund Panel member's relevant interests:

| Pension Fund Panel member | Relevant interests |
|----------------------------------|--|
| Yvonne Johnson (Chair) | Portfolio holder for Finance, Performance and Welfare at Ealing Council. |
| Anthony Young (Deputy) | None. |
| Shital Manro | Governor of Greenford High School, Horsenden School and William Perkin High School |
| Kamaljit Kaur Nagpal | Governor of Dairy Meadow School |
| Swaran Padda | Governor of Lady Margaret School |
| Mik Sabiers | Governor of Berrymede School |
| Andrew Steed | None. |

- 14.3 All Council employees acting as officers of the Pension Fund were contributing members of the Pension Fund during 2014/15.
- 14.4 No senior officers responsible for the administration of the Fund have entered into any contract, other than their contract of employment with the Council, for the supply of goods or services to the Fund.

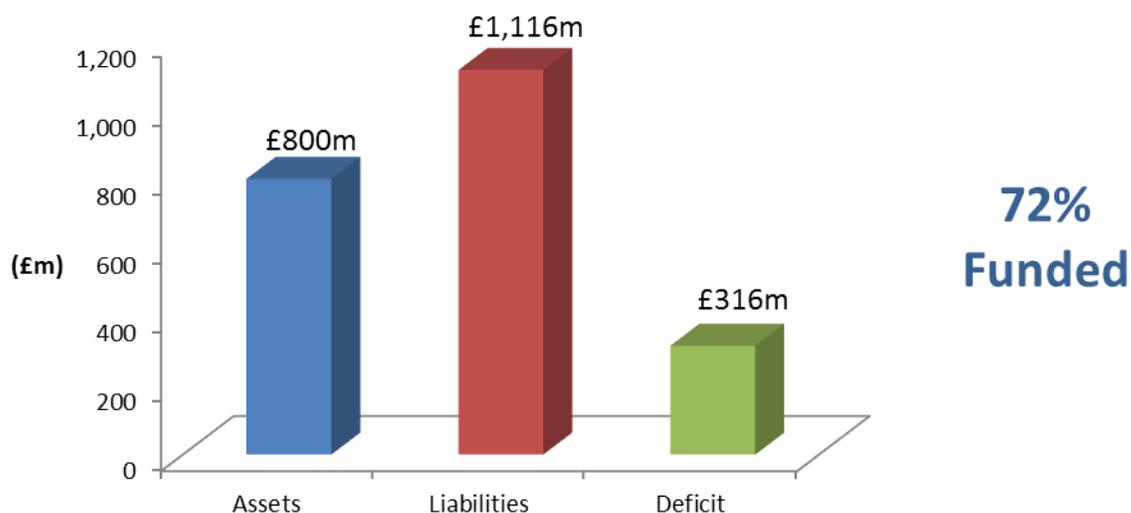
1) LONDON BOROUGH OF EALING PENSION FUND

Accounts for the year ended 31 March 2015 - Statement by the Consulting Actuary

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

An actuarial valuation of the London Borough of Ealing Pension Fund was carried out as at 31 March 2013 to determine the contribution rates for the period 1 April 2014 to 31 March 2017.

On the basis of the assumptions adopted, the Fund's assets of £800 million represented 72% of the Fund's past service liabilities of £1,116 million (the "Funding Target") at the valuation date. The deficit at the valuation date was therefore £316 million.



The valuation also showed that a common rate of contribution of 13.5% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allowed for the new LGPS benefit structure which became effective from 1 April 2014.

After the valuation date, there were significant changes in financial markets. In particular there was an increase in gilt yields, which underpin the liability assessment. This improved the funding position materially to 76% with a resulting deficit of £252 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average across the Fund, the updated deficit would be eliminated by a contribution addition of £16m per annum increasing at 4.35% per annum (equivalent to approximately 11.6% of projected Pensionable Pay at the valuation date) for 17 years if all assumptions are borne out in practice.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

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

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

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

| 7) | 8) For past service liabilities (Funding Target) | 9) For future service liabilities (Common Contribution Rate) |
|--|--|--|
| 10) Rate of return on investments (discount rate) 11) | 12) 4.6% per annum | 13) 5.6% per annum 14) |
| 15) Rate of pay increases (long term)* | 16) 4.35% per annum | 17) 4.35% per annum |
| 18) Rate of increases in pensions 19) in payment (in excess of 20) Guaranteed Minimum Pension) | 21) 2.6% per annum | 22) 2.6% per annum |

* allowance was also made for short-term public sector pay restraint over a 6 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2015 (the 31 March 2014 assumptions are included for comparison):

| 10) | 11) 31 March 2014 | 12) 31 March 2015 |
|---|---------------------|---------------------|
| 23) Rate of return on investments (discount rate) | 24) 4.4% per annum | 25) 3.2% per annum |
| 26) Rate of pay increases* | 27) 4.15% per annum | 28) 3.75% per annum |
| 29) Rate of increases in pensions | | |
| 30) in payment (in excess of | 32) 2.4% per annum | 33) 2.0% per annum |
| 31) Guaranteed Minimum Pension) | | |

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

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year, corporate bond yields fell significantly, resulting in a lower discount rate being used for IAS 26 purposes at the year end than at the beginning of the year (3.2% p.a. versus 4.4% p.a.). In addition, the expected long-term rate of CPI inflation fell during the year, resulting in a lower assumption for pension increases at the year-end than at the beginning of the year (2.0% p.a. versus 2.4% p.a.).

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2014 was estimated as £1,184 million. The effect of the changes in actuarial assumptions between 31 March 2014 and 31 March 2015 as described above is to increase the liabilities by £208 million. Adding interest over the year increases the liabilities by £52 million, and allowing for net benefits

accrued/paid over the period decreases the liabilities by £5 million (including any increase in liabilities arising as a result of early retirements/augmentations).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2015 is therefore £1,439 million.

Ian Kirk
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2015

FUNDING STRATEGY STATEMENT (FSS)

This Funding Strategy Statement (FSS) has been prepared by Ealing Council (the Administering Authority) to set out the funding strategy for the London Borough of Ealing Pension Fund (the LBEPF), in accordance with Regulation 58 of the Local Government Pension Scheme (Administration) Regulations 2013 and the guidance papers issued in March 2004 and November 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

1. INTRODUCTION

The Local Government Pension Scheme) (Administration) Regulations 2013 (as amended) (“the Administration Regulations”) provide the statutory framework from which the Administering Authority is required to prepare a FSS. The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Fund the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Administering Authority must have regard to :-
 - the guidance issued by CIPFA for this purpose; and
 - the Statement of Investment Principles (SIP) for the LBEPF published under Regulation 58 of the Local Government Pension Scheme Regulations 2013;
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

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

The LBEPF is a defined benefit final salary scheme under which the benefits are specified in the governing legislation (the Local Government Pension Scheme Regulations 2013). Changes to the benefits under the Scheme took place from April 2014. The required levels of employee contributions are also specified in the Regulations.

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

2. PURPOSE OF THE FSS IN POLICY TERMS

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

The purpose of this Funding Strategy Statement is:

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

- to take a prudent longer-term view of funding those liabilities.

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

3. AIMS AND PURPOSE OF THE LBEPF

The aims of the Fund are to:

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

The purpose of the Fund is to:

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

4. RESPONSIBILITIES OF THE KEY PARTIES

The Administering Authority should:

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

The Individual Employer should:

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

The Fund actuary should:

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

5. SOLVENCY ISSUES AND TARGET FUNDING LEVELS

Funding Objective

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

Determination of the Funding Target and Recovery Period

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

Underlying these assumptions are the following two tenets:

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

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

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

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

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

employer investment strategy identical to that adopted for the Scheme as a whole.

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

- In the current circumstances, as a general rule, the Fund does not believe it appropriate for deficit contribution reductions to apply compared to the 2010 funding plan where substantial deficits remain.
- In addition, a maximum deficit recovery period of 17 years will apply. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan below).
- For any employers assessed to be in surplus, their individual contribution requirements will be adjusted to such an extent that any surplus is used (ie run-off) over a 17 year period (if surpluses are sufficiently large, contribution requirements will be set to a minimum nil total amount). The current level of contributions will be phased down as appropriate.
- The employer contributions will be expressed and certified as two separate elements:
 - a percentage of pensionable payroll in respect of the future accrual of benefit
 - a schedule of lump sum amounts over 2014/17 in respect of the past service deficit subject to the review from April 2017 based on the results of the 2016 actuarial valuation.
- Where increases in employer contributions are required from 1 April 2014, following completion of the 2013 actuarial valuation, the increase from the rates of contribution payable in the year 2013/14 may be implemented in steps, over a maximum period of 3 years. Any employers considering this option should discuss it with officers of the Council in the first instance.

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

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

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

Deficit Recovery Plan

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

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

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

- the size of the funding shortfall;
- the business plans of the employer;
- the assessment of the financial covenant of the Employer; and the security of future income streams

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

length of expected period of participation in the Fund.

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

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

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

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

Pooling

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

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

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

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

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

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

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

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

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

| Name of Investment Manager | Mandate Type | Target Allocation of Fund | Benchmark Index | Tracking Error band | Target Gross outperformance %pa (rolling 3 years) |
|-------------------------------|--------------------------|---------------------------|----------------------------|---------------------|---|
| Lazard Asset Management | UK Equities | 37% | FTSE All Share (TR) | 2% to 5.5% | 2.0%pa |
| RCM | Global Equities (inc UK) | 28% | See below | 3.5% to 6% | 2.0%pa |
| Royal London Asset 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 Group Manager

Ealing Council as administering authority for the London Borough of Ealing Pension Fund

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. |

Assumptions used in calculating contributions payable under the recovery plan

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

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

Increases in yields on fixed and index linked gilts

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

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

STATEMENT OF INVESTMENT PRINCIPLES

Introduction

The Local Government Pension Scheme (LGPS) Regulations 2013 (Regulation 57 (1)(i)) requires administering authorities to prepare, maintain and publish a written Statement recording the investment policy of the pension fund. The purpose of this document is to satisfy that requirement.

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

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

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

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

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

Investment Responsibilities

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

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

Liabilities

The Pension Fund is a defined benefit scheme, which provided benefits related to final salary prior to 1st April 2014, and now has become a career averaged earnings from 1st April 2014 onwards. Each member's main benefits are specified in terms of a formula based on salary and

service and are unaffected by the investment return achieved on the assets. There are some discretionary benefits, which can be agreed by the Council but these additional benefits will be considered in the light of the overall level of funding in the scheme. Full scheme benefit details are set out in the LGPS regulations.

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

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

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

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

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

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

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

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

Eligible Assets

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

Acceptable Asset Classes are:

- UK Equities
- UK Fixed Interest
- UK Index Linked Gilts
- Overseas equities, major classes being:
 - North America
 - Japan
 - Europe
 - Far East/Pacific Rim
 - Other Emerging Markets

- Global Bonds
- Overseas Index Linked Stock
- Managed and Unitised Funds
- Real Estate

There are some Investment Restrictions:

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

Social, Environmental and Ethical Considerations

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

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

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

Corporate Governance

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

The Council's voting policies reflect these main concerns:

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

Compliance

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

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

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

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

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

COMPLIANCE WITH MYNERS PRINCIPLES

Myners Updated Investment Principles – Compliance Statement

Updated Myners Principles were published in October 2008.

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

The new principles are less prescriptive and an industry led framework for the application of the principles will be the accepted code of best practice throughout the industry in investment decision-making and governance. It is expected that trustee boards will report against these on a voluntary 'comply or explain' basis.

'Best Practice Guidance' is intended to help trustees to apply the principles effectively. Trustees are not expected to implement every element of best practice. Rather trustees may use best practice examples where appropriate to help demonstrate whether compliance has been achieved.

Principle 1: Effective decision-making (Current Principles 1 and 4)

Principle

Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.

Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Best Principle Guidance

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

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

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

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

Principle

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

Best Practice Guidance

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

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

The fund has six specialist mandates, (three of which being UK commercial pooled property funds). The fund considered the full range of asset classes when setting its strategic asset allocation in 2003. In doing so, it had regard to its objective of moving from a funding level of 68% in 2004 to 100% by 31st March 2024. The funding level at the last triennial valuation in March 2013 was 72%. Alternative asset classes are reviewed from time to time and researched as appropriate. Members have agreed to diversify their return seeking assets and invest in UK commercial property accessing this asset class via a pooled vehicle. It is anticipated that property managers will be fully funded by the end of 2015.

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

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

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

Principle 3: Risk and liabilities (Current Principle 3)

Principle

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

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

Best Practice Guidance

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

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

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

Principle 4: Performance assessment (Current Principle 8)

Principle

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

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

Best Practice Guidance

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

✓

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

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

Principle 5: Responsible ownership (Current Principle 6)

Principle

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

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

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

Best Practice Guidance

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

☐✓☐☐

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

Trustees review the Exercise of voting rights are quarterly meetings.

Principle 6: Transparency and reporting (Current Principles 9 and 10)

Principle:

Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.

Trustees should provide regular communication to members in the form they consider most appropriate.

Best Practice Guidance:

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

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

COMMUNICATIONS POLICY STATEMENT

London Borough of Ealing Pension Fund

Communications Policy Statement

Introduction

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

Communications Objectives

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

Stakeholders

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

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

Policy

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

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

Scheme members:

- Active Scheme members are communicated with through newsletters, intranet, monthly employees forum and Annual Benefits Statements as well as the Annual General meeting

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

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

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

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

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

Review of this Communications Statement

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

GLOSSARY

Active management

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

Actuarial assumptions

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

Actuarial valuation

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

Actuarial value of assets

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

Actuary

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

Additional voluntary contributions (AVCs)

An extra pension contribution, which can be made by a member of an occupational pension scheme.

Administering authority

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

Advisory boards

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

Alternative assets

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

Asset allocation

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

Asset classes

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

Benchmark

A 'notional' fund or model portfolio which is developed to provide a standard against which a manager's performance is measured, e.g. for a global equity fund the benchmark against which it will

be measured could be made up of 70% UK equities and 30% overseas equities. A target return is generally expressed as some margin over the benchmark.

Bond

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

Corporate bond

A term used for all bonds other than government bonds.

Corporate governance

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

Custody/custodian

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

Defined benefit scheme

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

Diversification

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

Dividend

A payment distributed by a company to equity shareholders

Duration

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

Ethical investment

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

Equities

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

Fixed interest security

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

FTSE

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

Fund managers

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

Gilts

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

Hedge fund

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

Index-linked securities

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

Investment adviser

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

Mandate

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

Objectives

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

Option

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

Outperformance/Underperformance

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

Passive management

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

Investments or pensions committee

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

Performance

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

Pooled fund

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

Private equity

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

Projected unit method

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

Risk

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

Scheme Employers

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

Securities

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

Sector

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

Solvency

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

Sovereign debt

Bonds issued by a government.

Stock lending

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

Strategic asset allocation

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

Target funding rate

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

Tracking error

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

Transaction costs

Costs resulting from managing a portfolio.

Underwriting

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

Weighting

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

Yield

A measure of the return earned on an investment.