



Croydon Pension Scheme

ANNUAL REPORT

2001/2002

Includes Statement of Investment Principles

CROYDON COUNCIL

Foreword



As Chair I am pleased to write this foreword on behalf of the Sub-Committee. During the year, as the management of pension funds has become increasingly complex, the Sub-Committee have considered a wide range of issues. However, it is the performance of the Fund's investments which has warranted most of our attention.

Whilst it is our duty to explore all opportunities which will deliver best performance from the Fund's many investments, I would like to reassure you that our pension scheme is statutory and is underpinned by the Council and its taxpayers.

You will see that during 2001/02 the Fund performed quite poorly, suffering a loss in value of 7.4% compared with the average loss of all local authority funds of 0.5%. As you all know from the media, these are difficult times for pension funds and their investments. We are now well into a third year of falling stock markets with their negative impact. The disappointing performance of our Fund was due to the general loss in value of shares world-wide, the poor returns from many of the companies in which the Council invested and the comparatively good performance of bonds, cash and property investments in which we have no holdings.

Of course, the Sub-Committee have reviewed the asset allocation policy but still believe that the best long-term returns will be achieved by continuing with the current strategy. We must always bear in mind that our Fund is for the long-term benefit of its members and we must avoid a short-term over-reaction to market movements. However, we are not complacent and actions have been taken to try to improve performance and to reduce the volatility of returns. Consistent with maximising investment returns, the Sub-Committee will continue to support the social and environmental initiatives we have been pursuing.

For an appreciation of the many issues relating to the management of investments please see the 'Statement of Investment Principles' (pages 13 - 21) which sets out the guidelines for strategy and management of the Fund. Over the last few months, the Sub-Committee has responded to the requirements of the Myners Committee review of institutional investment and the extent to which we comply with the ten investment principles is included in the Statement.

Mary Walker

Councillor Mary Walker

Chair of Pensions Sub-Committee

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Introduction

The following pages provide you with an overview of Scheme benefits that may be received and how we have invested your contributions and other Pension Fund income during 2001/2002.

If, after reading this booklet, you would like further information regarding the investments of the Fund, please contact the Treasury & Investments team who will be pleased to answer any questions you may have.

Security of Funds

The Local Government Pension Scheme is a scheme regulated by Act of Parliament. The benefits payable to members are therefore not dependent directly on the investment performance of the Fund. However, the Council has to make good any deficit that might arise in the Fund at regular intervals.

Socially Responsible Investment and Corporate Governance

Socially responsible investment is investment where moral, social and ethical considerations are taken into account. Corporate governance is the system by which companies are run and the means by which they are responsive to their shareholders, employees and other stakeholders. The Council's policy is outlined within the Statement of Investment Principles from page 13.

The Council is at the forefront of the developments within the UK pensions industry to persuade companies to pursue socially responsible policies consistent with good performance.

During the year the Council appointed, as manager of most of its UK equities portfolio, Hermes Investment Management Ltd. One of the main reasons for appointing Hermes was their attitude towards corporate governance and engagement with companies' management.

The Pensions Sub-Committee have adopted a corporate governance voting policy in accordance with which investment managers are required to vote at company meetings. Most of the votes relate to best practice in the conduct of company management but separate votes are also cast in connection with companies' stances on environmental issues. The Council has been particularly active in seeking to ensure that companies in which we invest take a responsible attitude towards the environment.

There is no doubt that pressure to take account of socially responsible issues in the investment process will increase. The Council, whilst recognising as paramount its responsibilities to its members and taxpayers, will play its part in taking the matter forward.



Good investment performance is important since it will reduce or eliminate the call that the Fund makes on the local taxpayers.

Membership 2001/2002

During the year the Scheme's total membership has grown from 13,564 to 13,909 at 31 March 2002. Changes in membership during the year were as follows:

Employees

| | | |
|--|-----|--------------|
| Number at 31.3.2001 | | 6,107 |
| Add Employees joining during year | | 715 |
| | | <hr/> |
| | | 6,822 |
| Less Members leaving during year: | | |
| Normal retirements (incl redundancies etc) | 128 | |
| Ill-health retirements | 19 | |
| Deaths in service | 6 | |
| Transfers to other funds/schemes | 21 | |
| Refunds of contributions | 117 | |
| Deferred pensions | 358 | |
| | | <hr/> |
| | | 649 |
| Number at 31.3.2002 | | 6,173 |

Pensioners

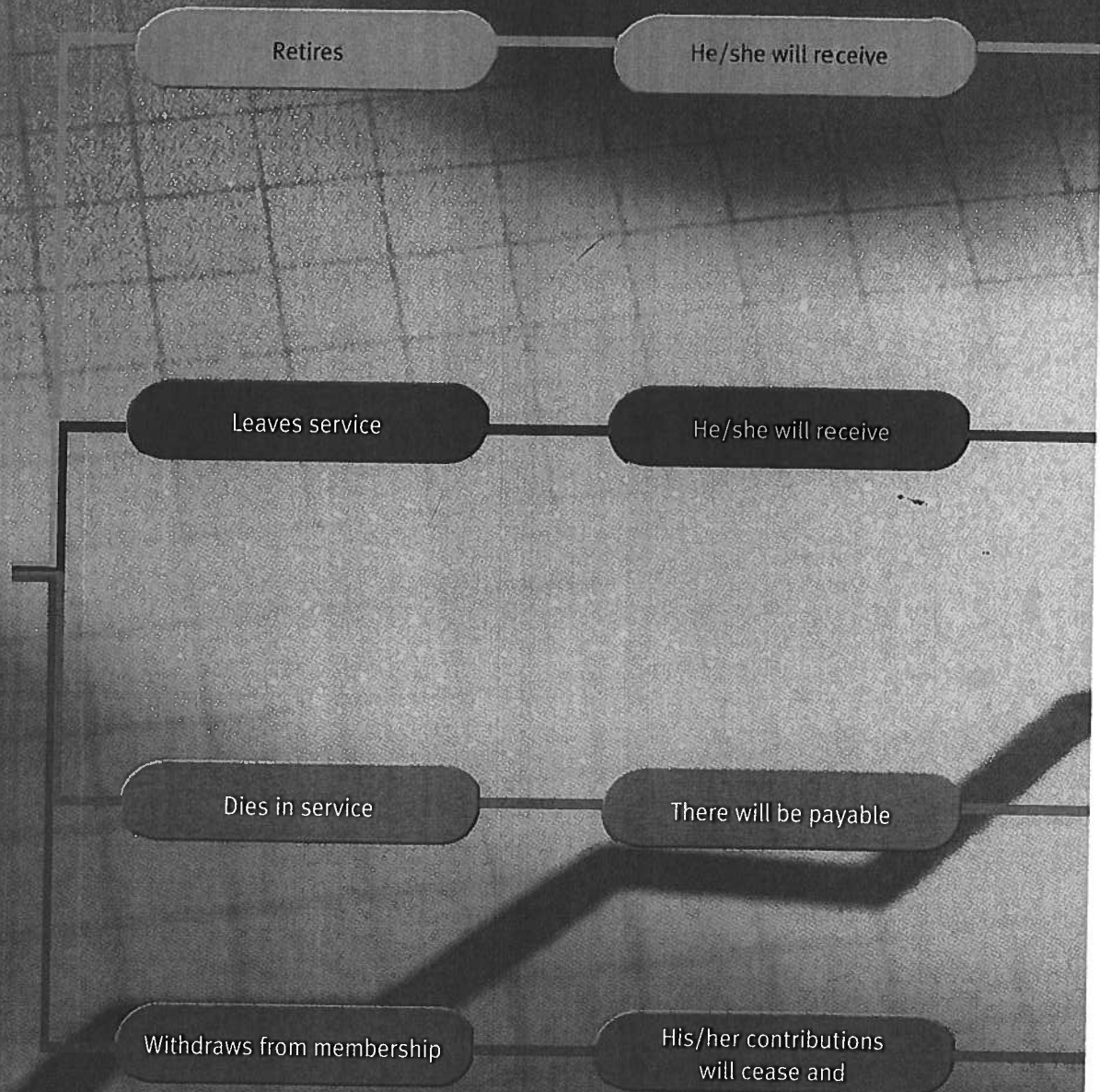
| | | |
|---|-----|--------------|
| Number at 31.3.2001 | | 4,649 |
| Add New pensioners during year: | | |
| Normal retirements (incl redundancies etc) | 128 | |
| Ill-health retirements | 19 | |
| Dependants' pensions | 62 | |
| Deferred pensions becoming payable | 42 | |
| | | <hr/> |
| | | 251 |
| Less Deaths/dependants ceasing to be eligible | | 200 |
| | | <hr/> |
| Number at 31.3.2002 | | 4,700 |

Deferred Pensioners

| | | |
|--|----|---------------|
| Number at 31.3.2001 | | 2,808 |
| Add New deferred pensioners during year | | 358 |
| | | <hr/> |
| | | 3,166 |
| Less Transfers to other funds/schemes | 87 | |
| Deferred benefits becoming payable | 42 | |
| Deaths | 1 | |
| | | <hr/> |
| | | 130 |
| Number at 31.3.2002 | | 3,036 |
| | | <hr/> |
| Total Membership at 31 March 2002 | | 13,909 |



Summary of Benefits



Notes

1. This chart covers the main features of the Scheme - it does not include full details of all benefits.
2. Local Government Pension Scheme pensions and deferred pensions are increased annually in line with the increase in the Retail Price Index.

A **pension** of one eightieth and a tax free **lump sum** of three eightieths of final pensionable pay for each year of membership

and on death

Subject to qualifying conditions the **spouse** will receive a pension of up to one half of the pension being paid to the member

With less than 2 years membership - a **refund** of contributions less a deduction to cover the cost of buying back into the State Scheme and tax on the balance

or

A **transfer payment** of the cash equivalent value of the accrued rights may be made to another approved pension arrangement

With more than 2 years membership - **deferred benefits** payable from normal retirement date based on total period of membership and pensionable pay at the date of leaving

A **lump sum** death grant of twice pensionable pay

plus

The **spouse** will receive a pension of up to one half of the pension the member would have received had he/she retired due to ill-health on the date of death

A **refund**, or a **transfer payment**, or **deferred benefits** may be paid in a similar way to the benefits payable on leaving the service (There are restrictions on re-entry to the Scheme)

in addition

The employee will be required to contribute to either the State Earnings Related Pension Scheme or to a personal pension

3. Telephone enquiries about pension scheme benefits should be made as follows:

Enquiries from current scheme members - ☎ 0845 0362101

Pension payroll enquiries - ☎ 020 8667 8427

Written enquiries should be addressed to:

Croydon Pensions Team, Liberata, PO Box 2681, Lewes, East Sussex, BN7 1TE

Note: It may be possible to convert part of your pension to provide a larger lump sum, or to use part of that lump sum to buy extra pension.

National Local Government Pensions Scheme Web Site

The address is <http://www.lgps.org.uk>

The national Local Government Pension Scheme web site enables all members, potential members and beneficiaries of the Scheme to access Scheme information 24 hours a day, 365 days a year.

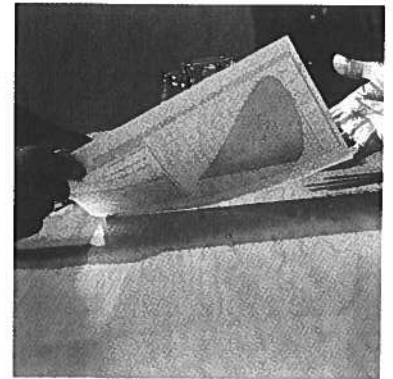
The site has a comprehensive range of Scheme information, which includes:

| | |
|--|---|
| <i>All About Your Pension Scheme:</i> | A new employees' guide to the Scheme |
| <i>All About Your Preserved Benefits:</i> | A guide to benefits provided if you leave before retirement age |
| <i>All About Your Retirement Benefits:</i> | A guide to retirement benefits |
| <i>Buying Added Years:</i> | How to purchase additional periods of membership |
| <i>Pension Ready Reckoner:</i> | Available for pension and lump sum calculation |
| <i>A "FAQ" section:</i> | Frequently asked questions |

Additional Voluntary Contributions

The Council has appointed Prudential as the Scheme's provider for additional voluntary contributions investment services.

If you would like more information all you have to do is call "The Pension Connection" helpline on 0845 607 0077.



AVC's are an opportunity for all employees to pay additional contributions into an external scheme which will enhance income on retirement

Statement Of Investment Principles

1. INTRODUCTION

The elected Members of Croydon Council, acting through the Pensions Sub-Committee, have drawn up this Statement of Investment Principles to comply with The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2002, as they relate to the Pensions Act 1995 in its requirements of occupational pension schemes. The Council have consulted suitably qualified persons and have obtained written advice from William M. Mercer's Investment Consulting Practice (now known as Mercer Investment Consulting). Overall investment policy falls into two parts:

- *The strategic management of the assets is the responsibility of the Pensions Sub-Committee, who delegate many of their functions to the officers, who act on advice of the investment consultant and the independent Fund adviser.*
- *The remaining elements of policy are part of the day to day management of the assets which are delegated to professional investment managers as described in Section 3.*

2 INVESTMENT OBJECTIVES, STRATEGY AND RISK

2.1 Investment Objectives

To guide them in their strategic management of the assets and control of the various risks to which the Fund is exposed, Croydon Council have adopted the following objectives:

- *Overall investment policy is to maximise the return on investments, within the risk parameters set for the Fund.*
- *Investment policy is guided by an overall objective of achieving, over the long term, a return on investments which is consistent with the long term assumptions used by the Actuary in determining the funding of the Fund.*
- *Over the short-term, the objective is to achieve a return in line with the mandates (see 3.1).*
- *Promote a socially responsible investment strategy consistent with maximising the return on the Fund.*

2.2 Investment Strategy

The Council has determined that the Fund's investment strategy should be wholly equity investment on the basis that, over the long term, equities are likely to be the highest returning asset category. This investment strategy is believed to be appropriate for the objectives identified in 2.1.

The Council accept that an all-equity strategy is likely to generate higher volatility in the Fund's returns when compared to a balanced investment strategy but believes that the higher expected returns over the long term justify this approach. Investment strategy is kept under constant review. In addition, risk is reduced by spreading the equity assets among the major markets of the world with an overall initial distribution of 70% UK, 30% overseas. Also the use of a number of different investment managers and index-tracking investment management further diversifies risk.

2.3 Risk

There are various risks to which any pension scheme is exposed. The Council have considered the following risks:

- *The risk of a deterioration in the Fund's ongoing funding level.*
- *The risk of a shortfall of assets relative to the liabilities as determined if the Fund were to be wound up.*
- *The risk that the day to day management of the assets will not achieve the rate of investment return required to meet accrued and future liabilities as quantified by the Actuary to the Fund.*
- *The risk of using a combination of passive and active investment managers.*
- *The risk that the 100% equity strategy could, in individual years, produce performance that is markedly different from the performance of an average fund, which, alongside equities, would typically have over 20% of investments in property, UK and overseas bonds and cash.*

3. DAY TO DAY MANAGEMENT OF THE ASSETS

3.1 Main Assets

The Council invests the main assets of the Fund as follows:

- FTSE-350 Index (ex. Tobacco) Tracker Fund
- Global Active Equities
- Pooled UK Ethical Fund
- Private Equity

The Council employs more than one manager to limit the risk to the Fund as a whole should any one manager under perform. The Council's policy on apportioning assets is also to seek further diversity of risk by maintaining a spread of equity portfolios. Assets are currently distributed within set parameters and a target distribution as follows:

| Investment Manager | Investment Mandate | % of Fund |
|-----------------------------------|-------------------------|-----------|
| Hermes Investment Management | UK FTSE-350 Tracker | 64.5 |
| Dresdner RCM Global Investors | Global Equities | 30.0 |
| Friends Ivory & Sime Ethical Fund | UK Equities | 2.0 |
| In-house | Cash LIBID 7 day notice | 2.8 |
| Other | | 0.7 |

3.2 Asset Allocation Guidelines

The main investment managers have been set the following benchmark asset allocations:

Hermes Investment Management

| Asset | Weighting % | Benchmark |
|-------------|----------------|-------------------------|
| UK Equities | 100 | FTSE -350 (ex. Tobacco) |

Dresdner RCM

| Asset | Weighting % | Benchmark | Manager Range % |
|-------------------|----------------|---------------------------|--------------------|
| US Equities | 40 | FT/S&P N.America | 20 - 50 |
| European Equities | 40 | FT/S&P European (inc. UK) | 30 - 60 |
| Pacific Equities | 20 | FT/S&P Pacific | 0 - 30 |

| Asset | Weighting % | Benchmark |
|---------------------|----------------|----------------|
| Ethical UK Equities | 100 | FTSE All Share |

3.3 Investment Performance Benchmark

The managers' performances are compared to the relevant benchmarks.

The performance objective for each manager is:

Hermes Investment Management Ltd: Replicate the benchmark within a maximum tracking error of plus or minus 0.15%.

Dresdner RCM Global Investors: Outperform the benchmark over the long term by 2% p.a.

Friends Ivory & Sime: Outperform the benchmark over the long term by 2% p.a.

3.4 Fees

Hermes Investment Management – 0.035% p.a. of the value of the Fund.

Dresdner RCM Global Investors – 0.5% on first £10m, 0.4% on next £15m and 0.3% on balance of the value of the Fund.

Friends Ivory & Sime – 0.25% p.a. of the value of the Fund.

3.5 Additional Assets

Assets in respect of members' additional voluntary contributions are held in various separate investments administered by Prudential Assurance Company Ltd.

3.6 Realisation Of Investments

In general the Fund's investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments.

The Fund's investment managers have responsibility for generating cash for investment in new assets and shortfalls in revenue expenditure of the Fund as may be required from time to time.

The Council decides (with the advice from its investment managers and investment advisers) on how investments should be realised for cash.

3.7 Monitoring The Investment Managers

Performance of the investment managers is measured by The WM Company. The officers meet the investment managers regularly to review their actions together with the reasons for investment performance. Managers are invited to attend the Pensions Sub-Committee meetings on a regular basis. Mercer Investment Consulting and the Fund's independent adviser are retained to assist the Council in fulfilling its responsibility for monitoring the investment managers.

The Sub-Committee meet on a quarterly basis to review and monitor performance with one of the managers attending on a rota basis; the officers and advisers also meet with managers on a regular basis to review progress and performance.

4. CUSTODY

For the additional security of the invested assets, the Council employs two independent custodians, The Bank of New York and HSBC.

5. SOCIALLY RESPONSIBLE INVESTMENT AND CORPORATE GOVERNANCE

The Council recognises the need for a policy of socially responsible investment. In part this is achieved through a holding in the Friends, Ivory and Sime Ethical Investment Fund. Also it is met by a policy of excluding tobacco sector stocks deemed by the Council to be unethical from the FTSE index tracker fund. The investment managers are clearly informed of the Council's stance on ethical investment.

Part of the Fund's manager selection process in the future will be to incorporate criteria to measure the ethical and environmental criteria for stock selection allied to expected outperformance.

The Council requires the investment managers, to vote the shares attached to their holdings whenever possible. Guidance as to voting policy has been given to the managers and is reviewed on a regular basis.

6. EXPECTED RETURN ON INVESTMENTS

The Council, through the 100% equity strategy, expects that over the long term the return on the assets will exceed the assumption on the investment return made by the Actuary. However, the asset allocation of the Fund will be kept under constant review and may be changed from time to time, and any major changes will be reflected in a updated version of this Statement.

7. PRINCIPLES FOR INVESTMENT DECISION MAKING

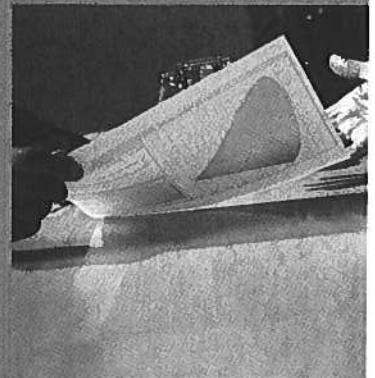
Detailed below is the extent of the Council's compliance with the ten investment principles contained in the CIPFA document "Principles for Investment Decision Making in the Local Government Pension Scheme in the UK."

Principle 1 - Effective decision-making

Decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.

Trustees should ensure that they have sufficient in-house staff to support them in their investment responsibilities. Trustees should also be paid, unless there are specific reasons to the contrary.

It is good practice for trustee boards to have an investment subcommittee to provide appropriate focus.



Trustees should assess whether they have the right set of skills, both individually and collectively, and the right structures and processes to carry out their role effectively. They should draw up a forward-looking business plan.

Full compliance.

Principle 2 - Clear Objectives

Trustees should set out an overall investment objective for the fund that:

- Represents their best judgement of what is necessary to meet the fund's liabilities, given their understanding of the contributions likely to be received from employer(s) and employees; and
- Takes account of their attitude to risk, specifically their willingness to accept under performance due to market conditions.

Objectives for the overall fund should not be expressed in terms which have no relationship to the fund's liabilities, such as performance relative to other pension funds, or to a market index.

Full compliance – covered in Statement of Investment Principles.

Principle 3 - Focus on asset allocation

Strategic asset allocation decisions should receive a level of attention (and, where relevant, advisory or management fees) that fully reflect the contribution they can make towards achieving the fund's investment objective. Decision-makers should consider a full range of investment opportunities, not excluding from consideration any major asset class, including private equity. Asset allocation should reflect the fund's own characteristics, not the average allocation of other funds.

Full compliance – regularly considered by Pensions Sub-Committee.

Principle 4 - Expert advice

Contracts for actuarial services and investment advice should be opened to separate competition. The fund should be prepared to pay sufficient fees for each service to attract a broad range of kinds of potential providers.

Full compliance – Actuarial services and investment advice are provided by two totally separate specialist teams of William M Mercer and the Council is satisfied that there is no conflict of interest.



Principle 5 - Explicit mandates

Trustees should agree with both internal and external investment managers an explicit written mandate covering agreement between trustees and managers on:

- An objective, benchmark(s) and risk parameters that together with all the other mandates are coherent with the fund's aggregate objective and risk tolerances;
- The manager's approach in attempting to achieve the objective; and
- Clear timescale(s) of measurement and evaluation, such that the mandate will not be terminated before the expiry of the evaluation timescale for under performance alone.

The mandate and trust deed and rules should not exclude the use of any set of financial instruments, without clear justification in the light of the specific circumstances of the Fund.

Full compliance – covered in investment management agreements.

Trustees, or those to whom they have delegated the task, should have a full understanding of the transaction-related costs they incur, including commissions. They should understand all the options open to them in respect of these costs, and should have an active strategy – whether through direct financial incentives or otherwise – for ensuring that these costs are properly controlled without jeopardising the fund's other objectives.

Trustees should not without good reason permit "soft" commissions to be paid in respect of their fund's transactions.

Partial compliance – further work being undertaken on transaction related costs.**Principle 6 - Activism**

The mandate and trust deed should incorporate the principle of the US Department of Labor interpretative Bulletin on activism. Trustees should also ensure that managers have an explicit strategy, elucidating the circumstances in which they will intervene in a company; the approach they will use in doing so; and how they measure the effectiveness of this strategy.

Full compliance – strategies from Managers have been received.

Principle 7 - Appropriate benchmarks

Trustees should:

Explicitly consider, in consultation with their investment manager(s), whether the index benchmarks they have selected are appropriate; in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies;

If setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selection;

Consider explicitly for each asset class invested, whether active or passive management would be more appropriate given the efficiency, liquidity and level of transaction costs in the market concerned; and

Where they believe active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving managers the freedom to pursue genuinely active strategies.

Full compliance.

Principle 8 - Performance measurement

Trustees should arrange for measurement of the performance of the fund and make formal assessment of their own procedures and decisions as trustees. They should also arrange for a formal assessment of performance and decision-making delegated to advisers and managers.

Partial compliance – Managers' and Fund's performance measured monthly, quarterly and annually; measurement of Sub-Committee and advisers' performance being considered.

Principle 9 – Transparency

A strengthened Statement of Investment Principles should set out:

Who is taking which decisions and why this structure has been selected;

The fund's investment objective;

The fund's planned asset allocation strategy, including projected investment returns on each asset class, and how the strategy has been arrived at;

The mandates given to all advisers and managers; and

The nature of the fee structures in place for all advisers and managers, and why this set of structures has been selected.

Full compliance.

Principle 10 - Regular reporting

Trustees should publish their Statement of Investment Principles and the results of their monitoring of advisers and managers. They should send key information from these annually to members of these funds, including an explanation of why the fund has chosen to depart from any of these principles.

Full compliance – apart from monitoring of advisers.

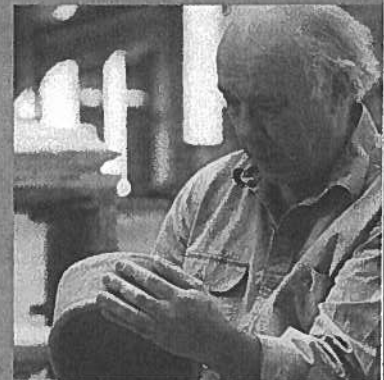
8. COMPLIANCE WITH THIS STATEMENT

The Council will monitor compliance with this Statement annually.

9. REVIEW OF THIS STATEMENT

The Council will review this Statement in response to any material changes to any aspects of the Fund, its liabilities, finances and the attitude to risk which they judge to have a bearing on the stated investment policy.

This review will also occur no less frequently than every three years to coincide with the actuarial valuation. Any such review will again be based on written expert investment advice.



Management & Advisers

The Pensions Sub-Committee:

Councillors:

Mary Walker (Chair), Ian Payne (Vice-Chair), Peter Hopson, Dudley Mead, Derek Millard and Jim Walker.

Staff Representative - Alan O'Brien

Pensioners' Representative - Peter Howard

External Advisers to the Sub-Committee:

J N Sykes - Mercer Investment Consulting

V Furniss - Independent Adviser

Actuary: Mercer Human Resource Consulting

External Auditors: District Audit Service

Investment Managers:

Hermes Investment Management Ltd - FTSE Index Tracker

Dresdner RCM Global Investors - Global Equity Fund

Friends Ivory and Sime - Ethical Fund

Pantheon Ventures Ltd - Private Equity

Custodians:

The Bank of New York - UK Equities

HSBC - UK and Overseas Equities

Pensions Administration:

Liberata Ltd, Lewes, East Sussex

The Sub Committee is made up of members of the Council aided by officers and external advisers who set the long term objectives for the Fund. They also oversee all matters relating to investment strategy of the Fund and the appointment of managers, advisers and custodians.



Fund Investment Commentary & Performance

General

During 2001/02, local authority pension funds suffered an average loss in value of 0.5%. This was clearly below inflation and average earnings growth of 1.3% and 3.5% respectively. This was only the second time in 10 years that the average pension fund had suffered a loss in value.

2001/02 was a very poor year for equities in the major markets with returns ranging from -18.8% in Japan to -0.9% in North America. The UK market showed a loss of 2.1%. Equity returns were significantly below all other investment classes, especially property, which produced a positive return of 9.3%.

The excellent long term returns achieved by local authority pension funds have arisen largely through the performance of the global equity markets with only Japan producing relatively disappointing returns. The average local authority fund returned 10.9% per year over the 10 years to March 2002, well ahead of inflation which averaged 2.5% per year.

Strategy

During the year, the Fund continued to invest solely in equities but significant changes were made in their management. In June, the previously in-house managed UK FTSE-100 indexed portfolio was transferred to Hermes Investment Management Ltd. In the autumn, the UK small and medium sized companies portfolio was also transferred to Hermes and their mandate varied to one tracking the FTSE-350 index (excluding tobacco). By the end of the year, the investment in UK equities of 73% of the Fund's value showed a small increase compared with the previous year. The 22% invested in overseas equities showed a small decrease from 2000/01.

Performance

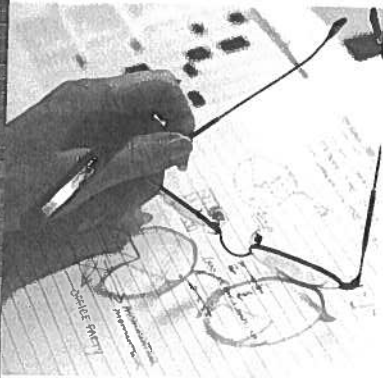
The Fund's performance is compared to the average return from 93 local authority pension funds with a combined asset value of £85bn. It is also compared with the Council's own customised benchmark.

Whilst only a few local authority funds saw the value of their investments increase significantly during the year, the performance of the Council's Fund was particularly disappointing. The negative return of 7.4% was well below the average return of -0.5%.

Apart from the relatively small holding of cash, all of the Fund's investments performed poorly. In addition, the asset classes not held by the Council's Fund, especially bonds and property, performed comparatively well. It was of course this distribution of investments which partly led to the exceptional performance in 1999/2000 and the poor performance in 2001/02. In addition to the negative impact of the Fund's asset allocation policy, the performance of one of the major external managers, Dresdner RCM, was again disappointing with a negative return of 13.1% compared with their benchmark of -4.7%.

The disappointing one-year return, unfortunately, also had a detrimental impact on the Fund's long term performance. Over the last 5 and 10 years, the Fund has returned 4.0% per year and 9.6% per year respectively, which is behind the local authority average of 7.1% and 10.9%. This performance places the Fund in the lowest quartile when compared with all other local authorities.

The assets of the Fund have grown over the last 10 years from £168m to £366m. This increase of 118% is well ahead of inflation and average earnings growth, and has been to the benefit of the Council's taxpayers through a reduced employer's contribution rate to the Fund.



The relatively poor performance can be traced mainly to the poor overall showing of global equities.

Highlights 2001/2002

Fig 1. Returns 2001/2002

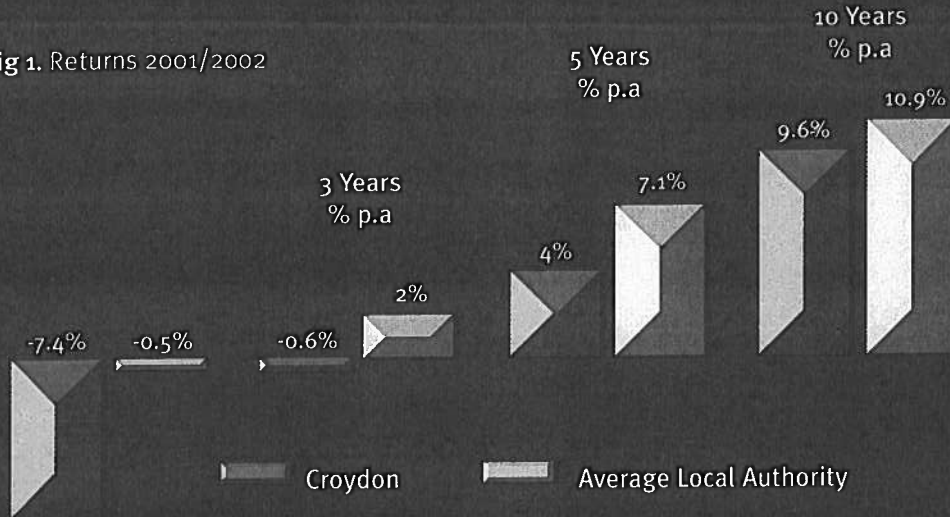


Fig 2. Markets 2001/2002

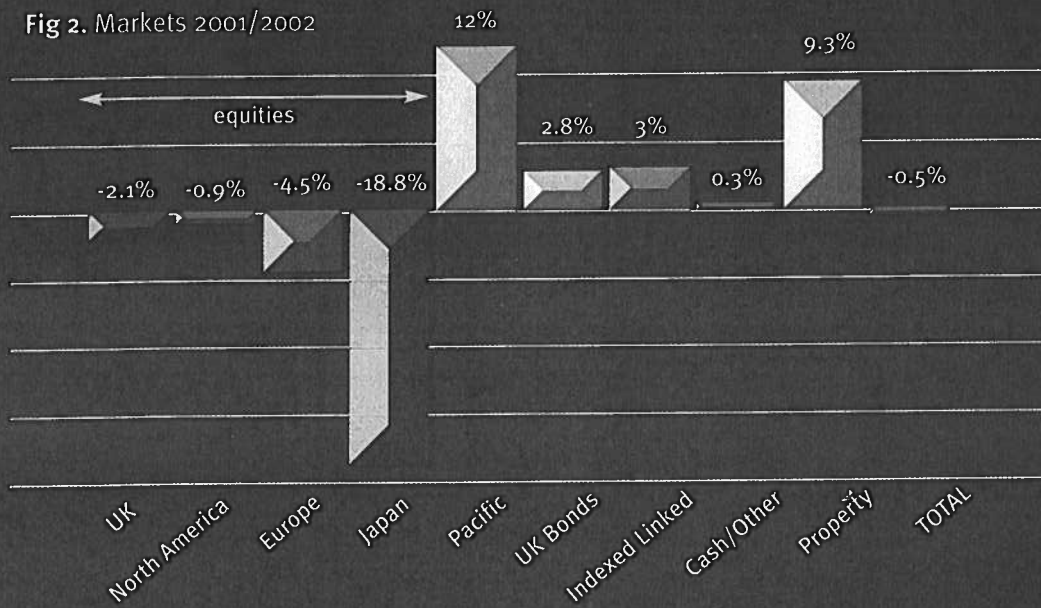
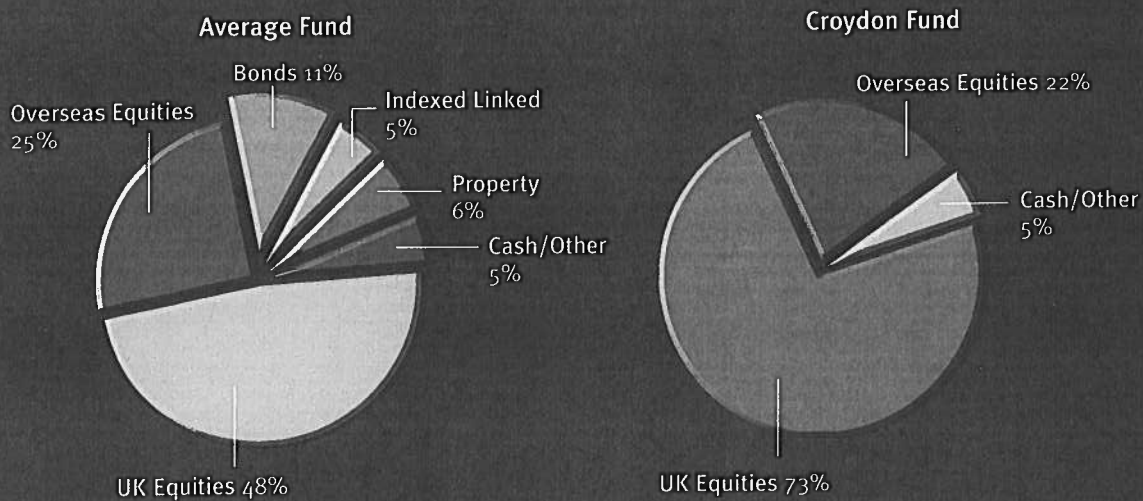
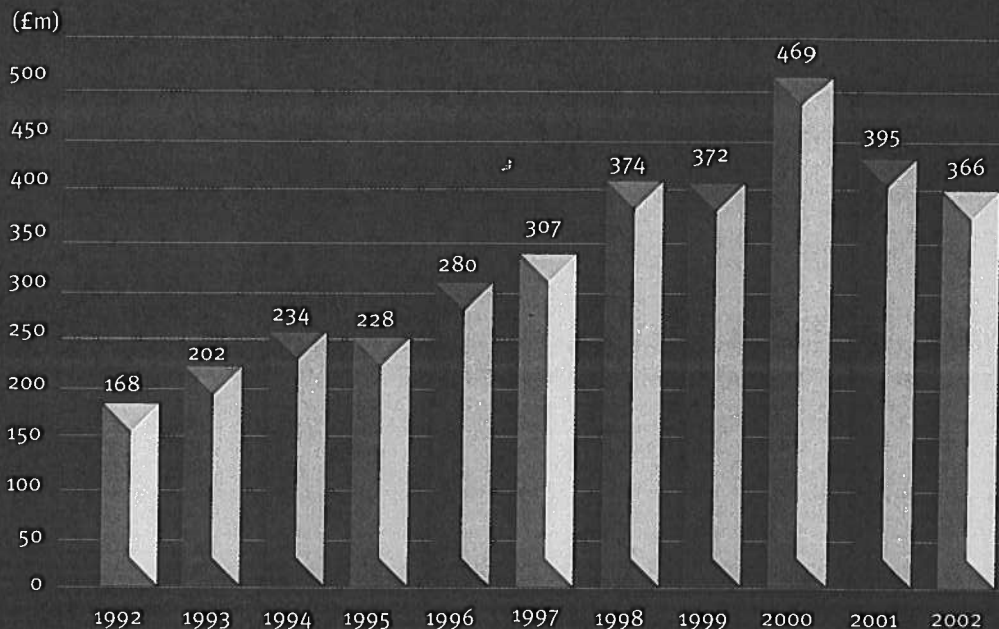


Fig 3. Asset Distribution



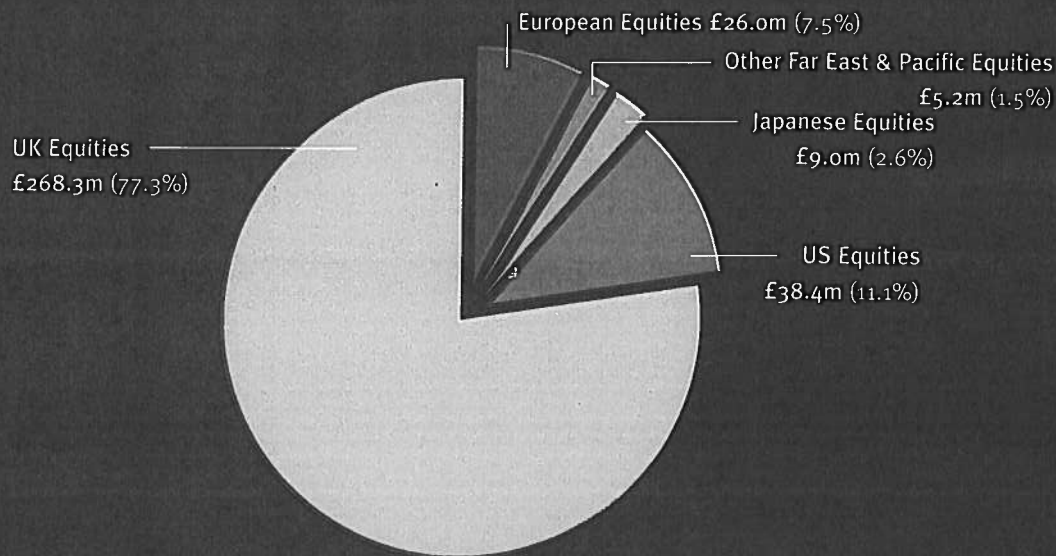
Growth of Fund

The net assets of the Fund at 31 March 2002 were £366 million compared with £168 million at 31 March 1992. The chart below shows the growth of the Fund's assets over the past ten years.



Investments

As at 31 March 2002 the market value of the investments held was £346.9million. An analysis of these investments is shown below.

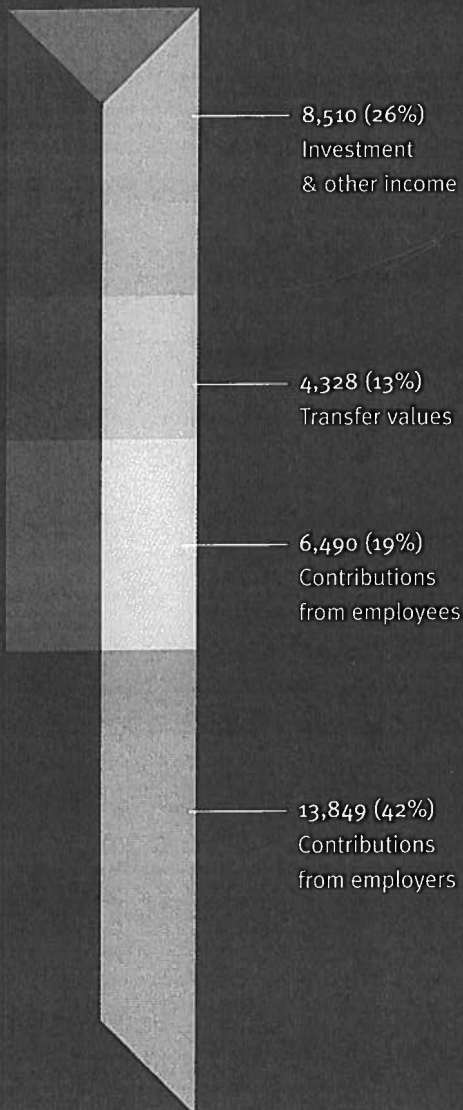


| | £ | % |
|-----------------------------|--------------|--------------|
| Market Value of Investments | 346.9 | 94.8 |
| Add Net Current Assets | 19.1 | 5.2 |
| Net Assets | 366.0 | 100.0 |

Income

Income during the year totalled £33.2 million

£000s



Expenditure

Expenditure during the year totalled £24.5 million

£000s



There was a net cash inflow during the year of £8.7m

Employee and employer contributions to the Scheme during the year were:

- Employee contributions - 6% of contributory pay although some employees retain the right to contribute at 5% of earnings.
- Employer contributions - 14.4% of contributory pay for the major employers.

Pensions are increased each April and are based on the movements in the RPI for the twelve months ending the previous September. For April 2001, this was 3.3%, and for the current year it is 1.7%.

Fund Account

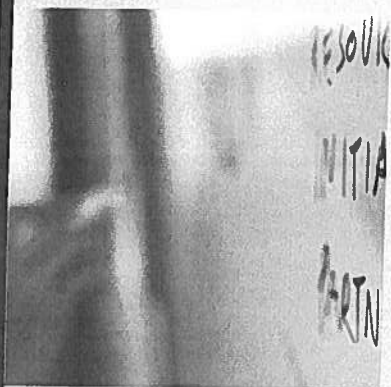
For the year ended 31 March 2002

| | 2002 | 2001 |
|--|----------------|----------------|
| | £'000 | £'000 |
| Balance at 1 April at cost | 313,084 | 286,166 |
| Net income and realised gains for the year | (18,860) | 26,918 |
| Accumulated unrealised gains | 71,810 | 81,932 |
| Balance at 31 March at market value | 366,034 | 395,016 |

Statement of Assets & Liabilities

At 31 March 2002

| | 2002 | 2001 |
|---------------------------------|----------------|----------------|
| | £'000 | £'000 |
| Investments | | |
| UK equities (incl. Unit Trusts) | 268,299 | 281,503 |
| Overseas equities | 78,613 | 90,562 |
| | 346,912 | 372,065 |
| Current Assets | | |
| Debtors | 4,490 | 3,472 |
| Bank balances | 18,522 | 21,351 |
| | 23,012 | 24,823 |
| Current Liabilities | | |
| Creditors | 3,890 | 1,872 |
| Net current assets | 19,122 | 22,951 |
| Market value of Fund | 366,034 | 395,016 |



Top 25 UK Holdings

| | Market Value at 31.3.2002 | % of Total U.K. Equity |
|------------------------------|---------------------------|---------------------------|
| | £'000 | Investment |
| BP Amoco | 26,006 | 9.7 |
| Glaxo SmithKline | 17,961 | 6.7 |
| Vodafone Group | 16,915 | 6.3 |
| HSBC Holdings | 13,231 | 4.9 |
| Astra Zeneca | 10,604 | 4.0 |
| Royal Bank of Scotland Group | 9,909 | 3.7 |
| Shell Transport & Trading | 9,475 | 3.5 |
| Barclays Bank | 7,171 | 2.7 |
| Lloyds TSB Group | 7,005 | 2.6 |
| Diageo | 5,363 | 2.0 |
| HBOS | 4,920 | 1.8 |
| B T Group | 4,230 | 1.6 |
| Rio Tinto | 3,572 | 1.3 |
| Prudential | 3,083 | 1.1 |
| Anglo American | 2,987 | 1.1 |
| Tesco | 2,917 | 1.1 |
| CGNU | 2,910 | 1.1 |
| Unilever | 2,850 | 1.1 |
| WPP Group | 2,616 | 1.0 |
| Abbey National | 2,507 | 0.9 |
| Compass Group | 2,285 | 0.9 |
| Reckitt Benckiser | 2,260 | 0.8 |
| British Sky Broadcasting | 2,096 | 0.8 |
| Amersham | 1,924 | 0.7 |
| BG Group | 1,861 | 0.7 |
| | 166,658 | 62.1 |

Further Information

If you are experiencing difficulties with receiving information from your local scheme these bodies will help you

1. The Occupational Pensions Regulatory Authority (OPRA), whose address is Invicta House, Trafalgar Place, Trafalgar Street, Brighton BN1 4BY, has two main functions:
 - (a) to enforce the law as it applies to occupational pensions schemes, and
 - (b) to undertake the role of Registrar of Pension Schemes (PO Box 1NN, Newcastle-upon-Tyne NE99 1NN). The Registry provides a tracing service for ex-scheme members (and their dependants) with pension entitlements.

Pension scheme actuaries and auditors are required to report to OPRA if they become aware of any significant failure of employers or professional scheme advisers to comply with their legal duties.

OPRA is able to carry out inspections to check whether pension schemes are complying with the requirements of the Pensions Act 1995 and other legislation.

2. The Pensions Ombudsman is available to investigate complaints or disputes in relation to the Local Government Pension Scheme, and may be contacted at 11 Belgrave Road, London SW1V 1RB.
3. The Occupational Pensions Advisory Service Limited is available to assist scheme members and beneficiaries with any difficulties they may have in connection with their pension rights. OPAS can also be contacted at the same address as the Ombudsman.

Scheme members should note however that any enquiries or complaints can be sent in the first instance to Liberata, at the address shown on page 9 as it is possible that they can be resolved locally.

