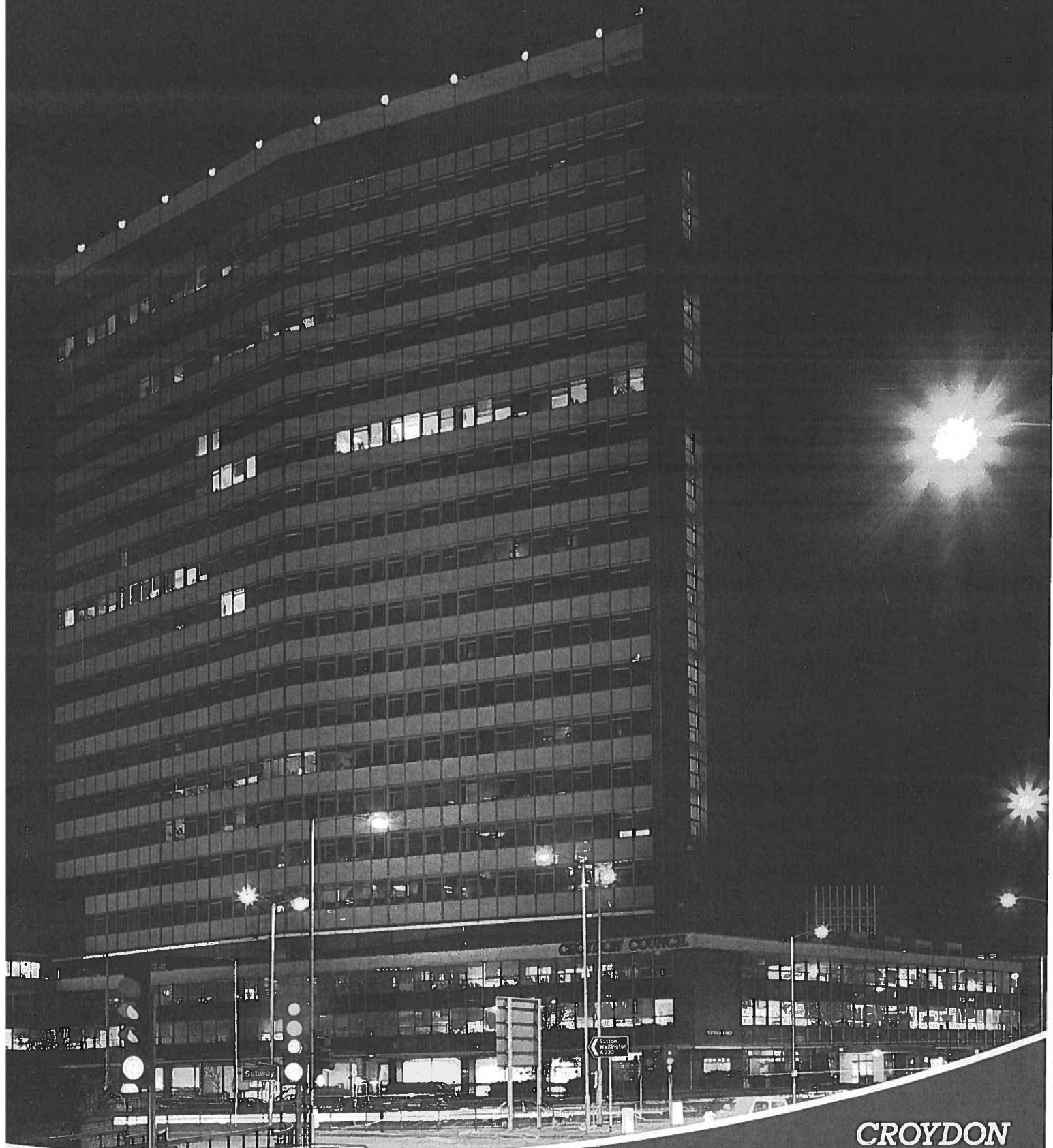


Croydon Pension Scheme

ANNUAL REPORT 2004/2005



**CROYDON
COUNCIL**
Cleaner Safer Greener



Foreword

I was appointed as Chair to the Pensions Sub-Committee in July 2005 following the death of Councillor Mary Walker in April 2005. Councillor Mary Walker chaired the Sub-Committee for a number of years working tirelessly to manage the Pension Fund and to support its members. Her death came as a great shock to us all and she will be sadly missed.

As Vice Chair of the Pensions Sub-Committee I worked very closely with Mary during 2004/05 in what proved to be a very busy year. During the year the Sub-Committee met on four separate occasions and considered a wide range of reports. These included the continued review of the performance of the Fund, the three-year actuarial valuation of the Fund, the Funding Strategy Statement and the responses to the ongoing Government exercise on the changes to the Local Government Pension Scheme. Given the very busy workload of the Sub-Committee, Members agreed that a number of informal Sub-Committee meetings should be held, primarily to consider the issue of risk versus performance in respect of the Fund's ongoing 100% equity stance.

2004/05 was another good year for the Pension Fund investments, which proved that the Sub-Committee's decision to continue, for the time being, its stance of investing 100% in equities, was right. As a consequence, I am pleased to inform you that, as in the previous year, 2003/04, the Fund was able to take full advantage of the continued rise in Equity Markets and it was the joint best performer of all Local Authority Pension Funds in the country. The Fund achieved a positive return of 13.5% compared to the average returns of all Local Authority Funds of 11.7%.

The Pensions Industry is going through a period of major change. During the year the Office of the Deputy Prime Minister (ODPM) introduced a number of changes to the Local Government Pension Scheme (LGPS) regulations. There was also a consultation document produced by the ODPM in October 2004 to promote discussion on how the LGPS might develop to make it more attractive, affordable and sustainable for its members. The consultation document confirmed that the LGPS would continue as a defined benefit scheme. As you can see the LGPS is regulated and secured by Act of Parliament and I would emphasise that the LGPS benefits remain totally secure.

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 this Report.

I hope you will find this report of interest.

Councillor Ian Payne
Chair of the 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 2004/2005.

If, after reading this booklet, you would like further information regarding the investments of the Fund, please contact the Pensions and Treasury 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 on 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.

The Pensions Sub-Committee have adopted a corporate governance voting policy in accordance with which the UK 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.

Management & Advisers

Pensions Sub-Committee:

Current Councillors:

Ian Payne (Chair), Raj Rajendran (Vice-Chair), Peter Hopson, Brenda Kirby, Dudley Mead and Derek Millard

Since April 2004 Councillor Pat Clouder resigned, Councillor Mary Walker died, and Councillors Raj Rajendran and Brenda Kirby have been appointed.

Non - voting members:

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: Audit Commission

Investment Managers:

Hermes Investment Management Ltd

UBS Global Asset Management (UK) Ltd

F & C Asset Management Plc (formerly ISIS Asset Management plc)

Pantheon Ventures Ltd

Custodians:

The Bank of New York - UK Equities

J P Morgan - Overseas Equities

Pensions Administration:

Liberata UK Ltd

The Sub-Committee comprises 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.

Membership 2004/2005

During the year the Scheme's total membership has grown from 14,829 to 15,002. Changes in membership during the year were as follows:

Employees

Number at 31 March 2004		6,394
Add Employees joining during year		723
		7,117
Less Members leaving during year:		
Normal retirements (including redundancies etc)	165	
Ill-health retirements	10	
Deaths in service	7	
Transfers to other funds/schemes	16	
Refunds of contributions	87	
Deferred pensions	276	561
		6,556

Pensioners

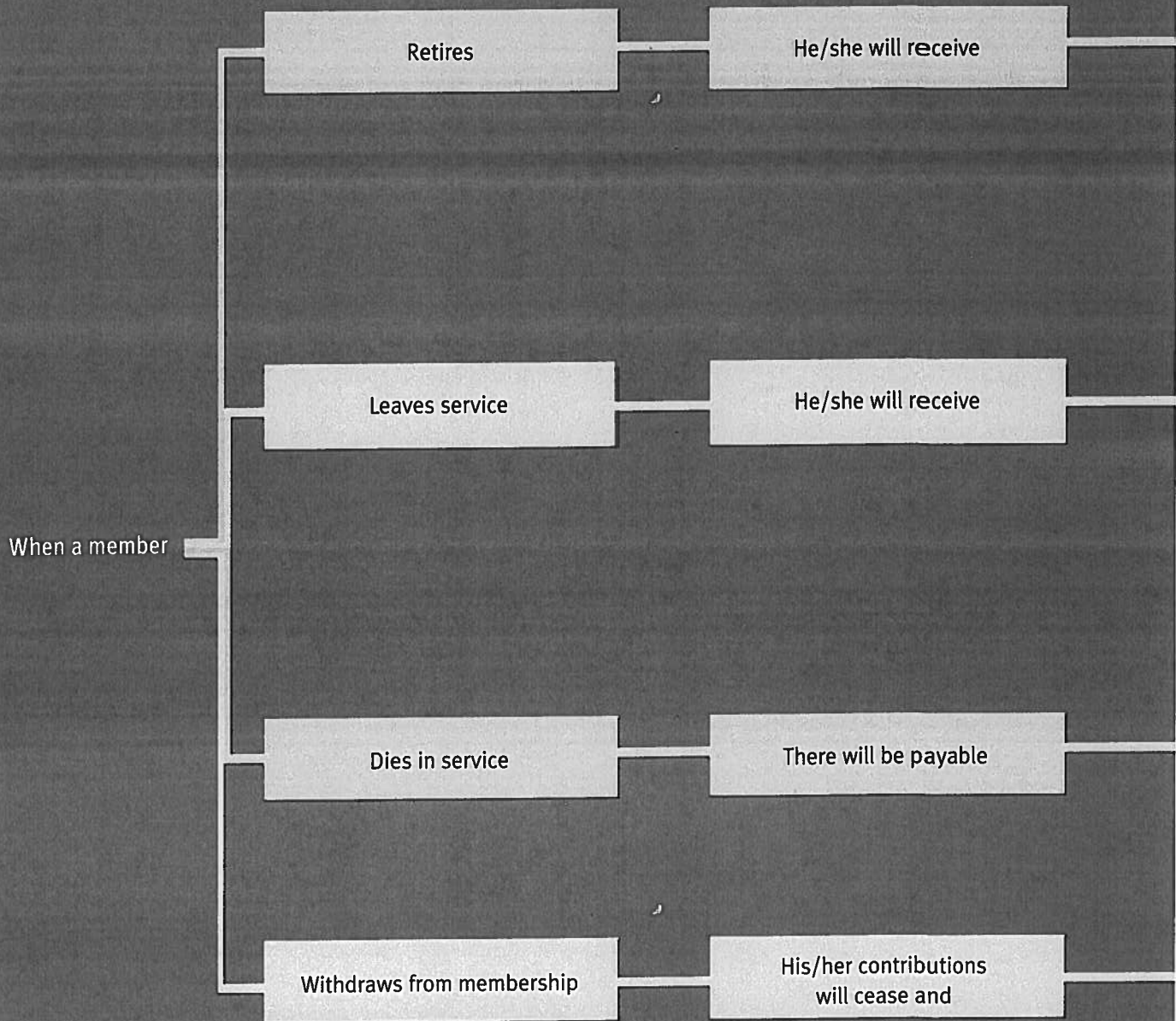
Number at 31 March 2004		4,818
Add New pensioners during year:		
Normal retirements (including redundancies etc)	165	
Ill-health retirements	10	
Dependants' pensions	50	
Deferred pensions becoming payable	50	275
		5,093
Less Deaths/dependants ceasing to be eligible		129
		4,964

Deferred Pensioners

Number at 31 March 2004		3,617
Add New deferred pensioners during year		276
		3,893
Less Transfers to other funds/schemes	295	
Deferred benefits becoming payable	75	
Back to active status	38	
Deaths	3	411
		3,482
Number at 31 March 2005		15,002

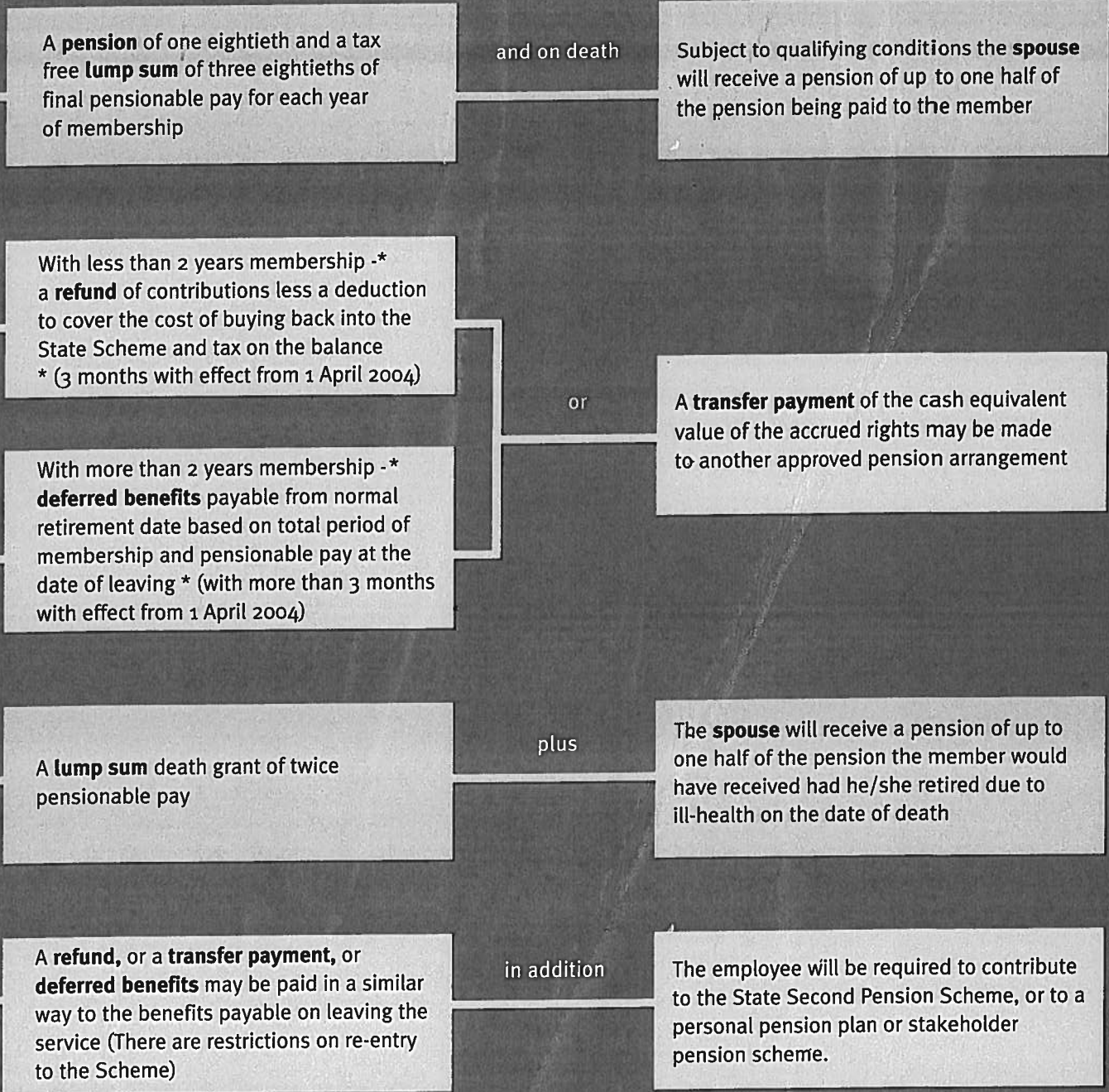


Summary of Benefits



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.
3. 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.



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

Enquiries from current scheme members - ☎ 020 8666 9919

Pension payroll enquiries - ☎ 020 8666 9935

Written enquiries should be addressed to:

Croydon Pensions Team, Liberata UK Limited, PO Box 1598, Croydon CR0 0ZW

National Local Government Pension 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.

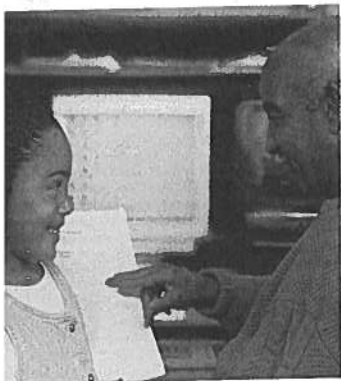
The site has a comprehensive range of Scheme information, which includes:

<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>Increasing your Benefits:</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 and 2003, as they relate to the Pensions Act 1995 in its requirements of occupational pension schemes and the London Borough of Croydon Pension Fund ('the Fund'). The Council has consulted suitably qualified persons and has obtained written advice from 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 and 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 to meet all the Fund's liabilities, after taking into account employer and employee contributions, which is consistent with the long-term assumptions used by the Actuary in determining the funding of the Fund.
- The objective is to achieve a return in line with the mandates (see paragraph 3.1).
- Promote a Socially Responsible Investment Strategy consistent with maximising the return on the Fund.

2.2 Investment Strategy

Since the last Annual Report was published the Pensions Sub-Committee held a number of meetings to consider the issue of risk versus performance in respect of the Pension Fund's ongoing equity stance. At its meeting in July 2005, the Pensions Sub-Committee agreed the medium term investment strategy of the Fund should be a median of 75% in equities with a move to this strategy to be phased over the period 2005-2008.

Investment strategy continues to be kept under constant review. In addition, the risk in respect of the equity holdings is reduced by spreading the equity assets among the major markets of the world with an overall initial distribution of 70% UK; 30% overseas. In addition, 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 has 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 active managers underperforming their benchmarks.

3. DAY TO DAY MANAGEMENT OF THE ASSETS

3.1 Main Assets

The Council currently invests the main assets of the Fund in a series of portfolios as follows:

- UK Index-Tracking ex Tobacco (passive) Equities (segregated portfolio)
- UK Equities Ethical Fund (pooled fund)
- Overseas (Passive) Equities (fixed weight, pooled funds)
- Private Equity (limited partnership)

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	Passive UK Equities	62.3
F&C Asset Management	Ethical UK Equities	2.0
UBS Global Asset Management	Passive Overseas Equities	30.0
Pantheon Ventures	Private Equity	4.0
In-house	Cash LIBID 7 day notice	1.7

3.2 Asset Allocation Guidelines

The main investment managers have been set the following benchmarks:

Hermes Investment Management

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

F&C Asset Management

Asset	Weighting %	Benchmark
Ethical UK Equities	100	70% FTSE AllShare (exFTSE100; ex Investment Trusts), 30% FTSE100.

UBS Global Asset Management (UK) Ltd

Asset	Weighting %	Benchmark
North America	34	FTSE AW USA
Europe ex UK	34	FTSE Europe (ex UK) Index- Developed Series
Japan	14	FTSE AW Japan
Pacific ex Japan	18	FTSE AW Pacific (ex Japan) Index- Developed Series

In order for the Council's overseas equities exposure to be brought into line with the target allocation, the Council, having taken appropriate advice, has decided to increase its holdings with UBS Asset Management. This is for an unlimited period of time is consistent with the Council's Investment Strategy and the increase complies with the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2003, and resulting from this the Sub-Committee has formally agreed to increase the allowable limit for any single insurance contract to 35%.

Pantheon Ventures

Asset	Weighting %	Benchmark
Private Equity	100	No specific benchmark

3.3 Investment Performance Benchmark

The managers' performances are compared to the relevant benchmarks.

The performance objective for each manager is: -

Hermes Investment Management: For the tracker (passive) fund to replicate the benchmark within a maximum tracking error of plus or minus 0.2%.

UBS Global Asset Management (UK) Ltd: Passive Fund to replicate specific benchmarks within a tracking error of plus or minus 0.25% for USA and Japan, and plus or minus 0.5% for Developed Pacific ex Japan and Developed Europe ex UK.

Pantheon Ventures: It is expected that over the long term it will outperform the All-Share index.

F&C Asset Management: Outperform the benchmark over the long term by 1% p.a.

3.4 Fees

Fees for the investment managers are related to the assets under management. In the case of the Pantheon Ventures there is also a performance-related element to the fee, again based on the assets under management.

3.5 Additional Assets

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

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 Council's 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 meets 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.

3.8 Sub-Committee Arrangements

As an administering pension authority, the Council discharges its duties in respect of maintaining the Pension Fund in the form of the Pensions Sub-Committee. Its terms of reference are to deal with all matters relating to the investment of the Council Pension Fund.

The Pensions Sub-Committee is made up of six voting Members of the Council, a non-voting pensioner representative and a non-voting employee representative. In addition, officers and the Council's external advisers support the meeting. The Sub-Committee is scheduled to meet on at least four occasions during the 2005/06 Municipal Year and formal minutes are taken and acted on accordingly.

4. CUSTODY

For the additional security of the invested assets, the Council employs The Bank of New York as an independent custodian for its segregated UK equity holdings. J P Morgan acts as the independent custodian for the overseas equities held by UBS Global Asset Management Limited. The other holdings of the Fund are in pooled arrangements where the custodian is determined by the investment manager.

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 F&C Asset Management Stewardship Fund. In addition, it is met by a policy of excluding investment in tobacco companies from the FTSE-350 index tracker fund as these are deemed by the Council to be unethical. 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, where practical, to incorporate criteria to measure the ethical and environmental criteria for stock selection allied to expected out-performance.

The Council requires the investment managers to vote on 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, currently invest 100% in equities. As indicated in paragraph 2.2, the Pensions Sub-Committee agreed that the medium term investment strategy of the Fund should be a median of 75% equities with a move to this new strategy phased over the period 2005-2008. The Actuary has indicated that an asset allocation strategy of 60% equities or more would be consistent with the assumptions used in the calculation of the ongoing funding level of the Fund and that a combination of contributions into the Fund and investment return is targeted to deliver a 100% funding level within the time frame of 25 years. The asset allocation of the Fund will, however, be kept under constant review and may be changed from time to time, and any major changes will be reflected in an 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."

Within these Principles, the term "Trustee" is used from time to time. When considering advice and determining investment policy, the Council's Pension Sub-Committee are effectively acting as Trustees. As such, they have responsibilities additional to those carried out as elected members of the Council. Their duties as "Trustees" are to manage the Fund in accordance with the Local Government Pension Regulations and to do so prudently and impartially.

Typically, Members discharge their duty by ensuring that they have a systematic and clear way of agreeing their investment policy with the managers and advisers they employ.

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.

Statement of Compliance – Myners' Investment Principles

Principle 1 - Effective Decision Making

Compliance		Principle	How the Principle is Met	Plans to meet the Principle in the future
Full	Part No			
✓		<p>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.</p>	<p>All investment decisions are taken either by the Pensions Sub-Committee which is responsible for the 'Management of the Council's Pension Fund' or by the Director of Finance and Resources under his delegated powers.</p> <p>In addition to the Director of Finance and Resources, the Sub-Committee is advised by experienced Council officers and external advisers (one being appointed by Mercer Investment Consulting and the other entirely independent).</p> <p>All voting members of the Sub-Committee are experienced Councillors with a wide range of expertise including investment, accountancy, actuarial and administration of benefits. In addition to the Councillors, the Sub-Committee also includes representatives of the staff and pensioners. Collectively, the Sub-Committee has all the skills necessary to properly carry out their investment responsibilities.</p> <p>Councillors, officers and advisers are given training opportunities, to ensure that their expertise remains up to date. Several members of the Sub-Committee have attended specific training seminars.</p>	<p>Training will continue to be offered to all members of the Pensions Sub-Committee.</p> <p>Training requirements will be assessed during the year.</p>
✓		<p>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.</p>	<p>None of the Fund's assets are managed in-house and current staffing levels are sufficient in number and qualifications to support the Sub-Committee in their investment responsibilities.</p> <p>The voting members of the Sub-Committee are in receipt of agreed allowances for Councillors.</p>	
✓		<p>It is good practice for trustee boards to have an investment sub-committee to provide appropriate focus.</p>	<p>The London Borough of Croydon has appointed a Pensions Sub-Committee whose terms of reference are the "Management of the Council's Pension Fund".</p> <p>Whilst considering some benefits and administration issues, the Sub-Committee spends almost all its time considering investment matters.</p> <p>The Sub-Committee meets 4/5 times per year and the structure and processes are appropriate for carrying out their role effectively.</p>	

Principle 1 - Effective Decision Making (continued)

Compliance		Principle	How the Principle is Met	Plans to meet the Principle in the future
Full	Part No			
✓		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.	All voting members of the Sub-Committee are experienced Councillors with a wide range of expertise including investment, accountancy, actuarial and administration of benefits. Collectively, the Sub-Committee has all the skills necessary to carry out their investment responsibilities properly.	
✓		They should draw up a forward-looking business plan.	There has always existed a forward-looking Business Plan as regards monitoring performance and the management of the pension section. A three year rolling business plan is agreed on an annual basis.	

Principle 2 - Clear Objectives

Compliance		Principle	How the Principle is Met	Plans to meet the Principle in the future
Full	Part No			
✓		Trustees should set out an overall investment objective for the Fund that:	See section 2 of the Statement of Investment Principles (SIP).	
✓		<ul style="list-style-type: none"> 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 	See section 2.1 of the SIP.	
✓		<ul style="list-style-type: none"> Takes account of their attitude to risk, specifically their willingness to accept under performance due to market conditions. 	See section 2.3 of the SIP.	
✓		<ul style="list-style-type: none"> 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 	See sections 2 and 3 of the SIP. The Fund's objectives are reviewed annually, during the review of the Statement of Investment Principles.	

Principle 3 - Focus on Asset Allocation

Compliance			Principle	How the Principle is Met	Plans to meet the Principle in the future
Full	Part	No			
✓			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.	At both the Pensions Sub-Committee and the Advisers/Officers level, strategic asset allocation is discussed, either in the context of performance monitoring or arising from a specific Officer report. The full range of investment opportunities is considered.	Continue to consider and review asset allocation policy.
✓			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.	Since the last Annual Report was published, the Pensions Sub-Committee has considered the issue of risk versus performance in respect of the Pension Fund's ongoing 100% equity stance. It was agreed that the medium term investment strategy of the Fund should be a median of 75% equities, with a move to this strategy being phased over the period 2005-2008. As part of this review, the Pensions Sub-Committee will consider all major asset classes including bonds, property and further investment in private equities.	

Principle 4 - Expert advice

Compliance			Principle	How the Principle is Met	Plans to meet the Principle in the future
Full	Part	No			
✓			Contracts for actuarial services and investment advice should be opened to separate competition	The Council appointed William M Mercer Limited to provide both actuarial services and investment advice. The two services were tendered as a package but Officers and Members were satisfied that the services offered separately were individually the best available. The services are now provided by two totally separate specialist teams of William M Mercer – Mercer Investment Consulting and Mercer Human Resource Consulting. Officers are satisfied that there is no conflict of interest between the providers of the two services. The Fund pays sufficient fees to attract tenders from all the major actuarial/investment practices and to ensure that a high quality service continues to be provided. In addition, the Council has appointed Mr Valentine Furniss as an independent adviser. Mr Furniss has a wealth of experience in the investment field and is an adviser to several other local authority Pension Funds.	
✓			The Fund should be prepared to pay sufficient fees for each service to attract a broad range of kinds of potential providers.		

Principle 5 - Explicit mandates

Compliance			Principle	How the Principle is Met	Plans to meet the Principle in the future
Full	Part	No			
✓			Trustees should agree with both internal and external investment managers an explicit written mandate covering agreement between trustees and managers on:	Investment guidelines are included in the investment management agreements which include investment objectives, restrictions and performance measurement.	
✓			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;	These are included in investment management agreements and are consistent with the Fund's aggregate objectives and risk tolerances.	
✓			The manager's approach in attempting to achieve the objective; and	Assessed at tender stage and reviewed as appropriate.	
✓			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.	Performance evaluation is based on a long term basis reflecting the volatility of equities. Managers are given sufficient time to meet the required performance standards.	
✓			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.	Permissible financial instruments are governed by legislation.	
	✓		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.	UBS, Hermes and F&C have provided Level One disclosures (a statement of transaction practices). UBS and Hermes provide Level Two disclosures and F&C are currently working on Level 2 disclosures (client specific data)	To continue to monitor disclosure adherence by the fund managers.
✓			Trustees should not without good reason permit "soft commissions" to be paid in respect of their fund's transactions.	No "soft commissions" are paid.	

Principle 6 - Activism

Compliance			Principle	How the Principle is Met	Plans to meet the Principle in the future
Full	Part	No			
	✓		The mandate and trust deed should incorporate the principle of the US Department of Labour interpretative Bulletin on activism.	The Council's external Fund Managers have been advised of the Sub-Committee's revised voting policy and are expected to adhere to it. They are also expected to follow the principle of the Bulletin, which has now, in effect been superseded by the "The Responsibilities of Institutional Shareholders in Action". Hermes, UBS and F&C have provided Statements of their Corporate Governance and Voting Policies. Most UK shares are voted on. In respect of overseas equities, in most instances UBS vote on the Pension Fund's investments in accordance with their voting policies.	The Council's voting policy will continue to be reviewed to ensure that current developments in corporate governance are considered
✓			Trustees should also ensure that managers have an explicit strategy, elucidating the circumstances in which they will intervene in a company; the approach they will use in doing so; and how they measure the effectiveness of this strategy.	The Sub-Committee agreed a policy for UK holdings on 13 June 1997 subsequently revised in June 2000 to take into account Socially Responsible Investment requirements. Voting guidelines were reviewed during the year to keep in line with current corporate governance issues. The UK Fund Manager for the tracker fund is required to provide details of voting on a quarterly basis. Hermes and UBS confirm that they act in accordance with the requirements of "The Responsibilities of Institutional Shareholders in Action".*	

Principle 7 - Appropriate Benchmarks

Compliance			Principle	How the Principle is Met	Plans to meet the Principle in the future
Full	Part	No			
✓			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;	Full consideration has been given to index benchmarks and their impact on investment strategies. The benefits to be gained from active or passive management are regularly considered and, where active management has been chosen, targets and risk controls have been set to reflect the potential to achieve higher returns. This is currently being done through the stewardship fund and private equity funds. The agreed benchmarks are stated in Section 3 of the Statement of Investment Principles.	The Fund Strategy has been reviewed and the Pensions Sub-Committee will be agreeing revised asset allocations during the current year.

Principle 7 - Appropriate Benchmarks (continued)

Compliance			Principle	How the Principle is Met	Plans to meet the Principle in the future
Full	Part	No			
✓			<p>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</p> <p>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.</p>	<p>Where active management has been chosen, targets and risk controls have been set to reflect the potential to achieve higher returns. This is currently being done through the stewardship fund and private equity funds.</p>	

Principle 8 – Performance Measurement

Compliance			Principle	How the Principle is Met	Plans to meet the Principle in the future
Full	Part	No			
	✓		Trustees should arrange for measurement of the performance of the Fund and make formal assessment of their own procedures and decisions as trustees.	The Fund's managers provide full reports on performance on a quarterly basis. The managers' performance and the Fund's overall performance are measured quarterly and annually by the WM Company and reported regularly to the Pensions Sub-Committee.	
	✓		They should also arrange for a formal assessment of performance and decision-making delegated to advisers and managers.	An assessment was formerly undertaken in 2004/05 and a detailed report was submitted to the Pensions Sub-Committee.	A similar review will be undertaken on an ongoing basis in future years.

Principle 9 – Transparency

Compliance			Principle	How the Principle is Met	Plans to meet the Principle in the future
Full	Part	No			
✓			<p>A strengthened Statement of Investment Principles should set out:</p> <ul style="list-style-type: none"> • Who is taking which decisions and why this structure has been selected; <p>The Fund's investment objective;</p> <ul style="list-style-type: none"> • 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. 	See this Statement of Investment Principles.	The Council's Statement of Investment Principles is reviewed on an annual basis and amended with any significant changes.
✓					
✓					

Principle 10 - Regular reporting

Compliance			Principle	How the Principle is Met	Plans to meet the Principle in the future
Full	Part	No			
✓			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.	The Statement of Investment Principles, key performance information and comments on strategy are included in the Annual Scheme Report, a copy of which is sent to all Scheme members.	

* “The Responsibilities of Institutional Shareholders and Agents – Statement of Principles” has been drawn up by the Institutional Shareholders’ Committee (members – ABI, NAPF and IMA) to set out best practice for institutional shareholders and/or agents to identify their responsibilities in respect of investee companies. The Fund Managers appointed by the Council have been appointed to act on its behalf.

Fund Investment Commentary & Performance

General

During 2004/05, local authority pension funds enjoyed an average gain in value of 11.7%. This was well above inflation and average earnings growth of 3.2% and 5% respectively.

2004/05 was a good year for equities in the major markets including returns of 16% in the UK, 19% in Europe and 5% in North America. Only Japan showed a decline of 4%. In general, equity returns were significantly above the UK gilts and corporate bonds' positive return of 5%.

Strategy

During the year, the Fund continued to invest solely in equities. The major change was to disinvest the Focus Fund and use the proceeds to increase our overseas investment with UBS Global Asset Managers, the result of this was to increase the funds exposure to non UK equities bringing the allocation closer in line with the target percentage to be invested in overseas equities. The investment in UK equities of 69% of the Fund's value showed a decrease compared with the previous year. The 28% invested in overseas equities is higher than the 2003/04 figure. The intention is to move towards the agreed target of 70% in the UK and 30% overseas when suitable market conditions arise.

As described in paragraph 2.2 of the Statement of Investment Principles, the Pensions Sub-Committee agreed the medium term investment strategy of the Fund should be a median of 75% in equities with a move to this strategy to be phased over the period 2005-2008.

Performance

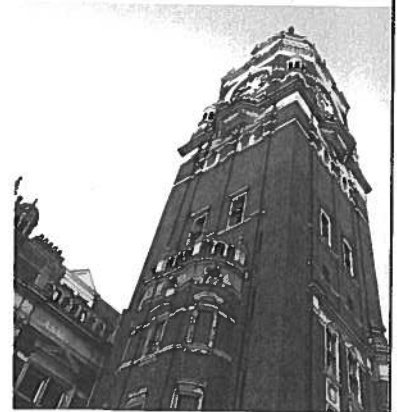
The Fund's performance is compared to the average return from 90 local authority pension funds with a combined asset value of £93bn. It is also compared with the Council's own customised benchmarks.

Whilst local authority funds as a whole saw the value of their investments increase significantly during the year, the performance of the Council's Fund was particularly encouraging. The positive return of 13.5% was above the average return of 11.7%. This is the second year in a row that the Council's Fund has outperformed the average.

This good performance was due to the decision to remain with the Fund's 100% equity stance, for the time being, despite recent disappointing years. The result was that the Fund was the joint best performer of all Local Authority Pension Funds in the country.

The disappointing returns in past years is one of the factors (together with the greater life expectancy of pensioners) to have had an impact on the funding position of the Fund. However, the performance during 2004/05 has resulted in an improvement compared to the corresponding figures published last year. Over the last 5 and 10 years, the Fund has returned -4.2% per year and 5.7% per year respectively, which is behind the local authority average of 0.7% and 7.8%.

The assets of the Fund have grown over the last 10 years from £228m to £390m, an increase of 71%.

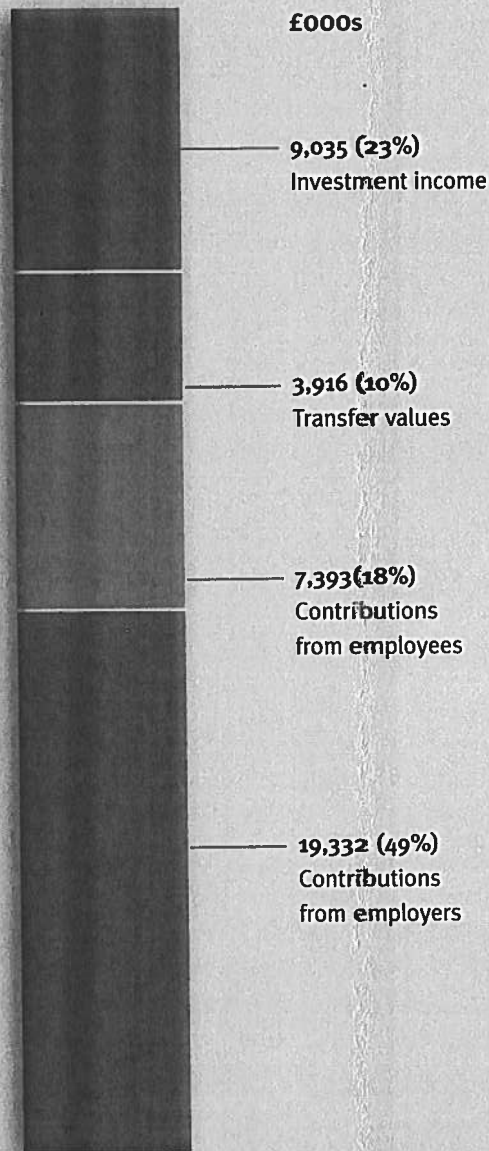


The relatively strong performance can be traced mainly to the strong overall showing of global equities.

Income and Expenditure

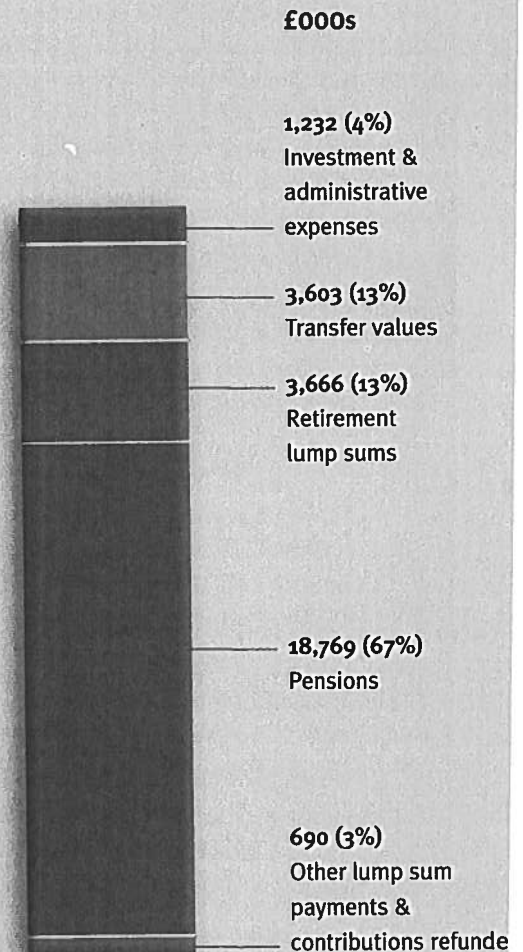
Income

Income during the year totalled £39.7 m



Expenditure

Expenditure during the year totalled £28.0 m



There was a net cash inflow during the year of £11.7m.

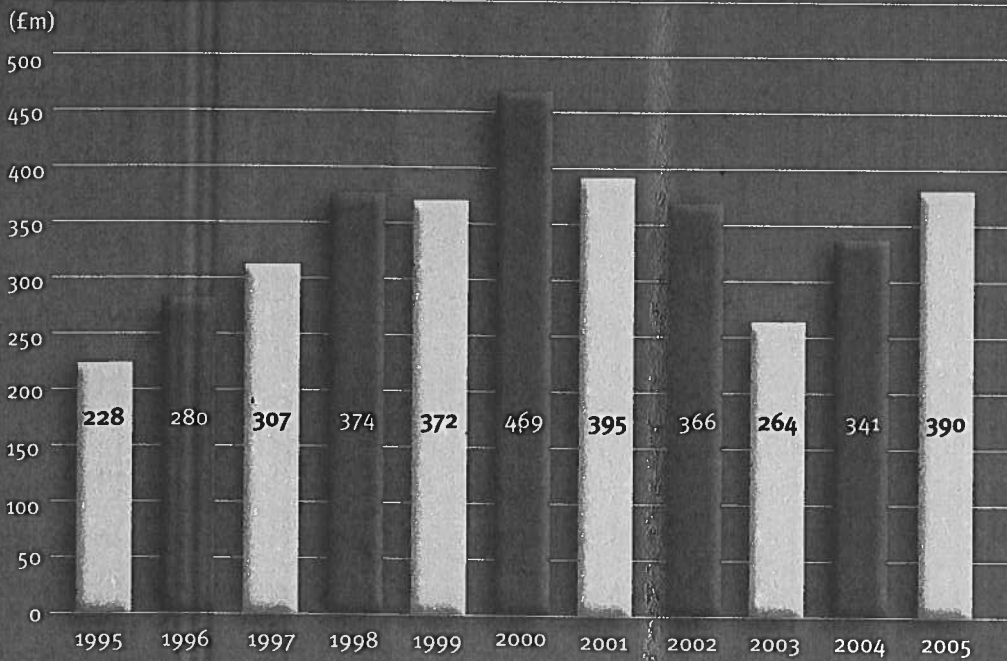
Employee and employer contributions to the Scheme during the year were:

- Employee contributions - 6% of contributory pay, although some employees retain the right to contribute at 5% of earnings;
- Employer contributions - 16.5% 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 2004, this was 2.8%, and for the current year, it is 3.1%.

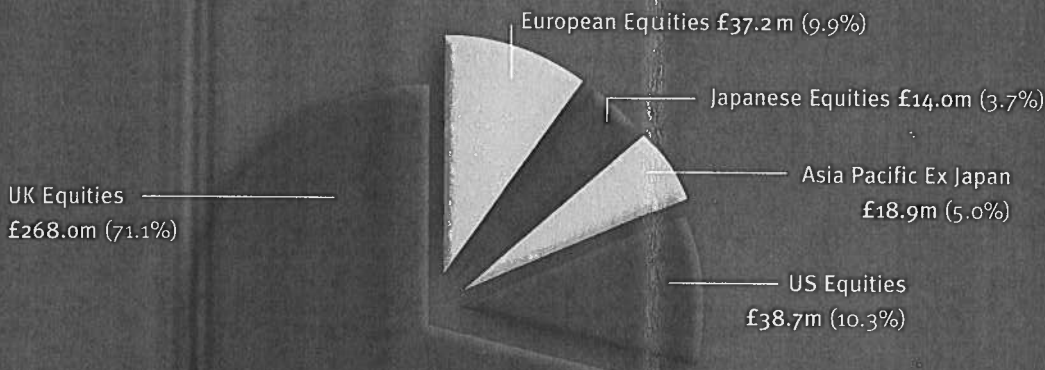
Movement of Fund

The net assets of the Fund at 31 March 2005 were £390 million compared with £228 million at 31 March 1995. The chart below shows the growth of the Fund's assets over the past ten years.



Investments

As at 31 March 2005 the market value of the equity investments held was £377 million. An analysis of these investments is shown below:



	£m	%
Market Value of Investments	376.8	96.7
Add Net Current Assets	12.7	3.3
Net Assets	389.5	100.0

Statistics 2004/2005

Fig 1. Returns 2004/2005

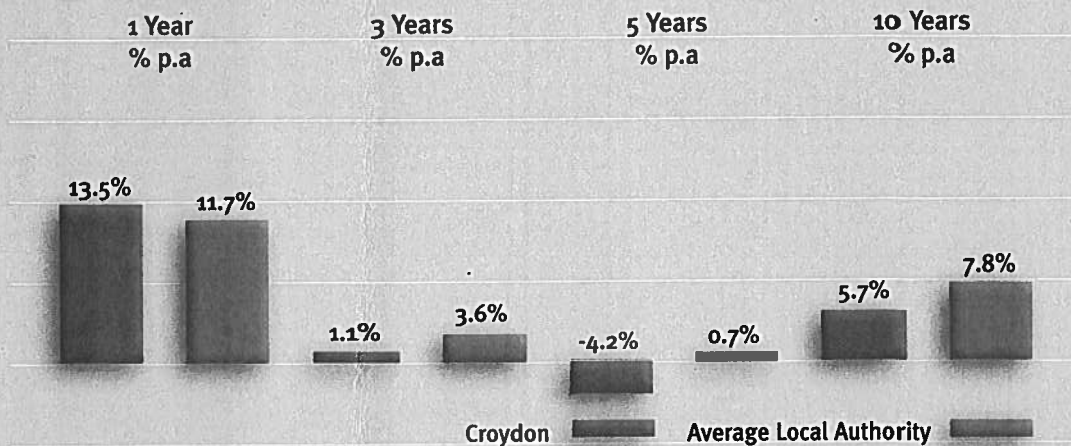


Fig 2. Markets 2004/2005

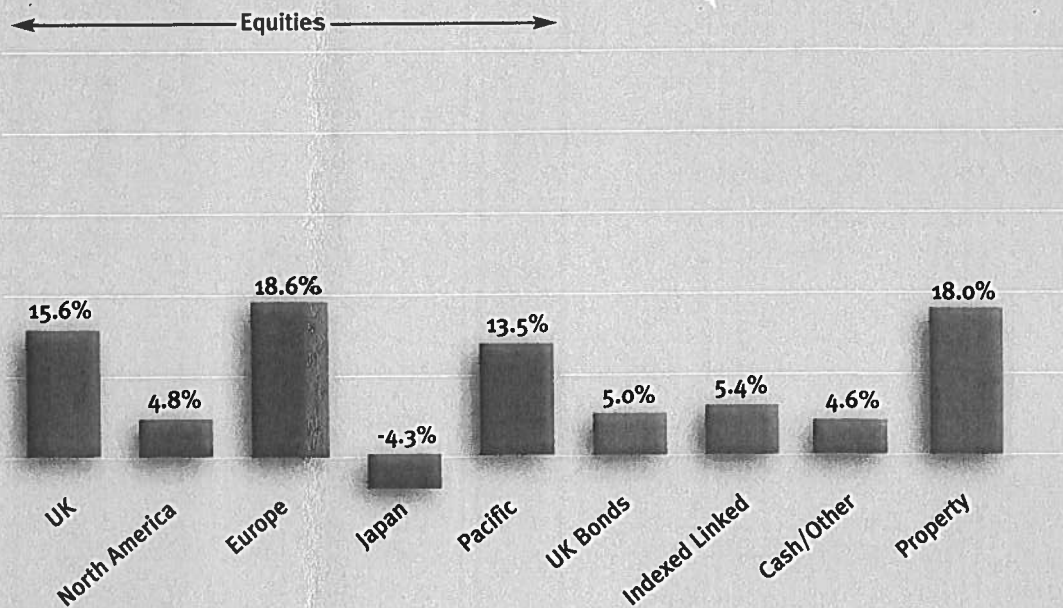
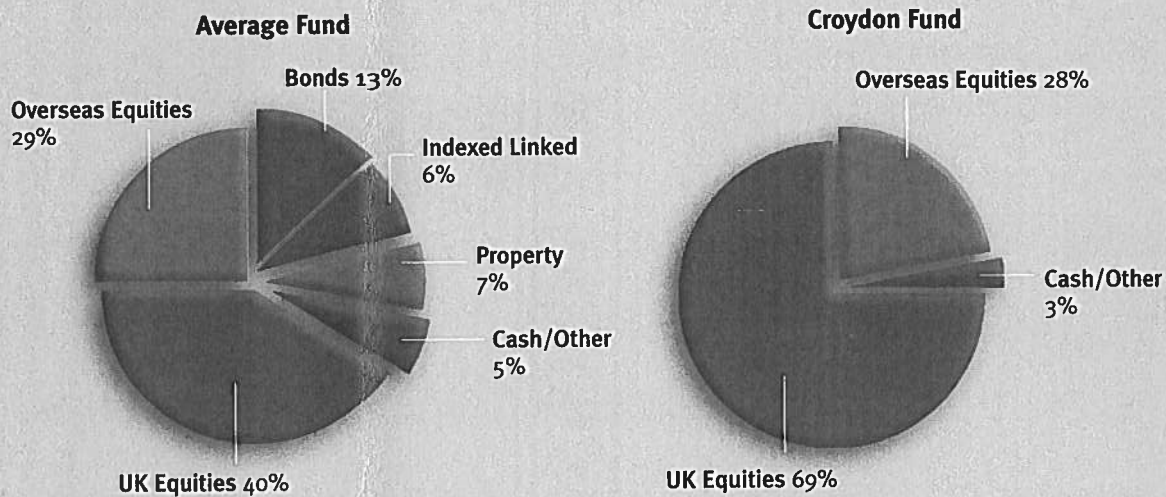
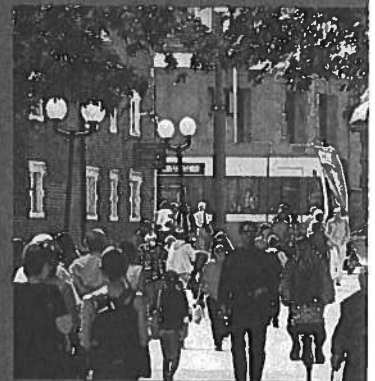


Fig 3. Asset Distribution



Top 25 UK Holdings

	Market Value at 31 March 2005	% of Total U.K. Equity Investment
	£'000	%
BP	22,956	8.6
HSBC HOLDINGS	18,105	6.8
VODAFONE GROUP	17,874	6.7
GLAXOSMITHKLINE	13,878	5.2
ROYAL BANK OF SCOTLAND	10,367	3.9
SHELL TRANSPORT & TRADING	8,833	3.3
BARCLAYS BANK	6,816	2.5
ASTRAZENECA	6,656	2.5
HBOS	6,176	2.3
LLOYDS TSB GROUP	5,158	1.9
TESCO	4,706	1.8
DIAGEO	4,395	1.6
ANGLO AMERICAN PLC	3,578	1.3
RIO TINTO	3,507	1.3
BHP BILLITON	3,403	1.3
BT GROUP	3,385	1.3
NATIONAL GRID TRANSCO	2,947	1.1
UNILEVER	2,932	1.1
AVIVA	2,811	1.0
BG GROUP	2,772	1.0
STANDARD CHARTERED	2,393	0.9
PRUDENTIAL	2,290	0.9
RECKITT BENCKISER	2,265	0.8
CADBURY SCHWEPPES	2,110	0.8
O2	1,997	0.7
	162,310	60.6



Fund Account

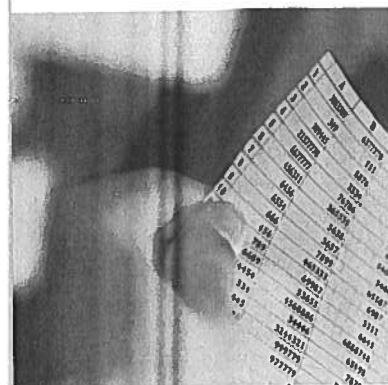
For the year ended 31 March 2005	2004/05 £'000	2003/04 £'000
Balance at 1 April at cost	300,109	285,338
Net income plus net realised gains/(losses) for the year	17,297	14,768
Accumulated unrealised gains/(losses)	72,100	40,352
Balance at 31 March at market value	389,506	340,458

Net Assets Statement

At 31 March 2005

	2004/05 £'000	2003/04 £'000
Investments		
UK equities (including Futures)	268,047	247,098
Overseas equities (including unquoted limited partnerships)	108,718	84,864
	376,765	331,962
Current Assets		
Debtors	3,150	3,710
Bank balances	11,152	7,133
	14,302	10,843
Less Current Liabilities		
Creditors	1,561	2,347
	12,741	8,496
Net current assets	12,741	8,496
Market value of Fund	389,506	340,458

A full set of the audited pension fund accounts are available on request.



The Local Government Pension Scheme Regulations 2004

There have been a number of changes to Local Government Pension Schemes that have occurred since the last Annual Report was published. Many of these were technical in nature and do not have a direct impact on benefits payable under the scheme. However, the salient developments are as follows:

Amendments to the existing legislation called "The Local Government Pension Scheme (Amendment) (No. 2) Regulations 2004" were introduced. These regulations amended the scheme's "85 Year Rule"* for membership accruing after 31st March 2005 (or membership after 31st March 2013 for those members who will be 60 years old by then). The amendments to the Regulations also increased the earliest age of retirement (other than on the grounds of ill health) from 50 to 55 years old as from 1st April 2005, apart from those members who were aged 50 or over on 31st March 2005 who are allowed to retain the age of 50 as their earliest age for retirement.

Following concerns from the public sector trade unions and employees these regulations were revoked and all Local Government Pension Schemes, including the Croydon Pension Scheme, have reverted to the rules and regulations in force prior to 1st April 2005.

**The "85 Year Rule" allows members who wish to voluntarily retire before the age of 65 to take unreduced benefits if their combined age and calendar length of membership (both in whole years) add up to 85. This is at the discretion of the Local Authority. Once a member has reached the age of 60, the 85 Year Rule still applies, however, the agreement of the employer before taking early retirement is not required.*

Further Information

1. The Pensions Regulator

Napier House
Trafalgar Place
Brighton, East Sussex
BN1 4DW

Telephone Number: 0870 606 3636 (Monday to Friday 09.00-17.00)

Website: www.thepensionsregulator.gov.uk

The role of the Pensions Regulator has been set out by Parliament, and is to:

- Protect the benefits of members of work-based pension schemes;
- Promote the good administration of work-based pension schemes;
- Reduce the risk of situations arising which may lead to claims for compensation from the Pensions Protection Fund.

2. The Pensions Advisory Service (TPAS)

11 Belgrave Road
London
SW1V 1RB

Telephone Number: 0845 601 2923

Website: www.opas.org.uk

TPAS is available to assist members of pension schemes with any difficulties that they are unable to resolve with their scheme administrators.

3. The Pensions Ombudsman

at the same address as TPAS

Telephone Number: 020 7834 9144

Website: www.pensions-ombudsman.org.uk

The Pensions Ombudsman can investigate and determine any complaint or disputes between scheme members and administrators, involving maladministration, or matters of fact or law.

4. Pension Tracing Service

The Pension Service
Tyneview Park, Whitley Road
Newcastle-upon-Tyne
NE98 1BA

Telephone Number: 0845 600 2537

The Pension Tracing Service can help ex-members of pension schemes, who may have lost touch with their previous employers, to trace their pension entitlements.

Scheme members should note that any enquiries or complaints can be sent in the first instance to Liberata, at the address shown on page 7.

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