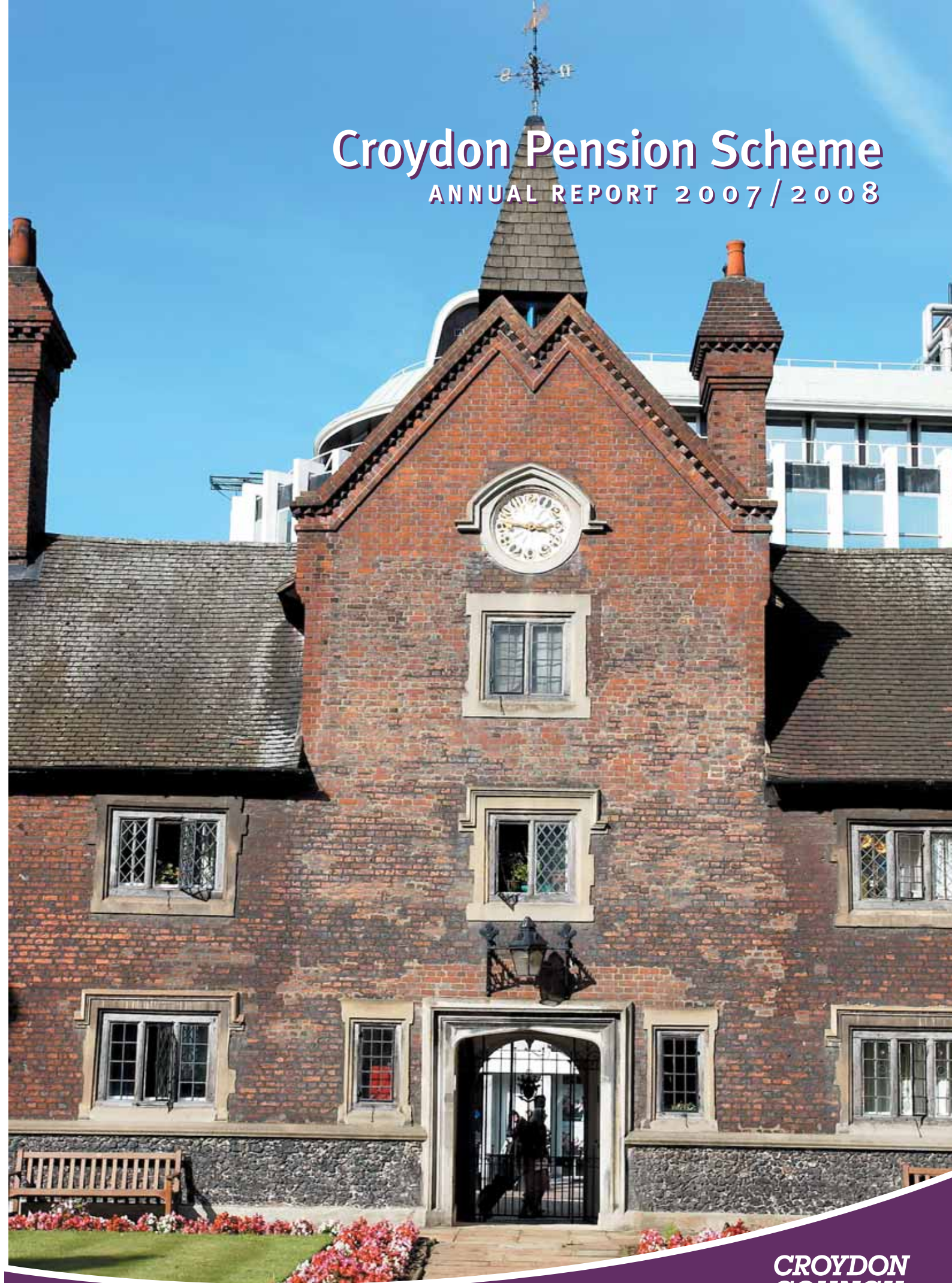


Croydon Pension Scheme

ANNUAL REPORT 2007/2008



Management & Advisers

Croydon Council Pension Fund Governance Statement

Pension Committee:

As an administrating pension authority the Council discharges its duties in respect of maintaining the Pension Fund in the form of the Pensions Committee. Its terms of reference are to deal with all matters relating to the investment and management/administration of the Council Pension Fund. The Pension Committee is made up of six voting Members for the Council, two non-voting pensioner representatives and a non-voting employee representative.

Councillors during the 2008/09 Municipal Year:

Councillors Dudley Mead, Yvette Hopley, Derek Millard, Simon Hall, Raj Rajendran and Brian Udell,
(Chairman) – Councillor Dudley Mead
(Vice Chairman) – Councillor Yvette Hopley

Current Councillors in 2007/08 Municipal Year:

Councillors Dudley Mead, Yvette Hopley, Luke Clancy, Simon Hall, Raj Rajendran and Brian Udell,
(Chairman) – Councillor Dudley Mead
(Vice Chairman) – Councillor Yvette Hopley

Non-voting members in 2007/08 Municipal Year:

Staff Representative – Isa Makumbi
Pensioners' Representatives - Mike Brakes and John Thompson

In addition the Committee is supported by officers and external advisers.

External Advisers to the Pension Committee:

Robert Howie – Mercer Investment Consulting
Valentine Furniss – Independent Adviser

Actuary: John Livesey – Mercer Human Resource Consulting

The Pension Committee sets the long term objectives and strategy for the Fund. It also oversees all matters relating to investment strategy of the Fund including the appointment of managers, advisers and custodians and general related issues such as the Actuarial Valuation.

The Pension Committee meetings are held on at least a quarterly basis, the agenda and minutes from previous meetings are circulated to the Members of the Pension Committee within 5 days of the next meeting.

The agendas and minutes of the Pension Committee meetings are available on the Council's website.

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Foreword

I was very pleased to accept in June 2008 for the second year the position of Chairman of the Pension Committee for the Municipal Year 2008/09. As Chairman I was supported in 2007/08 by Councillor Yvette Hopley who continues to be the Vice Chairman, Councillors Luke Clancy, Simon Hall, Raj Rajendran and Brian Udell. The staff side was represented by Mr Isa Makumbi and the Pension Representatives were Mr Mike Brakes and Mr John Thompson all of whom I should like to thank for their contributions.



As many of you will be aware I became a member of the Council in 1980. I am a chartered accountant a member of the Chartered Institute of Management Accountants and partner in a local firm of certified accountants. I have been a member of the Pensions Committee for many years and have always taken an active role in the management of the Council's Pension Fund. I believe my experience, both as an accountant and as a Councillor of many years standing, has provided me with a valuable knowledge of pension matters and I am anxious to continue to bring this experience to the Fund.

2007/08 proved to be another busy year for the Pension Committee, which met on four separate occasions. At these meetings we considered a range of investment and administrative issues. These included the continuing review of the future investment strategy of the Fund. During the year the Committee received the Fund Actuarial Report as at 31st March 2007. This showed that despite the many pressures facing all pension funds the funding level of the Fund had increased to 68% from 57% at 31st March 2004, reflecting the extremely good investment return achieved by the Fund.

During the year the Fund held its third Pensions Open Day to which all current members of the Fund were invited. The major theme for the day was the New Local Government Pension Scheme, which was implemented from 1 April 2008. Councillor Yvette Hopley Chaired the Open Day and spoke, as did other senior officers. Each of the attendees gave a summary of their key areas of involvement in respect of the Croydon Pension Fund and the Local Government Pension Fund in general. There was a representative from the Local Government Employers, Irene Wass, and the Council's Actuary John Livesey, also attended. The Open Day was held in the Arnhem Gallery at Fairfield Halls and was again very successful. The event provided an excellent opportunity for staff to be informed of the changes in the Local Government Pension Scheme more importantly members were informed that the scheme remains a final salary scheme with improved benefits.

2007/08 was a difficult year for most Pension funds reflecting the major turmoil during the year in the world's financial markets. As a consequence local authority Pension Funds as a whole produced an average negative return of 0.7% compared to the Funds negative return of 3.6%. Despite the poor performance in 2007/08 the Fund was ranked in the W.M Local Authority Annual performance tables as the second best performing Local Authority Fund for the last 5 years.

Considerable work has been undertaken over the last few years to develop the Pension Fund, particularly the Funds future investment strategy. As Chairman of the Pension Committee I am committed to continue this work with members of the Committee, officers and advisers to ensure the continued progress of the Fund and that it continues to provide an excellent service to its members.

The new pension regulations introduced from 1 April 2008 introduces many changes to improve the Local Government Pension Scheme even further. The scheme continues to be a final salary scheme and to be guaranteed by statute. As Chairman of the Pension Committee I am committed with my colleagues to ensure that the Fund maintains excellent benefits at an affordable cost.

Finally I look forward to the year ahead and to work with members of the Pension Committee to ensure that the Fund continues to fully meet the need of its members and pensioners.

Councillor Dudley Mead
Chairman of the Pension Committee

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 2007/2008.

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 14.

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 Pension Committee has 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.

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.

Membership 2007/2008

During the year the Scheme's total membership has grown from 15,818 to 16,506.
Changes in membership during the year were as follows:

Employees

Number at 31 March 2007		6,100
Add	Employees joining during year	821
		6,921
Less	Members leaving during year:	
	Normal retirements (including redundancies etc)	129
	Ill-health retirements	13
	Deaths in service	4
	Refunds of contributions	26
	Deferred pensions	382
		554
Number at 31 March 2008		6,367

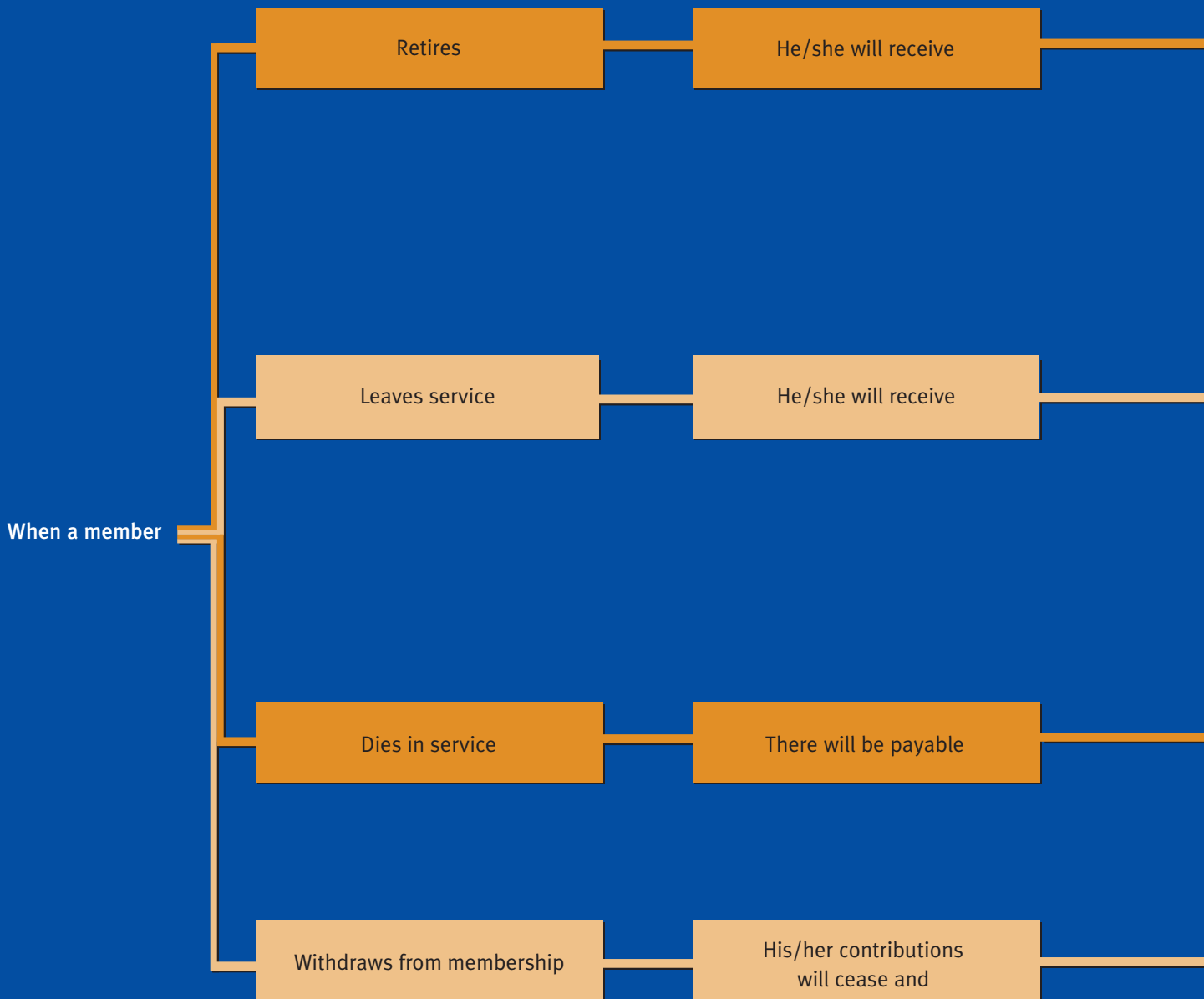
Pensioners

Number at 31 March 2007		5,365
Add	New pensioners during year:	
	Normal retirements (including redundancies etc)	142
	Ill-health retirements	
	Dependants' pensions	50
	Deferred pensions becoming payable	102
		294
		5,659
Less	Deaths/dependants ceasing to be eligible	145
Number at 31 March 2008		5,514

Deferred Pensioners

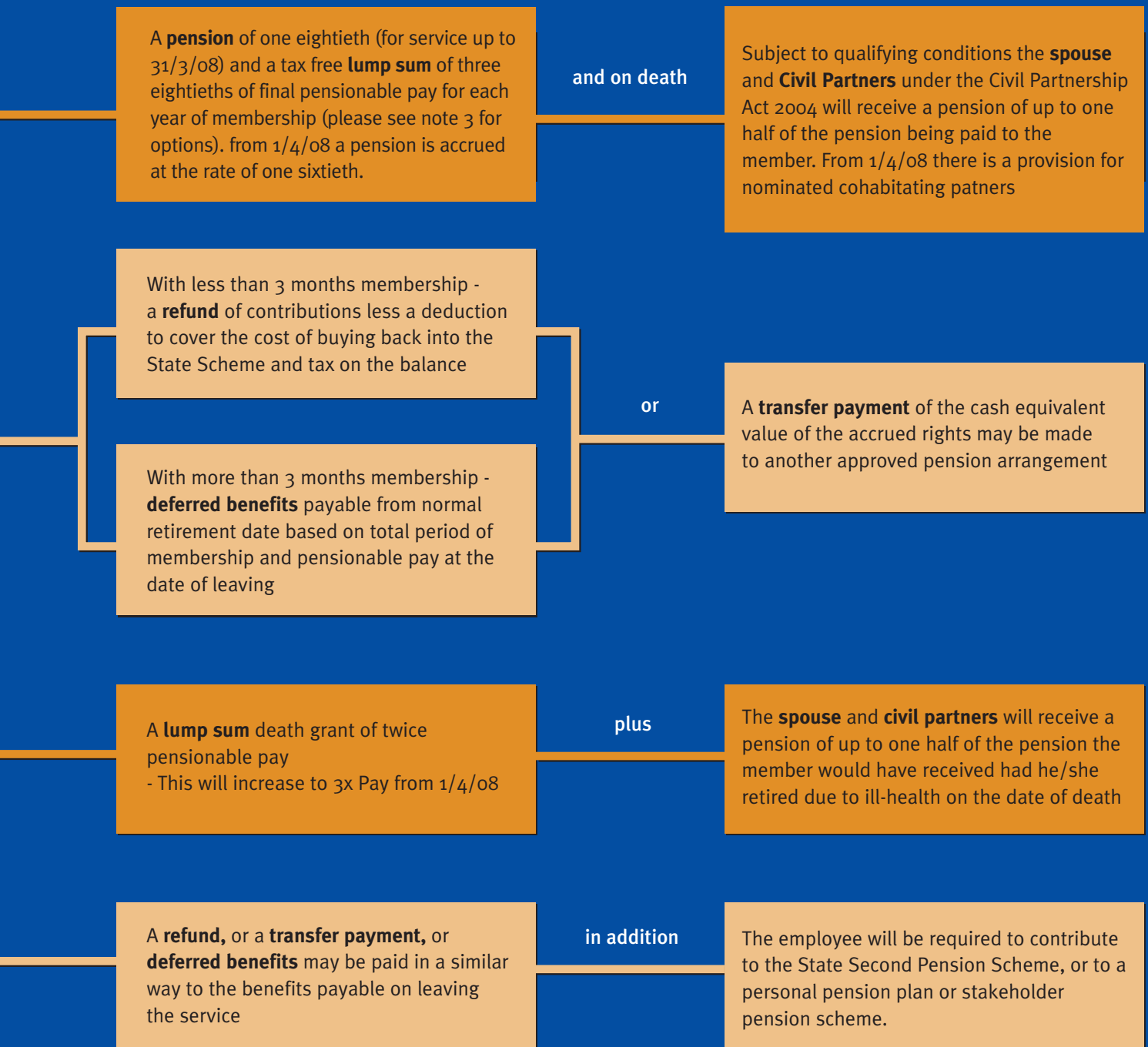
Number at 31 March 2007		4,353
Add	New deferred pensioners during year	382
		4,735
Less	Deferred benefits becoming payable	102
	Back to active status	6
	Deaths	2
		110
Number at 31 March 2008		4,625
Total Membership at 31 March 2008		16,506

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. **Exchanging part of your pension for extra lump sum** - If you draw your benefits on or after 6 April 2006 you will be able to commute up to 25% of the capital value of your pension benefits to receive a tax free lump sum. The current lump sum automatically paid on retirement roughly equates to 15% of the capital value. Any amount you take above the current lump sum would be achieved by exchanging part of your annual pension for a one off tax-free cash payment at a rate of £12 lump sum for each £1 of pension surrendered.



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

Enquiries from current scheme members - ☎ 020 760 5768 ext.62892

Pension payroll enquiries - ☎ 020 8666 9935

Written enquiries should be addressed to:

Croydon Pensions Team, 6 Floor, Taberner House, Park Lane, Croydon CR9 1JL

FAX: 0208 686 7405

E-MAIL: pensions@croydon.gov.uk

National Local Government Pension Scheme Web Site

The address is 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>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.

AVCs 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 Pension Committee, have drawn up this Statement of Investment Principles to comply with The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1998 as amended by the Local Government Pension Scheme (Management and Investment of Funds), 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 Statement has also been amended to reflect the Local Government Pension Scheme (Amendment) (No 2) Regulations (2005) to provide the statutory framework from which the administering authority is required to prepare a Governance Policy Statement (GPS). Accordingly, the GPS sets out the Fund’s governance arrangements, including representation and delegations. The Council has consulted suitably qualified persons and has obtained written advice from its investment consultant, Mercer Investment Consulting. Overall investment policy falls into two parts: -

- *The strategic management of the assets is the responsibility of the Pension Committee who delegate many of their functions to the officers and act on the 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, the Pension Committee has adopted the following objectives: -

- *Overall investment policy is to maximise the return on investments within the parameters of 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 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

During 2007/08 and the early part of 2008/09 the Pension Committee discussed and agreed that in order to have a more consistent level of return that is aligned with the Actuary’s 25 year recovery plan, the investment allocation strategy should be revised as shown in the table overleaf: -

Assets	Target Allocations	
	2008/9 %	2009/10 %
UK and Overseas Listed Equities	50	50
Bonds	30	30
Property	7	7
Funds and Hedge Funds	4	4
Private Equity	4	4
Active Global Equity Portfolio Investment	4	4
Cash	1	1
Total	100	100

The Pension Committee agreed to invest £40million in property of which £8million has been invested with Henderson Global Investor Limited in a UK property fund. This took place in April 2008.

In order for the Fund's exposure to pooled vehicles and unit trust schemes to be brought more in line with the new target allocation, the Pension Committee, having taken appropriate advice, has decided that the increased limits for units of shares of the investments, subject to the trusts of unit trust schemes managed by any one body, should be adopted. This is for an unlimited period of time, is consistent with the Fund's Investment Strategy and the increase complies with the Local Government Scheme (Management and Investment of Funds) (Amendment) Regulations 2003 and the Local Government Pension Scheme (Amendment) (No 2) Regulations 2005 and therefore the Pension Committee formally agreed the following: -

- All investments in units or other shares of the investment, subject to the trusts of unit trust schemes managed by one body, to a maximum of 35% (of the total fund value)
- All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by any one body to a maximum of 35% (of the total fund value)
- All investments in units or other shares of the investments, subject to the trusts of unit trust schemes, and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body, to a maximum of 35% (of the total fund value)
- Any single insurance contract to a maximum of 35% (of the total fund value)

Investment strategy will continue to be kept under constant review.

2.3 Risk

There are various risks to which any pension scheme is exposed. The Pension Committee has considered the following risks: -

- The primary risk is that arising through a mismatch between the Fund's assets and its liabilities.
- The risk of 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 the active investment managers underperforming their benchmarks

The potential risk concerning underperformance is relatively low given that the majority of the Fund's holdings are in passive tracker funds.

3. DAY TO DAY MANAGEMENT OF THE ASSETS

3.1 Main Assets

The Fund's asset allocation as at 31st March 2008 was as follows: -

Investment Manager	Investment Mandate	% of Fund
UBS Global Asset Management (UK) Limited	Passive UK Equities (segregated portfolio)	60.1
UBS Global Asset Management (UK) Limited	Passive UK Bonds (pooled portfolio)	4.9
UBS Global Asset Management (UK) Limited	Passive O'seas Equities (fixed weight, pooled funds)	26.9
Pantheon Ventures Limited	Private Overseas Equities (limited partnership)	2.5
Henderson Global Investors Limited *	Active Property Fund	0.9
In-house	Cash LIBID 7 day notice deposit account	4.1
Non Cash Current Assets	Not applicable	0.6
Total		100

* this was held in cash by the investment manager at 31st March 2008 and invested in a UK property fund in April 2008.

As at 31st March 2008 all equities (except those held with Pantheon Ventures Limited) were in passive funds thereby reducing the risk of investment manager underperformance. Assets are distributed with the aim of meeting the target allocation of the Fund as set out in paragraph 2.2 having regard to maximising investment returns and the day-to-day liquidity requirements of the Fund.

3.2 Asset Allocation Guidelines and Investment Performance Benchmarks

The main investment managers have been set the following benchmarks: -

Hermes Investment Management/ UBS Global Asset Management (UK) Limited

Asset	Weighting %	Benchmark	Traking Error
UK Equities- Passive	100	FTSE 350 Index	Plus or Minus 0.2%
UK Bonds – Passive	100	FTSE All Stock Gilt Index	Plus or Minus 0.05%

Following a decision by Hermes Investment Management to cease the management of its tracking service, the UK Bonds and FTSE 350 investments were transferred to UBS Global Asset Management (UK) Limited at the close of business on 31st October 2007.

UBS Global Asset Management (UK) Ltd

Asset	Weighting %	Benchmark	Traking Error
North America	34	FTSE AW USA Index	Plus or Minus 0.25%
Europe ex UK	34	FTSE Europe (ex UK) Index Developed Series Index	Plus or Minus 0.5%
Japan	14	FTSE AW Japan Index	Plus or Minus 0.25%
Pacific ex Japan	18	FTSE AW Pacific (ex Japan) Index Developed Series Index	Plus or Minus 0.5%

Pantheon Ventures Limited

Asset	Weighting %	Benchmark	Traking Error
Private Equity	100	To out-perform the All-Share Index in the long term	Not applicable

Henderson Global Investors Limited

Asset	Weighting %	Benchmark	Traking Error
UK Property Fund	100	Investment Property Databank (IPD) All Properties Index	Not applicable as funds invested directly in property

3.3 Fees

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

3.4 Monitoring the Investment Managers

Performance of the investment managers is measured by the World Markets (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 Pension Committee meetings on a regular basis. Mercer Investment Consulting and the Fund's independent investment adviser, Valentine Furniss, are retained to assist the Fund in fulfilling its responsibility for monitoring the investment managers.

The Pension Committee meets on a quarterly basis to review and monitor performance with the active investment managers attending when required; the officers and advisers also meet with the investment managers on a regular basis to review progress and performance.

3.5 Realisation of Investments

In general, the Fund's investment managers have discretion as to 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 for time to time. The Pension Committee decides, with the advice from its investment advisers, on how investments should be realised for cash.

3.6 Pension Committee Arrangements

As an administering pension authority, the Council discharges its duties in respect of maintaining the Pension Fund in the form of the Pension Committee. Its terms of reference are to deal with the management of the Fund, including matters relating to employee liability.

The Pension Committee is made up of six voting Members of the Council, two non-voting pensioner representatives and a non-voting employee representative. In addition, officers and the Fund's external advisers support the meetings. The Pension Committee is scheduled to meet on at least four occasions during the 2008/09 Municipal Year and formal minutes are taken and acted on accordingly.

Further ad-hoc meetings also take place to discuss various matters as they arise, in particular regarding asset allocation.

3.7 Additional Voluntary Contributions

Any members' additional voluntary contributions (AVC's) are held in various separate investments administered by Prudential Assurance Company Limited. The benefits arising from these contributions are additional to, and do not form part of, the benefits due under the Local Government Pension Scheme. They are therefore not required to be included in the Pension Fund Accounts in accordance with the Statement of Recommended Practice - Financial Reports of Pension Schemes (issued in 2002). The Pension Fund Accounts and any details within the Annual Report therefore exclude amounts for AVC's.

4. CUSTODY

For the additional security of the invested assets, the Fund employs The Bank of New York Mellon 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's Pension Fund recognises the need for a policy of socially responsible investment which is taken into account, where appropriate, when the Fund revises its investment holdings to take account of the new asset allocation as detailed in paragraph 2.2 above.

The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF), whose major aim is to inform LAPFF members of corporate governance issues within the companies that each LAPFF member might invest and so develop recommended common voting strategies on such matters as:-

- Board structures
- Remuneration
- Shareholder rights
- Separation of audit and non-audit work
- Environmental issues (particularly regarding sustainability and greenhouse gas emissions)

LAPFF also uses its influence to engage with and, where necessary, challenge companies on corporate governance matters.

It is the view of officers and the advisers that this is an extremely cost effective way of fulfilling part of our commitment to "activism" which is one of the ten principles outlined in the "Statement of Compliance – Myners' Investment Principles" which are fully described in a separate section in the Annual Report.

Allied to shareholder activism is the need to ensure that the Fund has a comprehensive voting policy which reflects the socially responsible investment issues supported by the Pension Committee. To this end the Pension Committee uses Pension Investment Research Consultants Limited (PIRC) to vote on the Fund's behalf in respect of the FTSE 350 holdings according to PIRC voting guidelines. It is the view of officers that membership of PIRC has resulted in the Croydon Council Pension Fund's voting policy being probably one of the most comprehensive of all the Local Authority Pension Funds in the country.

The Council's Pension Fund has determined that dialogue (through LAPFF) and a proactive engagement (through PIRC) is the most effective way of influencing companies in relation to social, environmental and business policies whilst at the same time achieving financial returns compatible with the Fund's longer term financial objectives.

The Council's Pension Fund requires the investment managers to vote on shares attached to their holdings whenever possible. Guidance as to voting policy, which reflects the latest approach to corporate governance issues, is given to the managers. This is reviewed on a regular basis.

6. EXPECTED RETURN ON INVESTMENTS

During 2007/08 and the early part of 2008/09 the Pension Committee discussed and agreed that in order to have a more consistent level of return that is aligned with the Actuary's 25 year recovery plan, the investment allocation strategy should be revised as shown in the table in paragraph 2.2 of this statement. The asset allocation of the Fund will, however, be kept under constant review and may be changed from time to time. Any major changes will be reflected in an updated version of this statement.

7. PRINCIPLES FOR INVESTMENT DECISION-MAKING

The Annual Report under a section titled "Statement of Compliance – Myners' Investment Principles" details the extent of the Fund's compliance with the ten Myners' principles for investment decision making.

Within these principles the term "Trustee" is used from time to time. When considering advice and determining investment policy, the Pension 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's Pension Fund will monitor compliance with this statement annually.

9. REVIEW OF THIS STATEMENT

The Council's Pension Fund 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 the Pension Committee judges to have a bearing on the stated investment policy.

This review will occur no less frequently than every three years to coincide with the Fund's full triennial actuarial valuation. Any such review will be based on written expert 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.	All investment decisions are taken either by the Pension Committee, which is responsible for the ‘Management of the Council’s Pension Fund’, or by the Executive Director Resources and Customer Services under his delegated powers. In addition to the Executive Director of Resources and Customer Services, the Pension Committee is advised by experienced Council officers and external advisers (one being appointed by Mercer Investment Consulting and an independent advisor, Valentine Furniss). All voting members of the Pension Committee are experienced Councillors with a wide range of expertise including investment and accountancy. In addition to the Councillors, the Pension Committee includes representatives of the staff and pensioners. Collectively, the Pension Committee has all the skills necessary to properly carry out their investment responsibilities.	Training will continue to be offered to all members of the Pension Committee. Training requirements will be assessed during the year.
				Councillors, officers and advisers are given training opportunities, to ensure that their expertise remains up to date. Several members of the Pension Committee have attended specific training seminars..	
✓			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.	Cash is managed in-house. All the other assets of the fund are managed by external specialist managers and current staffing levels are sufficient in number and qualifications to support the Pension Committee in their investment responsibilities. The voting members of the Pension Committee are in receipt of agreed allowances for Councillors.	
✓			It is good practice for trustee boards to have an investment Pension Committee to provide appropriate focus.	The London Borough of Croydon has appointed a Pension Committee whose terms of reference are the “Management of the Council’s Pension Fund”. Whilst considering some benefits and administration issues, the Pension Committee spends almost all its time considering investment matters.	
				The Pension Committee meets 4 times per year (plus any additional times when required) and the structure and processes are appropriate for carrying out their role effectively.	

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 Pension Committee are experienced Councillors with a wide range of expertise including investment, accountancy, actuarial and administration of benefits. Collectively, the Pension Committee has all the skills necessary to carry out their investment responsibilities properly with training.	
✓			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 Fund. 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).	
✓			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.	
✓			Takes account of their attitude to risk, specifically their willingness to accept under performance due to market conditions.	See sections 2 and 3 of the SIP.	
✓			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 Pension 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	<p>During 2007/08 and the early part of 2008/09 the Pension Committee discussed and agreed that in order to have a more consistent level of return that is aligned with the Actuary's 25 year recovery plan, the investment allocation strategy should be revised as below: -</p> <table border="0"> <tr> <td>Asset Category</td> <td style="text-align: right;">%</td> </tr> <tr> <td>UK & Overseas Listed Equities</td> <td style="text-align: right;">50</td> </tr> <tr> <td>Bonds</td> <td style="text-align: right;">30</td> </tr> <tr> <td>Property</td> <td style="text-align: right;">7</td> </tr> <tr> <td>Fund of Hedge Funds</td> <td style="text-align: right;">4</td> </tr> <tr> <td>Private Equity</td> <td style="text-align: right;">4</td> </tr> <tr> <td>Active Global Equity Portfolio</td> <td style="text-align: right;">4</td> </tr> <tr> <td>Cash</td> <td style="text-align: right;">1</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">100</td> </tr> </table>	Asset Category	%	UK & Overseas Listed Equities	50	Bonds	30	Property	7	Fund of Hedge Funds	4	Private Equity	4	Active Global Equity Portfolio	4	Cash	1	Total	100	<p>Continue to consider and review asset allocation policy.</p> <p>The review of all asset types will continue.</p>
Asset Category	%																						
UK & Overseas Listed Equities	50																						
Bonds	30																						
Property	7																						
Fund of Hedge Funds	4																						
Private Equity	4																						
Active Global Equity Portfolio	4																						
Cash	1																						
Total	100																						

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 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.	Officers will regularly monitor investment adviser fee levels to ensure that they are paid at market rates.
✓			The Fund should be prepared to pay sufficient fees for each service to attract a broad range of kinds of potential providers.	<p>The services are now provided by two totally separate specialist teams of Mercer Limited – 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 interest from all the major actuarial/investment practices and to ensure that a high quality service continues to be provided.</p> <p>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.</p>	

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: -	Guidelines within the investment management agreements 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.	The Fund is currently considering increasing the proportion of the Fund's investments in active managed funds and, as part of that review, will ensure that the active investment managers' performance is regularly monitored at each quarterly meeting of the Pension Committee.
✓			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 on active portfolios 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 may be used where the instrument is permitted by government regulations and on the advice of the Fund's investment advisers.	
✓			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 Global Asset Management (UK) Limited (UBS) and Hermes Investment Management (Hermes) have provided Level One disclosures (a statement of transaction practices). UBS and Hermes also provide Level Two disclosures (client specific data). Since 31st October 2007, following a decision by Hermes to cease the management of its tracking service, the UK Bonds and FTSE 350 investments were transferred to UBS. No "soft commissions" are paid.	
✓			Trustees should not without good reason permit "soft commissions" to be paid in respect of their Fund's transactions.	No "soft commissions" are paid.	The Council's voting policy will continue to be reviewed to ensure that current developments in corporate governance are considered.

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 Pension 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 and UBS 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 Council's policy on Social Responsible investment is identified in paragraph 5 of the SIP. The 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 private equity funds and the UK property fund. The agreed benchmarks are stated in Section 3 of the Statement of Investment Principles	The Fund's investment strategy has recently been reviewed and the Pension Committee will continue to implement the revised asset allocations (see the table under Principle 3) during 2008/09.

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 private equity funds and the UK property fund.</p>	<p>As part of the review of asset allocation, the Pension Committee is considering active management of a proportion of the UK and overseas equities which are currently passively managed. In addition, there are plans to further increase the active management of the Fund by increasing the investment in the UK property fund and the introduction of an Active Global Equity Portfolio Investment.</p>

Principle 8 – Performance Measurement

Compliance			Principle	How the Principle is Met	Plans to meet the Principle in the future
Full	Part	No			
	✓		<p>Trustees should arrange for measurement of the performance of the Fund and make formal assessment of their own procedures and decisions as trustees.</p>	<p>The Fund's managers provide full reports on performance on a quarterly basis. The investment managers' performance and the Fund's overall performance are measured quarterly and annually by the World Markets (WM) Company and reported on a quarterly basis to the Pension Committee.</p>	<p>A further review will be undertaken following the implementation of the revised assets allocation strategy.</p>
	✓		<p>They should also arrange for a formal assessment of performance and decision-making delegated to advisers and managers.</p>	<p>An assessment was formerly undertaken in 2004/05 and a detailed report was submitted to the Pension Committee.</p>	

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: - 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	Please see the Statement of Investment Principles.	The Fund'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. It is also available on the Council’s website.	

* “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 2007/08, local authority pension funds there was an average decline in value of 0.7%. This was below CPI inflation and average earnings growth of 2.5% and 4.5% respectively.

2007/08 was a challenging year for equities in the major markets including returns of -7.8% in the UK, 2.8% in Europe, -15.4% in Japan and -4.8% in North America. Equity returns were significantly below the UK bonds positive return of 7.6%.

Strategy

The Pension Committee has reviewed its strategy for allocating the Pension Fund to various investment categories. The revised asset allocation strategy is intended to generate an investment return on the Fund in line with the requirements of the Actuary's 25-year recovery plan, but at a much lowered level of risk of volatility of returns. This strategy is set out in detail within the Statement of Investment Principles, above.

Performance

The Fund's performance is compared with the Council's own customised benchmarks. It is also compared to the average return from 88 local authority pension funds with a total Market Value of £123,212m.

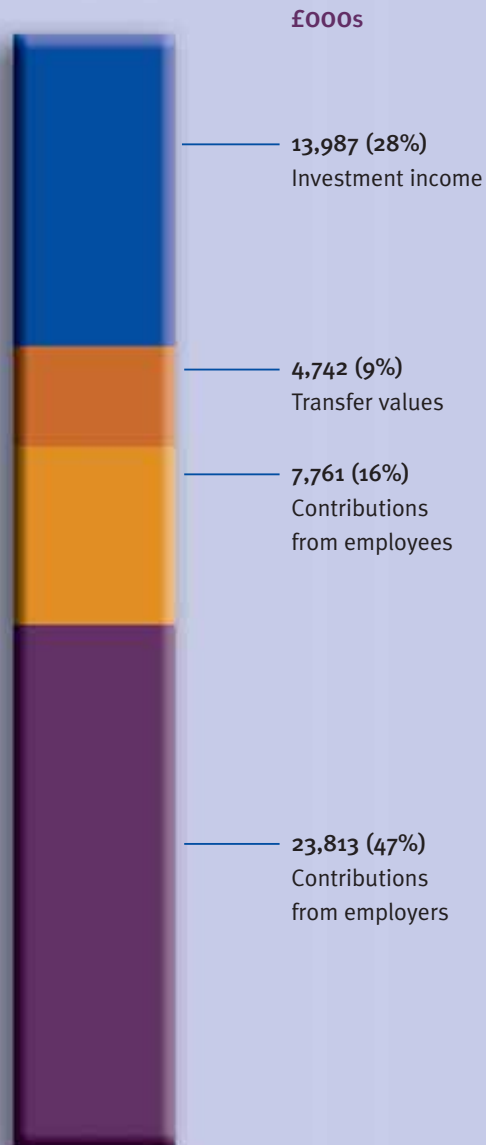
The negative return for local authorities as a whole of 0.7%, which compares with the negative return of the Council's Fund of 3.6%. This was due to the Croydon Pension Fund having a greater percentage of equity investments than the average local authority pension fund. In spite of this the Council's Fund was the second best performing fund in the country for the five years to 31st March 2008 due to the Croydon Pension Fund holding a higher percentage of the fund's assets in equities.

The significant fall in the value of equities in 2001 to 2003 and greater life expectancy of pensioners, together with improvement in benefits provided by the Local Government Pension Scheme (LGPS), had a major impact on the funding position of the Fund, such that the Actuarial Valuation as at 31st March 2004 showed that the funding level was 57%. However, since 2004, the funding position has improved considerably and the Actuarial Valuation as at 31st March 2007 showed that despite the continuing increase in longevity of pensioners and the improved benefits under the new look LGPS, the funding level had still increased to 68%.

Income and Expenditure

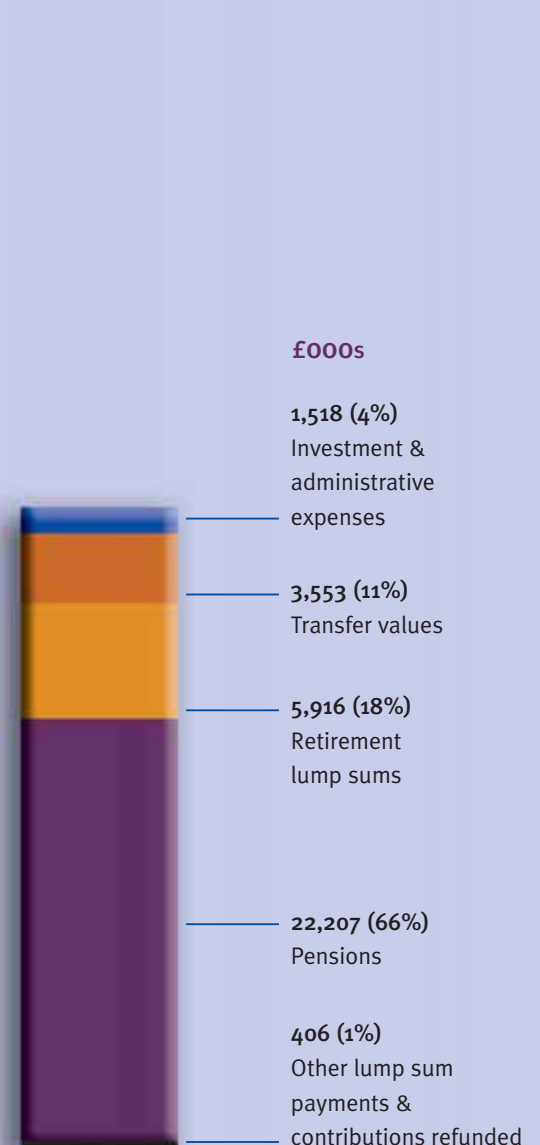
Income

Income during the year totalled **£50.3 m**



Expenditure

Expenditure during the year totalled **£33.6 m**



There was a net cash inflow during the year of £16.7m.

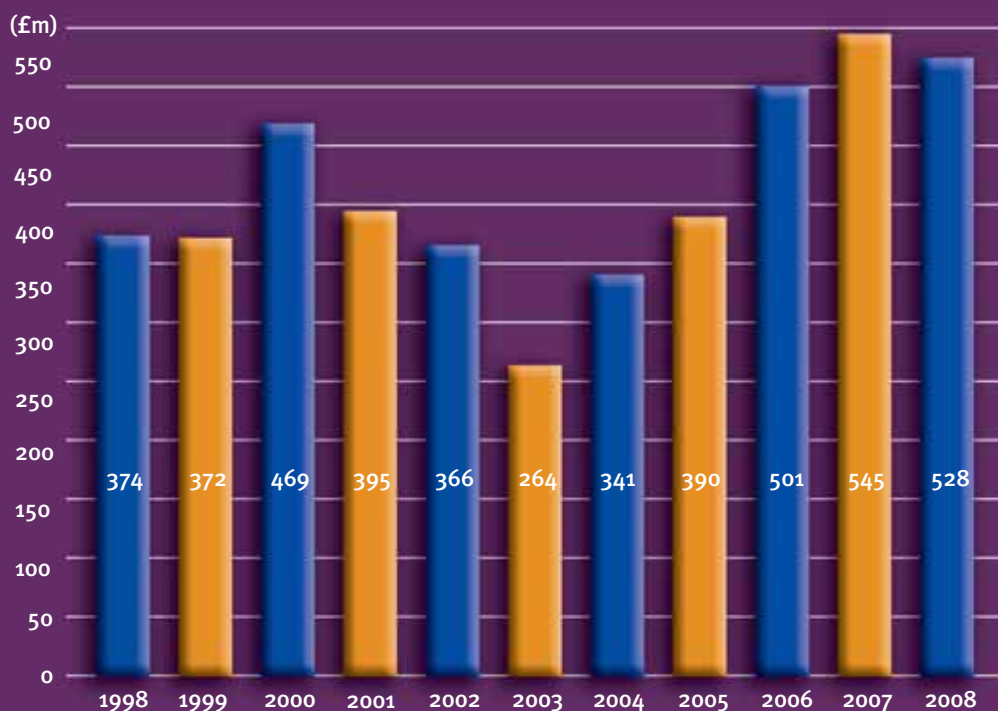
Employee and employer contributions to the Scheme during the year were:

- Employee contributions - 6% of contributory pay, although some employees retain the right to contribute at 5% of earnings;
- Employer contributions - 18.9% of contributory pay for the major employer.

Pensions are increased each April and are based on the movements in the RPI for the twelve months ending the previous September. For April 2007, this was 3.6%, and for the current year, it is 3.9%.

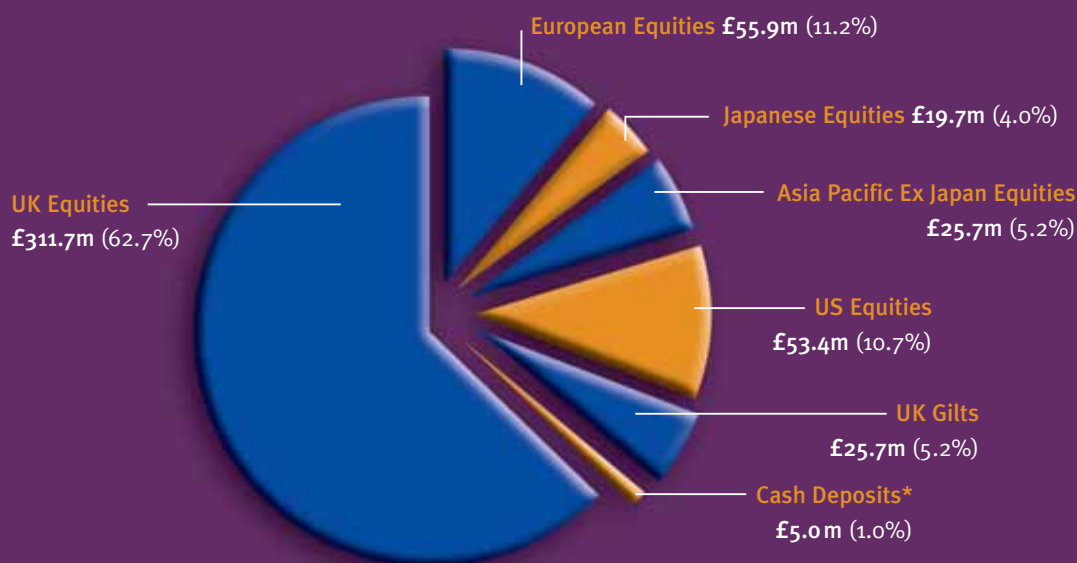
Movement of Fund

The net assets of the Fund at 31 March 2008 were **£528** million compared with **£374** million at 31 March 1998. The chart below shows the growth of the Fund's assets over the past ten years.



Investments

As at 31 March 2008 the market value of the equity and gilts investments held was **£497** million. An analysis of these investments is shown below:



	£m	%
Market Value of Investments	497.1	94.2
Add Net Current Assets	30.5	5.8
Net Assets	527.6	100.0

*Pending investment in UK property

Statistics 2007/2008

Fig 1.
Returns
2007/2008

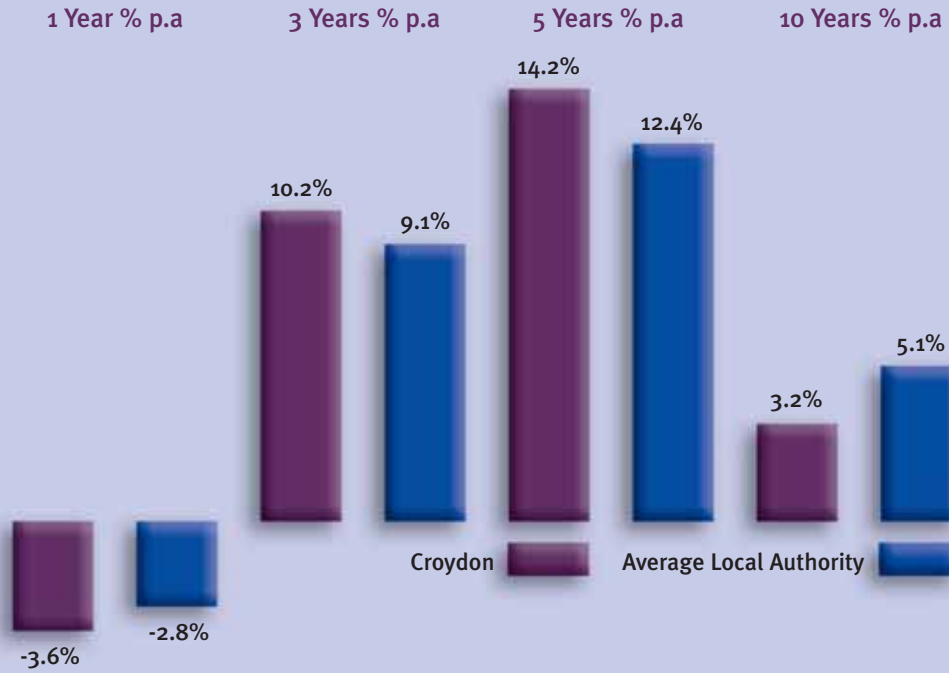


Fig 2.
Markets
2007/2008

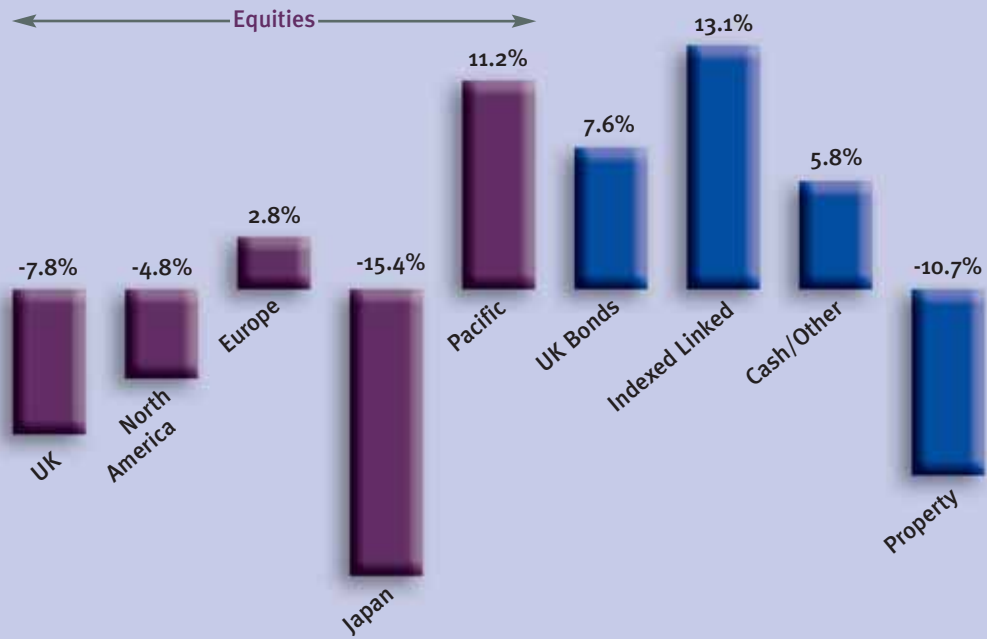
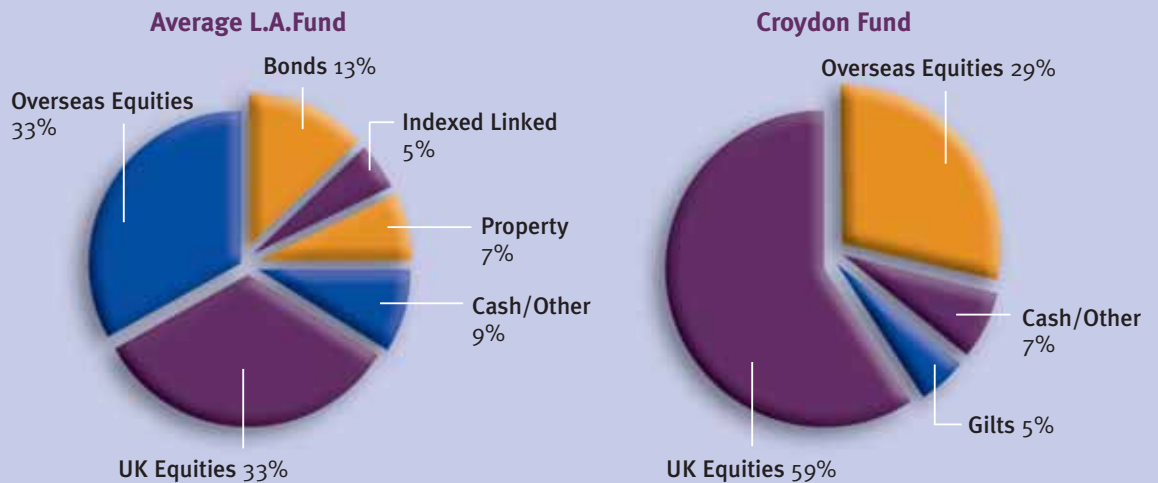


Fig 3.
Asset
Distribution



Data Source: WM Company/Annual Accounts

Top 25 UK Holdings

	Market Value at 31 March 2008	% of Total U.K. Equity Investment
	£'000	%
ROYAL DUTCH SHELL	21,730	7.0
HSBC HOLDINGS	19,538	6.3
BP	19,459	6.2
VODAFONE GROUP	15,791	5.1
GLAXOSMITHKLINE	11,781	3.8
RIO TINTO	10,403	3.3
ANGLO AMERICAN PLC	7,954	2.6
BG GROUP	7,906	2.5
ROYAL BANK OF SCOTLAND	6,856	2.2
BHP BILLITON	6,614	2.1
TESCO	5,909	1.9
BARCLAYS	5,863	1.9
BAT	5,661	1.8
ASTRAZENECA	5,438	1.7
DIAGEO	5,259	1.7
STRATA	5,080	1.6
LLOYDS TSB GROUP	5,017	1.6
STANDARD CHARTERED	4,760	1.5
UNILEVER	4,392	1.4
HBOS	4,261	1.4
RECKITT BENCKISER	4,047	1.3
NATIONAL GRID	3,462	1.1
BT GROUP	3,454	1.1
BAE SYSTEMS	3,349	1.1
PRUDENTIAL	3,323	1.1
	197,307	63.3

Fund Account

For the year ended 31 March 2008	2007/2008	2006/07
	£'000	£'000
Balance at 1 April at cost	371,559	345,640
Net income plus net realised gains for the year	27,948	25,920
Accumulated unrealised gains	128,112	173,093
Balance at 31 March at market value	527,619	544,653

Net Assets Statement

At 31 March 2008	2007/08	2006/07
	£'000	£'000
Investments		
UK gilts	25,680	23,899
UK equities	311,728	340,502
Overseas equities (including unquoted limited partnerships)	154,688	154,956
Cash deposits	5,000	–
	497,096	519,357
Current Assets		
Debtors	5,787	5,774
Bank balances	27,019	21,533
	32,806	27,307
Less Current Liabilities		
Creditors	2,283	2,011
Net current assets	30,523	25,296
Market value of Fund	527,619	544,653

A full set of the audited pension fund accounts are available on request from the Pensions and Treasury Management Section at Croydon Council on 020 8760 5768 (extn 62892).

Changes to the Local Government Pension Scheme

Several changes were made to the Local Government Pension Scheme with effect from April 2006.

The Government has implemented changes to ensure that the scheme can remain affordable, whilst still providing a good level of pension benefits for current and future employees.

Tax rules that govern pension schemes have changed from 6 April 2006, allowing the Local Government Pension Scheme to relax many of the contribution and benefit limits that previously applied.

Phasing out the '85 year rule'

The Government's legal advice is that the '85 year rule' is in breach of Age Discrimination legislation which came into force on 1 October 2006. For this reason the 85-year rule has been removed, but only in respect of benefits you build up in the future. With effect from 1 October 2006, the present protections currently provide that:

- All members of the Scheme on 1 October will continue to accrue membership under rule of 85 terms until 31 March 2008
- If a qualifying member is 60 by 31 March 2016 and would have satisfied the rule of 85, no actuarial reduction will apply should he choose to retire at the age at which he satisfies the rule of 85
- If a qualifying member is 60, would have satisfied the rule of 85 between 1 April 2016 and 31 March 2020 and chooses to retire at the age at which he satisfies the rule of 85, an actuarial reduction will apply on a tapered basis, with effect from 1 April 2008.

Flexible retirement for employees from age 50

Flexible retirement is to be permitted subject to employer consent at or after age 50, linked to a reduction in hours or grade agreed by the employer. Pensions paid will generally be actuarially reduced.

Exchanging part of your pension for extra lump sum

Taking AVCs as cash

If you pay additional AVC's via the LGPS you may elect to take up to 100% of the accumulated fund as a tax free lump sum providing you draw it at the same time as your LGPS benefits. The total of your tax free cash cannot exceed 25% of the capital value of your benefits.

Removal of 15% limit on employee contributions

You are able to purchase extra years of membership in the Scheme by paying additional pension contributions. However, the number of extra years that can be purchased is limited to 6 $\frac{2}{3}$ rd years. From 1st April 08 added years will no longer be available, they will be replaced by Additional Regular Contributions (ARC) which will allow you to purchase blocks of £250 of pension pa. up to £5,000.

Other changes

- you can join the scheme and remain in the Scheme up to two days before your 75th birthday.
- if you defer drawing your pension beyond age 65, your pension benefits will be actuarially increased.
- children's pensions coming into payment after 5th April 2006 for non-incapacitated children who are continuing in full time education or training will have to cease by age 23.
- the ability to convert some or all of the tax free lump sum paid to you on retirement into additional taxable pension is removed.

Further details can be obtained from the Pensions and Treasury Management Section at Croydon Council.

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. The Pension Tracing Service

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

Telephone Number: 0845 600 2537

Website: www.pensionservice.gov.uk

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.

Queries relating to the Pension Fund investments can be made to:

Croydon Pensions Team, 6 floor, Taberner House, Park Lane, Croydon CR9 1JL

Fax: 0208 686 7405

E-mail: pensions@croydon.gov.uk

