



Croydon Pension Scheme

ANNUAL REPORT 2003/2004



Foreword

As Chair I am pleased to write this foreword on behalf of the Sub-Committee. During the year we met on a number of occasions and have considered a wide range of topics which has included; the continual review of the performance of the Fund, improving our voting policy and the response to the ongoing Government exercise on the changes to the Local Government Pension Scheme.

Some changes to the Pension Fund scheme have already been announced by the Government during the year and these are detailed in this Annual Report. You will, of course, be kept fully informed of any changes that might affect you. I would, however, like to reassure you that our pension scheme is established by an Act of Parliament, is underpinned by the income of the Council and there are no proposals for this to change.

Following the disappointing investment returns of the Fund in recent years, the Sub Committee nevertheless, took the decision to continue with its stance of investing the Fund in equities. I am pleased to inform you that as a result, the Fund was able to take full advantage of the significant rise in the equity market and as a consequence achieved the 3rd best return on investments of the Local Authority Pension Funds in the country in 2003/4.

You will see that during 2003/4 the Fund performed well, increasing its value by 28.1 % compared with the average gain of all local authority funds of 23.4 %.

The Council's pension fund investment strategy has for some time been based on an all equity stance as historically the Pension Sub-Committee believed that this strategy would produce the best long term returns for the Fund. In line with good practice it has recently been agreed that a review of this strategy should be undertaken by the Council's independent investment advisers to ensure that the Fund continues to achieve the best possible returns.

We have continued to exercise our voting powers, in line with an updated voting policy, and alongside those of other funds seek improvement in the management of the companies in which we invest.

For an appreciation of the many issues relating to the management of investments you may wish to see the 'Statement of Investment Principles' (pages 9 - 20) which sets out the guidelines for the strategy and management of the Fund. 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.

I hope you find this report of interest

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 2003/2004.

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.

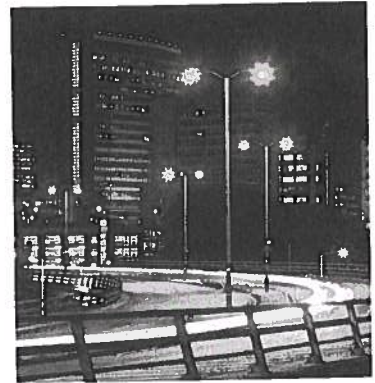
Socially Responsible Investment and Corporate Governance

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.

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. 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:

Councillors:

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

During the year Councillor Clouder replaced Councillor Charlotte Mc Aree

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

Hermes Focus Asset Management Ltd

UBS Global Asset Management (UK) Ltd

ISIS Asset Management plc

Pantheon Ventures Ltd

Custodians:

The Bank of New York - UK 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 2003/2004

During the year the Scheme's total membership has grown from 14,228 to 14,829. Changes in membership during the year were as follows:

Employees

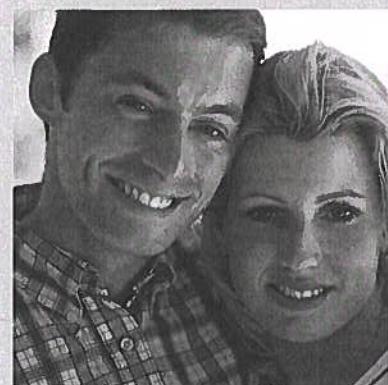
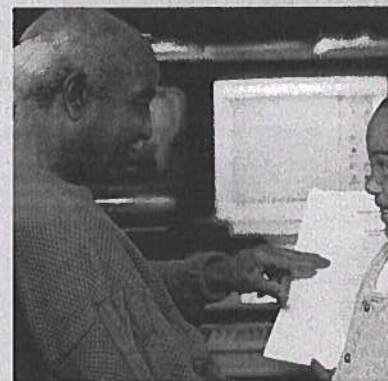
Number at 31 March 2003		6,228
Add	Employees joining during year	887
		7,115
Less	Members leaving during year:	
	Normal retirements (including redundancies etc)	108
	Ill-health retirements	23
	Deaths in service	5
	Transfers to other funds/schemes	10
	Refunds of contributions	77
	Deferred pensions	498
		721
Number at 31 March 2004		6,394

Pensioners

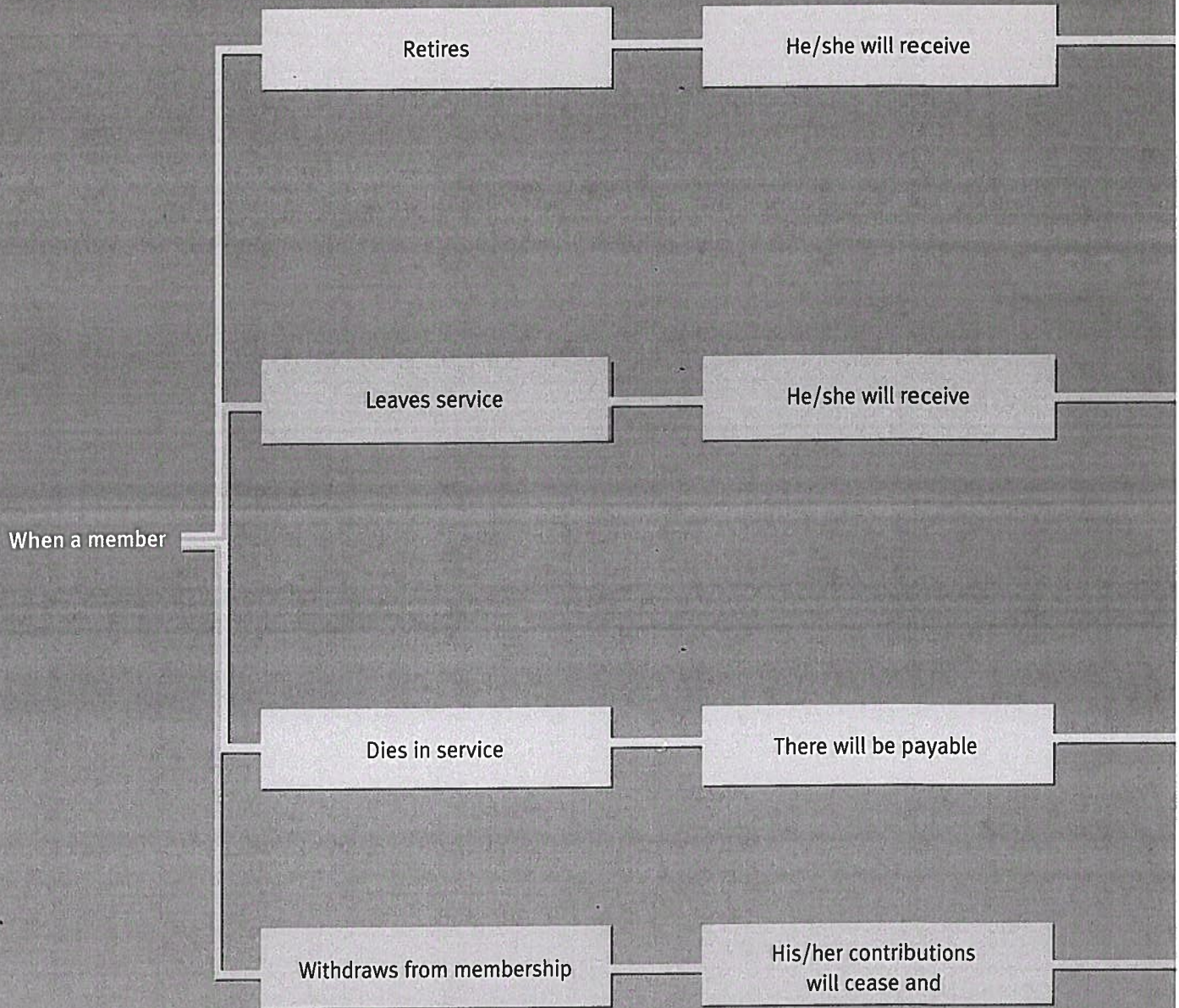
Number at 31 March 2003		4,733
Add	New pensioners during year:	
	Normal retirements (including redundancies etc)	108
	Ill-health retirements	23
	Dependants' pensions	52
	Deferred pensions becoming payable	74
		257
		4,990
Less	Deaths/dependants ceasing to be eligible	172
Number at 31 March 2004		4,818

Deferred Pensioners

Number at 31 March 2003		3,267
Add	New deferred pensioners during year	498
		3,765
Less	Transfers to other funds/schemes	79
	Deferred benefits becoming payable	69
	Deaths	0
		148
Number at 31 March 2004		3,617
Total Membership at 31 March 2004		14,829



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.

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 * (3 months with effect from 1 April 2004)

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 * (with more than 3 months with effect from 1 April 2004)

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 the State Second Pension Scheme, or to a personal pension plan or stakeholder pension scheme.

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

Enquiries from current scheme members - ☎ 0845 0362101

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.

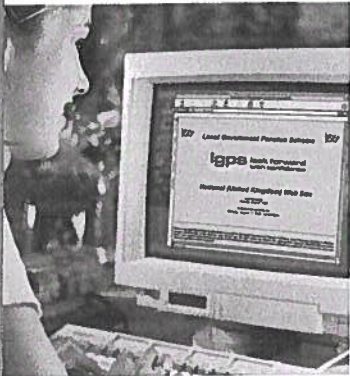
The site has a comprehensive range of Scheme information, which includes:

<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 Pensions 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 has 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 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, for the time being, 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 and is reviewed on an ongoing basis.

The Council accepts 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 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 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 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 Active Equities (limited partnership)
- 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
Hermes Investment Management	Active UK Equities	3.4
ISIS Asset Management	Ethical UK Equities	2.0
UBS Global Asset Management	Passive Overseas Equities	30.0
Pantheon Ventures	Private Equity	0.6
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)
UK Equities – Active	100	FTSE All Share

ISIS 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	40	FTSE AW USA
Europe ex UK	40	FTSE Europe (ex UK) Index- Developed Series
Japan	16	FTSE AW Japan
Pacific ex Japan	4	FTSE AW Pacific (ex Japan) Index- Developed Series

Pantheon Ventures

Asset	Weighting %	Benchmark
Private Equity	100	No specific benchmark

The Council had a segregated investment in the Hermes Focus Fund Investment as part of its policy to diversify risk within its investment policy. After consultation with the Council's advisers, this has now be transferred into a limited partnership because the limit allowable for such an investment has been increased from 2% to 5% of the whole portfolio for each partnership and from 5% to 15% for all partnerships. This transfer is for an unlimited period of time, is consistent with the Council's investment strategy and the amount transferred complies with the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2003. The Pensions Sub-Committee has formally agreed these increases."

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 replicate the benchmark within a maximum tracking error of plus or minus 0.2%.

For the active fund: Outperform the benchmark

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.

ISIS 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 Hermes Active Fund and 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 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 The Bank of New York as an independent custodian for its segregated UK equity holdings. 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 ISIS Asset Management Stewardship Fund. Also 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 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 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			
✓			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>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 under his delegated powers.</p> <p>In addition to the Director of Finance, 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 Sub Committee.</p> <p>By the end of the year each member should have attended at least one training course.</p> <p>Training requirements will be assessed during the year.</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>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>	
✓			It is good practice for trustee boards to have an investment sub-committee to provide appropriate focus.	<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: <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 • 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 	See section 2.	
✓				See section 2.1.	
✓				See section 2.3.	
✓				See sections 2 and 3.	
				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 meetings, 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.	The Council's asset allocation policy is unique within the local government sector and reflects its own characteristics rather than following average allocation strategies. The risks associated with this policy are recognised but it is based on the long-term out-performance of equities when compared to all other asset classes. The Sub-Committee has agreed to invest in private equity and a UK portfolio fund based on a highly active engagement process.	

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.	
✓			<ul style="list-style-type: none"> 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.	
✓			<ul style="list-style-type: none"> The manager's approach in attempting to achieve the objective; and 	Assessed at tender stage and reviewed as appropriate.	
✓			<ul style="list-style-type: none"> 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.	
✓			<ul style="list-style-type: none"> 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 ISIS have provided Level One disclosures (a statement of transaction practices). UBS and Hermes provide Level Two disclosures and ISIS 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 ISIS have provided Statements of their Corporate Governance and Voting Policies. Most UK shares are voted but overseas holdings are not.	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. The position on voting was reviewed in November 2003 when it was agreed to update the voting policy which takes into account the new combined code on corporate governance published in July 2003. 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: <ul style="list-style-type: none"> • 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; 	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 is chosen, targets and risk controls reflect the potential to achieve higher returns. The agreed benchmarks are stated in Section 3.	The Fund Strategy will be reviewed following the actuarial triennial valuation .
✓			<ul style="list-style-type: none"> • If setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selection; 		

Principle 7 - Appropriate Benchmarks (continued)

Compliance			Principle	How the Principle is Met	Plans to meet the Principle in the future
Full	Part	No			
✓			<ul style="list-style-type: none"> 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. 	Where active management has been chosen (currently the Focus Fund) targets and risk control reflect the potential to achieve higher returns.	
✓					

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 Sub-Committee.	The options for the measurement of performance of the Sub Committee and advisers will be identified during the year.
	✓		They should also arrange for a formal assessment of performance and decision-making delegated to advisers and managers.		

Principle 9 – Transparency

Compliance			Principle	How the Principle is Met	Plans to meet the Principle in the future
Full	Part	No			
✓			A strengthened Statement of Investment Principles should set out:	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.
✓			• 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.		

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 available 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 2003/04, local authority pension funds enjoyed an average gain in value of 23.4%. This was well above inflation and average earnings growth of 2.6% and 3.9% respectively.

2003/04 was a very good year for equities in the major markets with returns ranging from 46% in Japan to 31% in the UK. Equity returns were significantly above all other investment classes, for example, UK bonds and property produced positive returns of 2.3% and 12.9% respectively.

Strategy

During the year, the Fund continued to invest solely in equities. The major change was the awarding of the overseas portfolio to UBS Global Asset Managers, the result of this was to increase the Fund's 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 72% of the Fund's value showed a decrease compared with the previous year. The 25% invested in overseas equities is higher than the 2002/3 figure. The intention is to move towards the agreed target of 70% in the UK and 30% overseas in 2004/5.

Performance

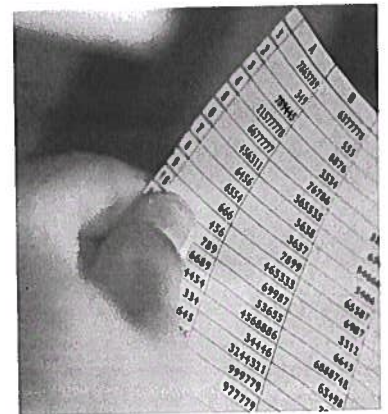
The Fund's performance is compared to the average return from 86 local authority pension funds with a combined asset value of £78bn. It is also compared with the Council's own customised benchmark.

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 28.1% was well above the average return of 23.4%.

This exceptional performance was due to the decision to remain with the Fund's 100% equity stance despite recent disappointing years. The result was that the Fund achieved the third best investment return of Local Authority Funds.

The disappointing recent returns, have had a detrimental impact on the Fund's long term performance, however the performance during 2003/4 has resulted in an improvement compared to the corresponding figures published last year. Over the last 5 and 10 years, the Fund has returned -2.2% per year and 4.3% per year respectively, which is behind the local authority average of 1% and 6.7%. 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 £234m to £341m an increase of 46%.

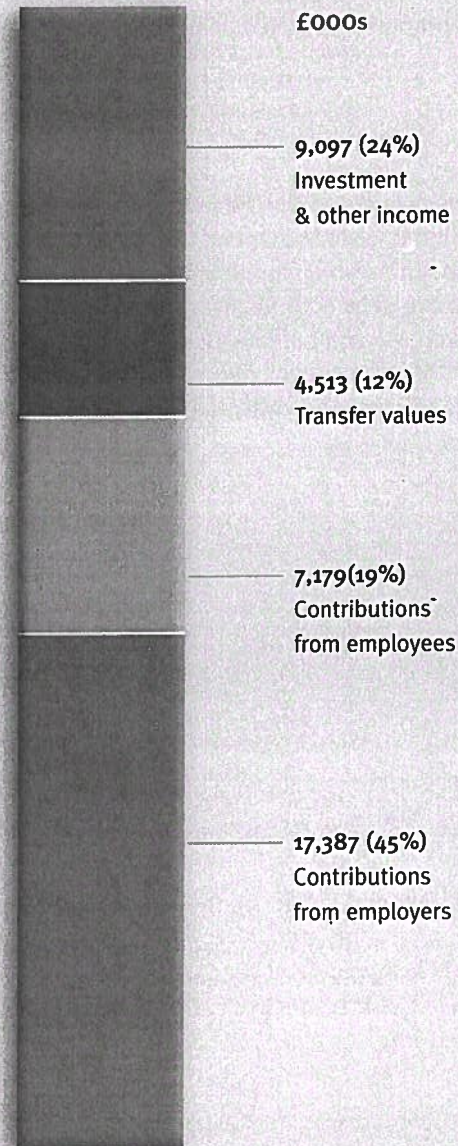


The relatively strong performance can be traced mainly to the strong overall showing of global equities.

Income and Expenditure

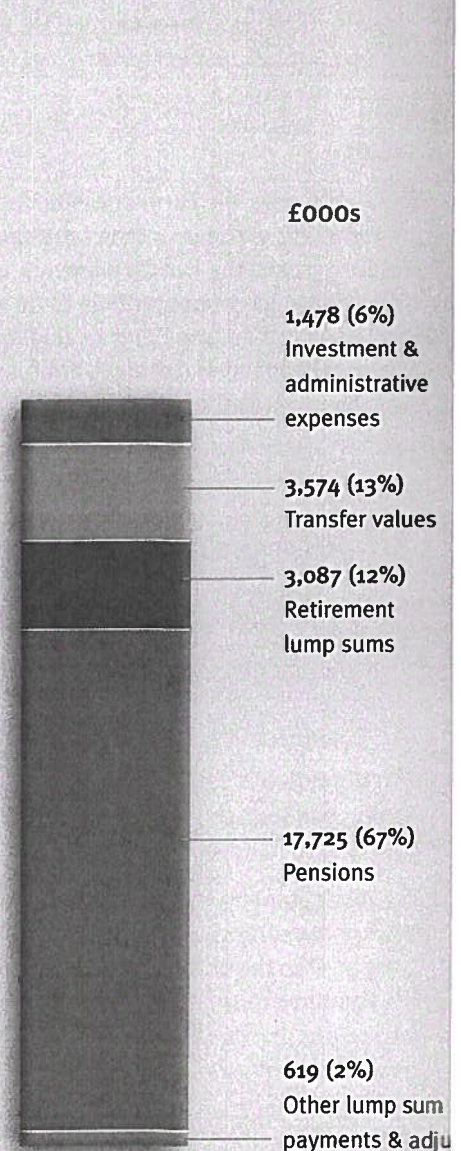
Income

Income during the year totalled £38.2 m



Expenditure

Expenditure during the year totalled £26.5 m



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

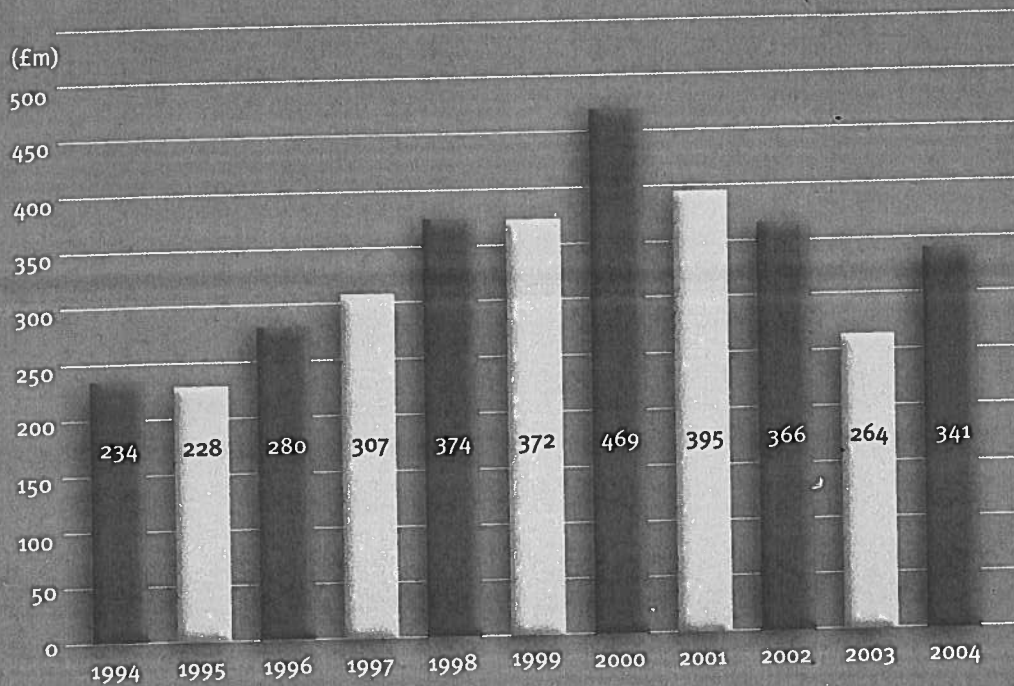
Employee and employer contributions to the Scheme during the year were:

- Employee contributions - 6% of contributory pay, although some employees retain the right to contribute at 5% of earnings;
- Employer contributions - 15.8% 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 2003, this was 1.7%, and for the current year, it is 2.8%.

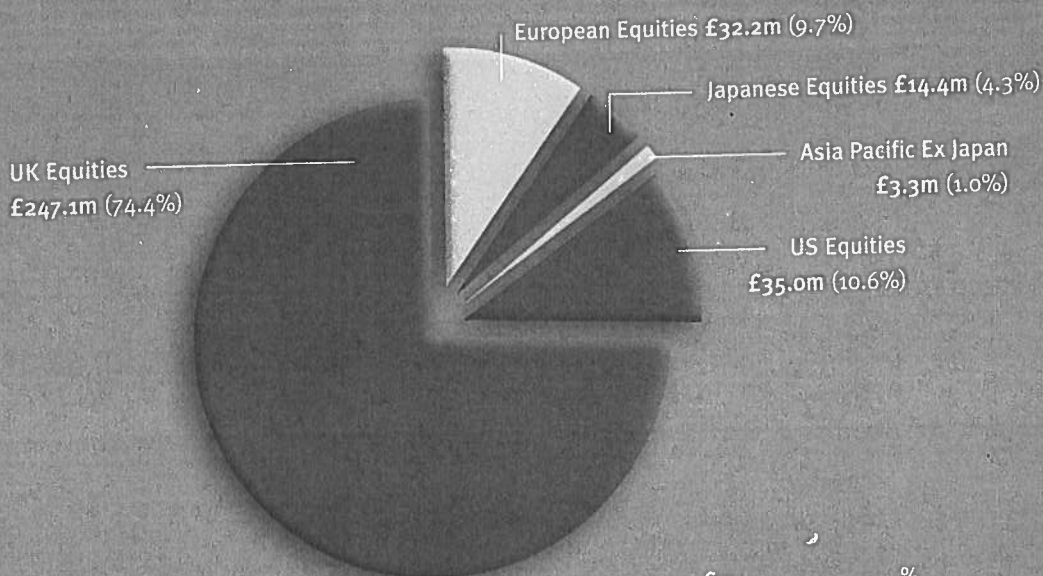
Movement of Fund

The net assets of the Fund at 31 March 2004 were £341 million compared with £234 million at 31 March 1994. The chart below shows the growth of the Fund's assets over the past ten years.



Investments

As at 31 March 2004 the market value of the equity investments held was £332 million. An analysis of these investments is shown below:



	£m	%
Market Value of Investments	332.0	97.5
Add Net Current Assets	8.5	2.5
Net Assets	340.5	100.0

Statistics 2003/2004

Fig 1. Returns 2003/2004

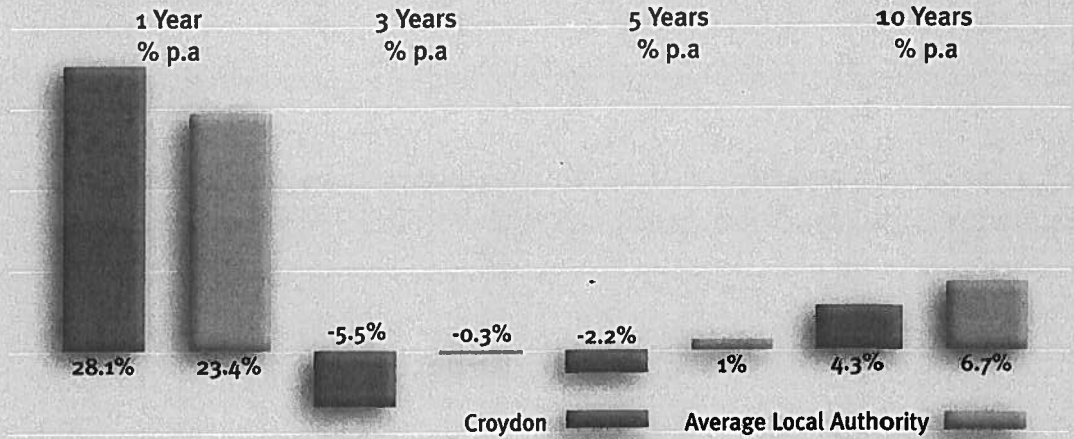


Fig 2. Markets 2003/2004

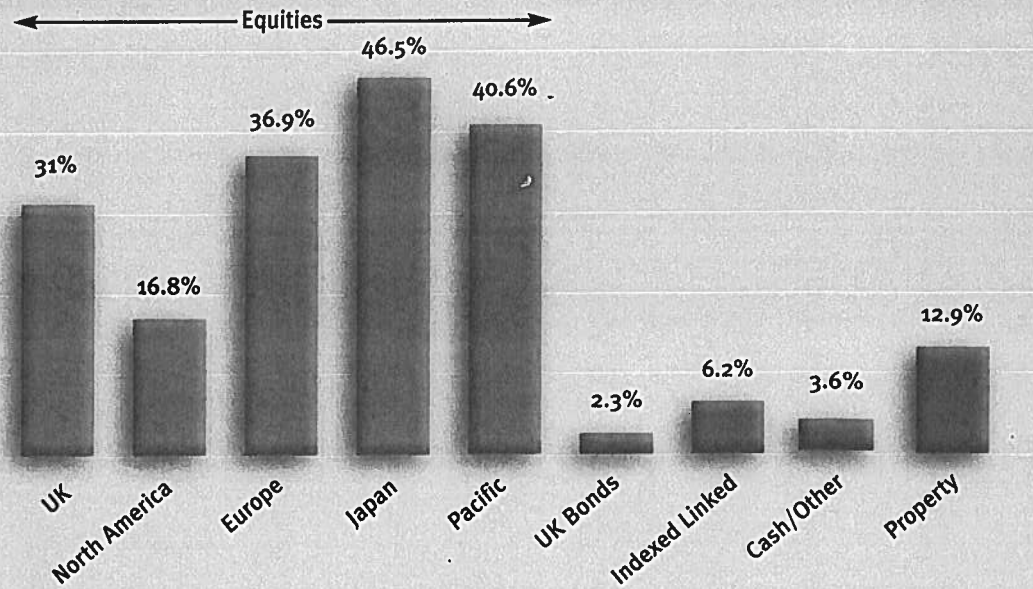
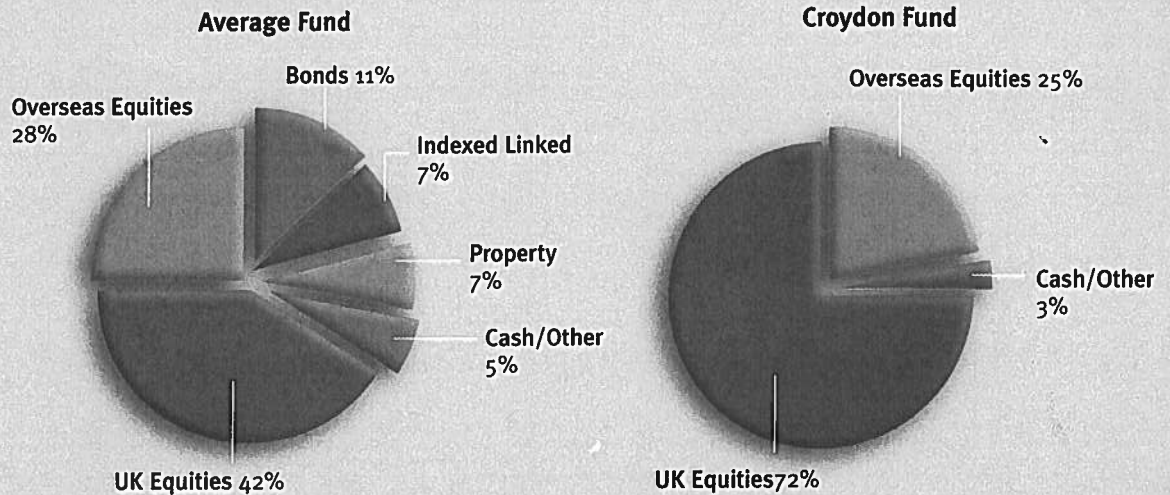


Fig 3. Asset Distribution



Data Source: WM Company/Annual Accounts

Top 25 UK Holdings

	Market Value at 31 March 2004	% of Total U.K. Equity Investment
	£'000	%
BP AMOCO	18,683	7.8
VODAFONE GROUP	17,480	7.3
HSBC HOLDINGS	16,432	6.9
GLAXOSMITHKLINE	11,785	4.9
ROYAL BANK OF SCOTLAND	9,044	3.8
ASTRAZENECA	7,947	3.3
SHELL TRANSPORT & TRADING	6,361	2.7
BARCLAYS BANK	5,807	2.4
HBOS	5,250	2.2
LLOYDS TSB GROUP	4,259	1.8
DIAGEO	4,025	1.7
ANGLO AMERICAN PLC	3,548	1.5
TESCO	3,497	1.5
PRUDENTIAL	3,075	1.3
KINGFISHER	3,022	1.3
UNILEVER	2,872	1.2
BT GROUP	2,822	1.2
RIO TINTO	2,626	1.1
NATIONAL GRID TRANSCO	2,444	1.0
CABLE & WIRELESS	2,357	1.0
BHP BILLITON	2,243	0.9
AVIVA	2,183	0.9
BG GROUP	2,089	0.9
STANDARD CHARTERED	1,947	0.8
BRITISH SKY BROADCASTING	1,806	0.8
	143,604	60.2



Fund Account

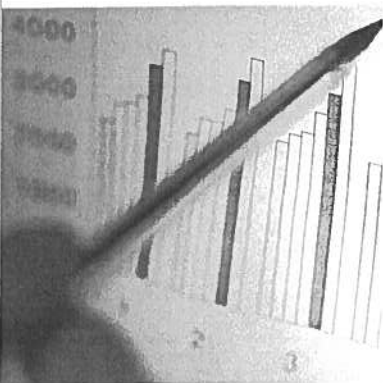
For the year ended 31 March 2004	2003/04	2002/03
	£'000	£'000
Balance at 1 April at cost	285,338	294,223
Net income plus net realised gains/(losses) for the year	14,768	(8,885)
Accumulated unrealised gains/(losses)	40,352	(21,842)
Balance at 31 March at market value	340,458	263,496

Net Asset Statement

At 31 March 2004

	2003/04	2002/03
	£'000	£'000
Investments		
UK equities (including Futures)	247,098	197,721
Overseas equities (including unquoted limited partnerships)	84,864	56,999
	331,962	254,720
Current Assets		
Debtors	3,710	4,369
Bank balances	7,133	6,757
	10,843	11,126
Less Current Liabilities		
Creditors	2,347	2,350
Net current assets	8,496	8,776
Market value of Fund	340,458	263,496

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



The Local Government Pension Scheme Regulations 2004

1. The Local Government Pension Scheme (Amendment) Regulations 2004 [SI 2004/573], hereinafter referred to as the Amendment Regulations, make a number of amendments to the Local Government Pension Scheme Regulations 1997 in England and Wales.
2. The changes are effective from 1 April 2004 apart from the changes to the Internal Dispute Resolution Procedure which are effective from 1 June 2004.
3. The main changes that have been made to the LGPS Regulations 1997 are summarised below:
 - an NHS employer can enter into an admission agreement so that LGPS members who are transferred to them by virtue of a Partnership established under Section 31 of the Health Act 1999 can remain in membership of the LGPS
 - the facility that permitted employers to agree with employee representatives how the whole, or a part of, an employee's pensionable pay should be calculated (i.e. the pay upon which pension contributions were to be paid) has been removed. However, agreements that were in force on 31 March 2004 remain in force
 - the period of membership required in order to qualify for benefits under the LGPS is reduced from 2 years to 3 months. Apart from those members covered by transitional protections, refunds of contributions will only be available to those who leave within 3 months and have not had a transfer of pension rights into the LGPS. The transitional protections cover those members who were contributing to the LGPS on 1 April 2004, who subsequently leave with less than 2 years membership and who had not transferred pension rights into the LGPS from another scheme. Such members will still be able to opt to take a refund (rather than have a deferred benefit)
 - the definition of "permanently incapable" for entitlement to ill health benefits has been amended to clarify that it means "the member will, more likely than not, be incapable until, at the earliest, age 65."
 - no ill health enhancement will be awarded where a member ceases membership of the LGPS on the grounds of permanent ill health for a second or further time
 - re-employed pensioners will not be able to combine their benefits upon cessation of the period of re-employment (but re-employed LGPS pensioners who are active members of the LGPS on 1 April 2004 can elect, by 30 September 2004, to opt out of the effect of this change)
 - deferred pensioners who rejoined the LGPS before 1 April 2004 and did not aggregate their membership must decide by 31 March 2005 whether or not to do so (or decide within such longer period as their employer may allow). Deferred pensioners who rejoin the LGPS on or after 1 April 2004 must decide whether or not to aggregate their membership within 12 months of rejoining (or such longer period as their employer allows)
 - the augmentation provisions under the Scheme have been replaced with a single augmentation provision that allows employers to award a member an additional period of membership at any time during active membership of the Scheme. Employers will need to amend their discretionary policy on augmentation to reflect this change
 - each administering authority must prepare, maintain and publish a funding strategy statement having consulted with such persons as they consider appropriate
 - the Internal Dispute Resolution Procedure is amended from 1 June 2004. At stage 1 of the procedure, appeals are to be heard by a person specified by the body that took the initial pension decision. Responsibility for stage 2 of the procedure will rest with the administering authority.

Further Information

1. The Occupational Pensions Regulatory Authority (OPRA), whose address is:
**Invicta House,
Trafalgar Place,
Trafalgar Street,
Brighton BN1 4DW,**
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 that any enquiries or complaints can be sent in the first instance to Liberata at the address shown on page 7. It is possible that they can be resolved locally.

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