LONDON BOROUGH OF RICHMOND UPON THAMES

PENSION FUND ANNUAL REPORT

2008/09

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FOREWORD

The Pension Fund

The Pension Fund is part of the Local Government Pension Scheme (LGPS), a statutory pension scheme available to employees within local government and certain other bodies. The LGPS is a national scheme with regulations set by the government, but is administered by local authorities that are responsible for the day to day running of the scheme, including the collection of pension contributions (from employers and employees), paying benefits and investing surplus of contributions. The term Pension Fund derives from the investment of contributions into the 'Fund' until needed.

The Council of the London Borough of Richmond Upon Thames (the Council) is an Administering Authority of the LGPS. It has delegated oversight and administration of the Pension Fund to the Pension Fund Committee.

The membership of the Council's Pension Fund is set out on page 61 in Note 3 to the Accounts.

Introduction to the Pension Fund Annual Report

This Pension Fund Annual Report (the Report) is published in accordance with statutory requirements and the content follows the prescribed format set out in LGPS Regulations.

The Report contains a number of formal policies and statements as required under the Regulations:

- Governance Compliance Statement
- Policy on Communication with Members
- Statement of Investment Principles
- Actuarial Statement on the Level of Funding
- Funding Strategy Statement

With the exception of the actuarial statement on the level of funding, these policies and statements have been reviewed during 2008/09 and the current versions are included in this Report. The changes have been minor, relating mainly to changes in the investment management arrangements during 2008/09, and consequential amendments to investment benchmarks etc.

Format of the Report

The Report is set out in four sections, dealing with:

- The Administration of the Fund
- Investment of the Fund
- Actuarial and Funding Statements
- The Fund's Accounts

Each of these sections starts with a brief introduction and commentary followed by the more formal statements and policies.

Feedback and Further Information

Copies of the Report

This Report is published on the Council's website and is circulated in hard copy to each of the employer organisations in the Fund. If you would like a hard copy of this Report please contact us via the details given at the end of this section.

Feedback

We continuously try to improve our communications with the public and welcome any comments or suggestions on this publication. Please send any comments to the address below.

Further Information

The Local Government Pension Scheme

The Council has published further information on the pension scheme (the LGPS) and this is explained on page 6 together with contact details.

The Pension Fund

If you want any further information on the Pension Fund please contact us via the details below.

Other Financial and Performance Publications by the Council

In addition to this Report the Council publishes a range of other reports covering finance and performance. A selection of the most popular publications can be found on the Council's website, and if you require hard copies of any of these or other publications please contact us using the links below.

Other formats

This Report and other Council publications are available in a variety of formats –see page 77 for details.

CONTACT DETAILS

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www.richmond.gov.uk

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INTRODUCTION BY CHAIR OF THE PENSION FUND COMMITTEE

2008/09 has been a year of significant change for the Pension Fund in both a local and a national context.

At scheme-wide level, the year started with the introduction of the revised LGPS from 1 April. These changes were anticipated in last year's Report and included a revised basis of accrual, tiered contribution rates, new ill-heath regulations and the abolition of the “rule of 85”. They were designed to deliver long-term cost savings and ensure the continued financial viability of the scheme, whilst permitting some enhancements such as partners' pensions and increased death benefits. However, only a matter of weeks after the close of the “new” scheme's first year, a ministerial speech at the NAPF Local Authority Conference opened a debate about further, potentially more far reaching change to the LGPS in the light of rapidly transformed public finances. Whilst this initiative has yet to produce much that is tangible, it is clear that further reform is in the offing.

At a local level, in May 2008 the former Investment Committee became the Pension Fund Committee, and took on a considerably wider remit including, most significantly, oversight of the Pension Fund Accounts. This reflected the governance changes within the LGPS that ran in parallel to the "2008 reforms”. The first full cycle of these governance changes concludes, effectively, with the publication of this Annual Report.

On the investment side, the period covered by this Report was one of almost unprecedented market turmoil against an equally unprecedented macroeconomic background. This inevitably meant a very disappointing year in absolute terms for the vast majority of institutional investors. A small but nonetheless significant compensation for this Fund was that the transition of the remaining fully active investment mandate into passive (again discussed in prospect in last year's Report) managed in December 2008 to capture a substantial amount of relative gain against index returns, leaving the total fund over 3% ahead of benchmark for the year ending 31 March 2009. Since the transition, the results of the incumbent fund managers have been encouraging relative to their objectives, and real savings in management costs have been secured. Despite the recent market recovery, however, funding conditions going into next year's tri-ennial valuation remain challenging, and are the subject of ongoing consideration by the Department of Communities and Local Government (CLG) at this point.

Cllr Christine Percival
Chair, Pension Fund Committee

ADMINISTRATION OF THE PENSION FUND

Introduction

The Council as the Administering Authority is responsible for collecting pension contributions from both employers and employees within the Pension Fund and paying benefits due to scheme members.

Contributions from members are determined by LGPS Regulations and are on the same basis for all members in the LGPS. The contributions made by employer organisations are determined by actuarial valuations that are separately assessed for each Pension Fund. This is explained in the introduction to the section of this Report on Actuarial Statements.

Benefits for pension scheme members are largely determined by LGPS regulations although there are some discretionary elements that can be determined by the Administering Authority.

As contributions are paid into the Fund during the period of each member's service and benefits paid out after service has finished, the Fund accumulates a surplus of contributions that are invested until required. Further information on this aspect of the Fund's administration is provided in the introduction to the section of this Report on Investments.

This section of the Report deals with the administration of the Fund in respect of its dealings with Fund members and employers (through collecting contributions and paying benefits) and overall governance arrangements of the Administering Authority.

Pensions' Team

The Pensions team is responsible for collecting contributions and paying benefits. It is part of the Council's Finance and Corporate Services directorate and is integrated within the Payroll and Pensions section. During 2008/09 staffing of the service was 4 full time equivalent staff dealing with over 9,500 individual Fund members and 23 employer organisations. Details of the membership of the Fund are shown on page 61 in the section on the Fund's Accounts.

The Pensions team can be contacted in the following ways:

In writing:	Jacquie Hyde Principal Pensions Officer Civic Centre 44 York Street Twickenham TW1 3BZ
By Fax:	020 8891 7722
By email:	pensions@richmond.gov.uk
By Telephone	020 8891 7262

A number of publications explaining the LGPS and its benefits are available from the Pensions team and included in the section of the Report on Communications Policy Statement. The service also holds an annual Employers Forum to discuss scheme issues and administrative arrangements with employers. Employer 'Roadshows' that are open to employees are also held by arrangement with individual employers.

Service Administration – performance management

The Pensions team, in common with all other sections within the Council, has its own formal management arrangements that include the setting and monitoring of performance targets. For the 2008/09 year there were 45 challenging performance targets set, against which over 4,500 individual activities were measured. Overall 80% of individual activities were completed within the target timescale.

As part of our service improvement we introduced a comprehensive Administration Strategy during 2008 that will formally set out detailed performance standards for both the Administering Authority and employers in the Fund. The full Strategy is included in the next section of this Report. As the strategy was introduced in the final quarter of 2008/09, no formal monitoring was undertaken during that year.

Governance

The Administering Authority for the Pension Fund is the Council of the London Borough of Richmond Upon Thames. The Council has delegated its responsibilities for the Pension Fund to the Pension Fund Committee. The Committee's principal business is:

- considering and responding to proposals to amend the design of the LGPS;
- determining policy on the admission of external bodies to the Pension Fund;
- determining the long-term investment strategy of the Fund and keeping this under review at appropriate intervals;
- implementing this strategy through deciding on, and keeping under review, appropriate arrangements for investment management, appointing managers and monitoring their performance;
- appointing the Fund's actuary, external investment advisor and any other providers of services to the Pension Fund;
- receiving and commenting upon the tri-ennial valuation of the Pension Fund prepared by the actuary;
- determining the Pension Fund's communications strategy and policies toward corporate governance and responsible investment;
- approving all documents required to be published by the Fund on a statutory basis, including the Pension Fund Annual Report, Statement of Investment Principles, Funding Strategy Statement, Governance Compliance Statement and Communications Policy Statement;
- approving the Pension Fund accounts, and dealing with all aspects relating to the audit of the Pension Fund, including receiving any reports by the Fund's independent auditor.

Details of the Fund's governance arrangements are set out in the following part of the Report (the formal Governance Compliance Statement) along with a statement of compliance with guidance issued by the Secretary of State.

Communications

The final part of the Administration section of the Report sets out the formal Communications Policy Statement, Statements of Policy Concerning Communications with Members and Employing Authorities (including Non-Scheme Employers), that provides details of how the Fund communicates with its members and employing authorities.

Pension Administration Strategy Statement

1. The Council's responsibilities for communications to employers and members:

	Method of liaison or communication	Media	Frequency of issue	Method of distribution	Audience group
1	Employer "Provision of Information" guide	Paper based only	At joining Fund and updated as necessary	Post or via email	Main contact for all employers
2	Member newsletters	Paper based, and then posted on Council's Pension web site	4 are issued each year to active members 1 is issued each year to deferred members Currently none are issued specifically to pensioner members	Post	All active and deferred members (as appropriate) direct by the Fund
3	Employer newsletters	Paper based	No specific newsletters are issued to employers, although they are provided with copies of all information issued by both CLG and the Local Government Employers in relation to the LGPS	Post and email	All contacts for all employers
4	Annual employer meeting	Face to face	Annually	Invitations by e-mail	All contacts for all employers
5	Employer liaison meetings/meetings to discuss performance of scheme employer	Face to face	These are held informally, as and when the need arises	Arranged by e-mail or telephone	Either main contacts or specific groups (e.g. HR or payroll) depending on topics
6	Pension Fund Report and Accounts	Paper based and employer website	Annually	Post	Main contact for all employers
7	Summary Pension Fund Report and Accounts	Paper based and employer website	Annually	Post	All active, deferred and pensioner members direct by the Fund
8	Pension Fund valuation report	Pdf	On completion of triennial valuation exercise	By e-mail	Chief finance officer and/or main contact
9	Meeting with adviser	Face to face	On request	Invite sent by post or email	Senior management involved in funding and HR issues

2. Performance levels: Council as the administering authority

	Function / Task	Performance target
	LIAISON AND COMMUNICATION	
10	Publish and keep under review the London Borough of Richmond Pension Fund administration strategy	Within three months of decision to develop an administration strategy or one month of any changes being agreed with scheme employers
11	Issue and keep up to date the Provision of Information pamphlet	30 working days from admission of new employer or date of change/amendment
12	Issue and keep up to date scheme guide and all other literature for issue to scheme members	30 working days from admission of new employer or date of change/amendment
13	Issue and keep up to date all forms required for completion by either scheme members, prospective scheme members or scheme employers	30 working days from admission of new employer or date of change/amendment
14	Formulate and publish policies in relation to all areas where the Administering Authority may exercise a discretion within the scheme	Within 30 working days of policy being agreed by the Pension Fund Committee
15	Host employer forum	Annually (usually during January each year)
16	Attend meetings with scheme employers	As and when required, following agreement with individual scheme employers
17	Organise training sessions for scheme employers	Upon request from scheme employers, or as required
18	Notify scheme employers and scheme members of changes to the scheme rules	Within one month of the change(s) coming into effect
19	Notify scheme employer (including the Council in its role as a scheme employer) of issues relating to scheme employer's poor performance (including arranging meeting if required)	Within 5 working days of performance issue becoming apparent
20	Notify scheme employer (including the Council in its role as a scheme employer) of decision to recover additional costs associated with the scheme employer's poor performance (including any interest that may be due)	Within 10 working days of scheme employer failure to improve performance, as agreed
21	Issue annual benefit statements to active members as at 31 March each year	By the following 31 January
22	Issue annual benefit statements to deferred benefit members as at 31 March each year	By the following 31 May
	FUND ADMINISTRATION	
23	Issue formal valuation results (including individual employer details)	10 working days from receipt of results from Fund actuary (but in any event no later than 31 March following the valuation date)
24	Publish, and keep under review, the Fund's governance policy statement	Within 30 working days of policy being agreed by the Pension Fund Committee
25	Publish and keep under review the Pension Fund's funding strategy statement	To be reviewed at each triennial valuation, following consultation with scheme employers and the Fund's actuary Revised statement to be issued with the final valuation report
26	Publish the Pension Fund Annual Report and any report from the auditor	By 31 December following the year end

	Function / Task	Performance target
	SCHEME ADMINISTRATION	
27	Maintain member records (inc. changes in hours or circumstances/death grant expression of wish notifications/co-habitee notifications)	6 working days of receipt of all necessary information
28	Make all necessary decisions in relation to a scheme member and issue combined statutory notification to new scheme member (including aggregation of previous LGPS membership)	5 working days of receipt of all necessary information
29	Provide responses to scheme members/scheme employers/personal representatives/dependents and other authorised persons	7 working days from receipt of enquiry
30	Provide transfer-in quote to scheme member	6 working days of receipt of request from scheme member
31	Confirm transfer-in payment and membership change to scheme member	7 working days of receipt of payment of transfer of value
32	Arrange for the transfer of scheme member additional voluntary contributions into in-house arrangement	10 working days of receipt of request from scheme member
33	Process all applications to pay arrears of pension contributions in relation to leave of absence (inc. maternity/paternity/adoption leave)	9 working days of receipt of all necessary information
34	Notify scheme employer of scheme member's election to pay additional regular contributions, including all required information to enable deductions to commence	6 working days of receipt of election from scheme member
35	Calculate cost of additional regular contributions, and notify scheme member	6 working days of receipt of request from scheme member
36	Re-determine benefits from additional regular contributions, following publication of revised GAD guidance from time to time	6 working days of receipt of revised GAD guidance
37	Notify scheme employer of request from scheme member to cease additional regular contribution, and notify scheme member of the amount of additional pension credited	6 working days of receipt of request from scheme member
38	Process scheme member request to pay/amend/cease additional voluntary contributions	6 working days of receipt of request from scheme member
39	Process all enquiries relating to pension sharing on divorce	5 working days of receipt of all necessary information
40	Provide requested estimates of benefits to employees / employers including any additional Fund costs in relation to early payment of benefits from ill health, flexible retirement, redundancy or business efficiency, including bulk exercise requests	6 working days from date of request
41	Notify leavers of deferred benefit entitlements	12 working days of receipt of all necessary information
42	Notify retiring employees of benefits (enclosing HMRC disclosure forms)	5 working days of receipt of all necessary information
43	Payment of retirement benefits (including any interest due as a result of the late payment of benefits)	Make payment of lump sum within 5 working days of retirement or such later date as all information enabling payment to be made is available Commence payment of annual pension on the next available payroll and thereafter on the 26th day of each month
44	Death notifications	7 working days following notification of death

	Function / Task	Performance target
45	Recovery of arrears of scheme member's contributions	Via issue of invoice to the scheme member, within 30 working days of notification of arrears by the scheme employer
46	Return of employee contributions (including less than 3 month opt-outs where contributions have been credited to the Pension Fund and the period covers two financial years)	6 working days following receipt of all necessary documentation
47	Payment of interest to scheme member where employee contributions have been deducted in error and payment has been credited to the Pension Fund	Within 6 working days of receipt of notification from the scheme employer
48	Appoint stage 2 "appointed person" for the purposes of the pension dispute process and notify all scheme employers of the appointment	Within 30 working days following the resignation of the current "appointed person"
49	Process all stage 2 pension dispute applications	Within two months of receipt of the application, or such longer time as is required to process the application where further information or clarification is required.
50	Publish and keep under review the London Borough of Richmond Pension Fund policy on the abatement of pension on re-employment	Notify scheme members and scheme employers within one month of any changes or revisions to the policy

3. Performance levels: All scheme employers

	Function / Task	Performance Target
	LIAISON AND COMMUNICATION	
51	Formulate and publish policies in relation to all areas where the employing authority may exercise a discretion within the scheme (including providing a copy of the policy decision(s) to the London Borough of Richmond Pension Fund	Formulate or amend policy within 2 months of discretion being introduced or amended Publish policy within 30 working days of policy being agreed by the appropriate Committee
52	Remit and provide schedule of employer/employee contributions	3rd calendar day of month after deduction
53	Respond to enquiries from Administering Authority	5 working days from receipt of enquiry
54	Provide year end information required by the London Borough of Richmond Pension Fund, in a format agreed with the London Borough of Richmond Pension Fund	By 30 April following the year end
55	Ensure payment of additional costs to the London Borough of Richmond Pension Fund associated with the poor performance of the scheme employer	Within 28 working days of receipt of invoice from the London Borough of Richmond Pension Fund
56	Distribute any information provided by the London Borough of Richmond Pension Fund to scheme members/potential scheme members	Carried out by the London Borough of Richmond Pension Fund on behalf of all scheme employers
57	Provide new/prospective scheme members with scheme information and new joiner forms	Carried out by the London Borough of Richmond Pension Fund on behalf of all scheme employers
	FUND ADMINISTRATION	
58	All new prospective admitted bodies to undertake, to the satisfaction of the London Borough of Richmond Pension Fund, a risk assessment of the level or bond required in order to protect other scheme employers participating in the Pension Fund	To be completed before the body can be admitted to the London Borough of Richmond Pension Fund

	Function / Task	Performance Target
59	All admitted bodies to undertake a review of the level of bond or indemnity required to protect the other scheme employers participating in the Fund	Annually, or such other period as may be agreed with the Administering Authority
60	Payment of additional Fund payments in relation to early payment of benefits from ill health, flexible retirement, redundancy or business efficiency retirement	Within 28 working days of receipt of invoice from the London Borough of Richmond Pension Fund
	SCHEME ADMINISTRATION	
61	Make all necessary decisions in relation to new scheme members in the LGPS (whether full or part time, pensionable pay, appropriate pay band, etc)	Carried out by the London Borough of Richmond Pension Fund on behalf of all scheme employers
62	Provide Administering Authority with scheme member details via paper notification/via electronic interface	To be included within monthly return remitted with monthly payment over of employee and employer pension contributions
63	Arrange for the correct deduction of employee contributions from a scheme members pensionable pay on becoming a scheme member	Immediately on joining the scheme, opting in or change in circumstances
64	Ensure correct employee contribution rate is applied (including the transitional arrangements for former “manual” staff)	Immediately upon commencing scheme membership, thereafter in line with employer policy and each April payroll
65	Ensure correct rate of employer contribution is applied	Immediately following confirmation from the Administering Authority of appropriate employer contribution rate
66	Arrange for reassessment of employee contribution rate in line with employer’s policy and notification of change in rate to employee	Review as per policy and notification within monthly return to the London Borough of Richmond Pension Fund
67	Ensure correct deduction of pension contributions during any period of child related leave, trade dispute or other forms of leave of absence from duty	Immediately, following receipt of election from scheme member to make the necessary pension contributions
68	Commence deduction of additional regular contributions or amend such deductions, as appropriate	Month following notification received from the London Borough of Richmond Pension Fund
69	Cease deduction of additional regular contributions	Immediately following receipt of notification from the London Borough of Richmond Pension Fund
70	Arrange for the deduction of AVCs and payment over of contributions to AVC provider(s)	Commence deduction of AVCs in month following the month of election/notification from the London Borough of Richmond Pension Fund Pay over contributions to the AVC provider(s) by the 19th of the month following the month of deduction
71	Refund any employee contributions deducted in error	Month following month of deduction or month notified of the deduction in error
72	Cease deduction of employee contributions where a scheme member opts to leave the scheme	Month following month of receipt of notification from the London Borough of Richmond Pension Fund, or such later date specified by the scheme member
73	Provide Administering Authority with details of all contractual changes to a scheme members hours and/or weeks via paper notification/via electronic interface	To be included within monthly return remitted with monthly payment over of employee and employer pension contributions

	Function / Task	Performance Target
74	Notify other material changes in employee's circumstances (e.g. marital or civil partnership status)	To be included within monthly return remitted with monthly payment over of employee and employer pension contributions
75	Leave of absence with permission (maternity / paternity / secondment / without pay etc. (communications with employee and confirmation to Pension Fund))	To be included within monthly return remitted with monthly payment over of employee and employer pension contributions
76	Determine reason for leaving and provide notification to Administering Authority of scheme leavers via paper notification/via electronic interface	To be included within monthly return remitted with monthly payment over of employee and employer pension contributions
77	Determine reason for retirement and provide notification to Administering Authority of retiree via paper notification/via electronic interface	Notify the London Borough of Richmond Pension Fund immediately at point of resignation/notice given by employer
78	Accurately assess final pay for each scheme member who leaves/retire/dies and forward to the London Borough of Richmond Pension Fund	Carried out by the London Borough of Richmond Pension Fund on behalf of all scheme employers
79	Notification to the London Borough of Richmond Pension Fund of death of scheme member via paper notification/via electronic interface	Immediately on being notified of the death
80	Appoint an independent medical practitioner qualified in occupational health medicine, in order to consider all ill health retirement applications and agree appointment with the London Borough of Richmond Pension Fund	Within one month of commencing participation in the scheme or date of resignation of existing medical adviser, although employers currently make use of medical advisor used by the London Borough of Richmond Pension Fund
81	Appoint person for stage 1 of the pension dispute process and provide full details to the Administering Authority	Within 30 working days following the resignation of the current "appointed person", although employers currently make use of the stage 1 person used by the London Borough of Richmond Pension Fund

GOVERNANCE COMPLIANCE STATEMENT

INTRODUCTION

The LGPS Regulations require the preparation of a Governance Compliance Statement, its regular review and publication in the Pension Fund's Annual Report. The Statement must set out how the Council makes arrangements for the delegation of its functions and demonstrate compliance with formal guidance on this matter and, where appropriate, reasons for non-compliance.

GOVERNANCE ARRANGEMENTS

1.1 The London Borough of Richmond upon Thames (the Council) is an Administering Authority of the Local Government Pension Scheme (LGPS) as defined by Schedule 2 to Regulation 4.3 of the Local Government Pension Scheme Regulations 1997 (SI 1997 No 1612).

1.2 Functions relating to local government pensions are defined as "non-executive" functions by Schedule 1 to Regulation 2.1 of the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 (SI 2000 No 2853).

1.3 Full details of the Council's democratic structure and procedures, including the Council's Constitution, which sets out how the Council operates and how decisions are made, can be accessed at the Council's website http://www.richmond.gov.uk. The Constitution itself can be accessed directly at:-

http://www.richmond.gov.uk/home/council_government_and_democracy/council/decision_making_council/council_constitution.htm.

1.4 The Council delegates to the Pension Fund Committee overall responsibility for all functions relating to local government pensions. These responsibilities include (but are not limited to):-

(i) commenting on proposals to amend the design of the LGPS;

(ii) determining policy on the admission of external bodies to the Pension Fund;

(iii) determining the long-term investment strategy of the Pension Fund;

(iv) implementing the long-term investment strategy of the Pension Fund (to include determining an appropriate Fund management structure, appointing managers and monitoring their performance);

(v) appointing the actuary, external investment advisor and other providers of services to the Pension Fund;

(vi) receiving and commenting upon the tri-ennial valuation of the Pension Fund prepared by the actuary;

(vii) approving all documents required to be published by the Fund on a statutory basis, including the Pension Fund Annual Report, Statement of Investment Principles, Funding Strategy Statement, Governance Compliance Statement and Communications Policy Statement;

(viii) determining the Pension Fund's communications strategy and policies toward corporate governance and responsible investment; and,

(ix) approving the Pension Fund accounts, receiving the separate Auditors' Governance report for the pension Fund and approving the Audit Plan and fees.

1.5 The Director of Finance & Corporate Services (and also on his behalf the Pensions Manager) is authorised to interpret and implement the statutory provisions within the Local Government Pension Scheme Regulations. Further information on the operation of the Regulations can be accessed by users of the Council's intranet at:

http://rio/home/our_organisation/directorates/finance_and_corporate_services/payroll_and_pensions.htm

Or from the Council's website (follow the external link to the LGPS):

http://www.richmond.gov.uk/home/council_government_and_democracy/council/council_tax_and_finance/payroll_pensions_introduction.htm

1.6 Within the policies set by the Pension Fund Committee, the Director of Finance and Corporate Services is also authorised to arrange and oversee the investment of the Pension Fund.

1.7 The Pension Fund Committee is appointed by the Council at its Annual Meeting.

1.8 The Committee consists of 5 elected members of the Council and a Staff Observer appointed by the Staff Side Committee (representing the principal Trades Unions recognised by the Council). The quorum of the Committee is 3 elected members. The Committee does not include any representatives of scheme employers other than the Administering Authority.

1.9 Decisions of the Committee are taken by reference to a simple majority of votes cast by elected members present, to be decided if necessary by a Chairman's casting vote. The Staff Observer is not permitted to vote on Committee decisions. Full details of procedural matters relating to the operation of the Committee are set out in the applicable provisions of the Council Procedure Rules (within Part 4 of the Council's Constitution).

1.10 The Committee meets a minimum of 4 times a year.

COMPLIANCE WITH GUIDANCE ISSUED BY THE SECRETARY OF STATE

In this section the formal guidance is shown in italics followed by a table showing the degree of compliance (measured in five steps from not compliant to fully compliant) and explanations for non-compliance where appropriate.

Principles

<u>*A. Structure*</u>

(a) The management of the administration of benefits and strategic management of Fund assets clearly rests with the main committee established by the appointing Council.

(b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.

(c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.

(d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.

	Not Compliant				Fully Compliant
(a)					✓
(b)			✓		
(c)	N/A				
(d)	N/A				

Partial non-compliance indicated in respect of (b) reflects the position that only one representative of the constituent groups referred to (the Staff Observer representing member interests, and appointed by the Staff Side Committee of the Administering Authority) is currently appointed to the main Pension Fund Committee. See comments relating to Principle B. (a), below, for further information.

The above statement refers to representation other than that of elected members of the Administering Authority.

B. Representation

(a) *That all key stakeholders are afforded the opportunity to be represented within them main or secondary committee structure. These include:-*
- (i) *employing authorities (including non-scheme employers, e.g. admitted bodies);*
- (ii) *scheme members (including deferred and pensioner scheme members);*
- (iii) *independent professional observers, and*
- (iv) *expert advisors (on an ad-hoc basis).*

(b) *That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings and training and are given full opportunity to contribute to the decision-making process, with or without voting rights.*

	Not Compliant				Fully Compliant
(a)	✓				
(b)					✓

Excluding elected members of the Administering Authority, only stakeholder group (ii), of those listed above, is currently represented on the main Pension Fund Committee (as formally constituted), although every Committee meeting is attended by at least one representative of the Administrating Authority's appointed actuaries and investment consultants, Hymans Robertson. The Administering Authority has not to date considered it necessary or appropriate to extend representation on the main Pension Fund Committee beyond this level, taking account of (a) the requirement to maintain a responsive and concise governance structure that is representative of and proportionate to respective employer interests and (b) the fact that as the majority employer in the Fund (representing around 85% of overall members on a numerical basis), it has the greatest interest in the efficient management of all matters relating to the administration of the Pension Fund, and one that is generally consistent with the interests of other scheme employers. This policy also reflects the fact that it is the Council itself, and local council tax payers, who are the final guarantors of the scheme (and, more specifically, the guarantors of benefits accrued by scheme members from all employer bodies).

The Administering Authority is currently seeking to extend consultation on Pension Fund matters with scheme employers by a variety of means (see comments relating to Principle F. (c), below). Representatives of all scheme employers (and other stakeholder groups) are permitted to attend and participate in Pension Fund Committee meetings under the rules governing public attendance at Council meetings.

C. Selection and role of lay members

(a) *That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.*

(b) *That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.*

	Not Compliant			Fully Compliant	
(a)					✓
(b)					✓

N/A

Members of the Pension Fund Committee are made aware of the role and function of the Committee set out in the main body of the governance statement, above. Members of the Pension Fund Committee will forthwith be formally invited to declare any relevant financial or pecuniary interests relating to specific matters on the agenda at the start of any meeting.

D. Voting

(a) *The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.*

	Not Compliant			Fully Compliant	
(a)					✓

N/A

The Staff Observer is not permitted to vote on Pension Fund Committee matters decided by this means. This policy again reflects the fact that it is the Council itself, and local council tax payers, who are the final guarantors of the scheme, and that to date employees contributions to the LGPS have been fixed on a national basis. This policy may be reviewed in the light of any changes to scheme regulations based on "cost-sharing" between employers and employees (to be announced by the Department for Communities and Local Government in due course).

E. Training / Facility Time / Expenses

(a) *That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and re-imbursement of expenses in respect of members involved in the decision-making process.*

(b) *That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.*

	Not Compliant			Fully Compliant	
(a)			✓		
(b)					✓

Currently, no formal or written policy regarding the training of Pension Fund Committee members exists, although a record of all training events attended by members is maintained. All members (regardless of status within the Committee) are

offered the opportunity to attend several training events each year and are invited to request attendance at any additional events from which they believe they could benefit. All costs relating to such events are met by the Administering Authority.

It is the intention of the Administering Authority to develop a formal training policy in due course.

F. Meeting (Frequency / Quorum)

(a) That an administering authority's main committee or committees meet at least quarterly.

(b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.

(c) That an administering authority which does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.

	Not Compliant				Fully Compliant
(a)					✓
(b)	N/A				
(c)					✓

N/A

The Administering Authority has introduced the practice of an annual Employers' Forum to which representatives of all employer bodies are invited to receive and to request information on all matters relating to scheme administration. At the initial Forum, employers' representatives were advised of the intention to introduce "employer roadshows" for the benefit of individual scheme members (of both the Administering Authority and all other scheme employers), and were invited to request that these events be held at their own premises if more convenient.

G. Access

(a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee

	Not Compliant				Fully Compliant
(a)					✓

N/A

Equal access to committee papers, documents and advice considered at meetings of the main Pension Fund Committee as allowed to all members.

H. Scope

(a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.

	Not Compliant				Fully Compliant
(a)					✓

N/A

The terms of reference of the Pension Fund Committee now encompass a wide range of pension-related matters, including the approval of the Pension Fund Annual Report (where originally its scope was limited to investment-related matters).

I. Publicity

(a) *That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express and interest in wanting to be part of those arrangements.*

	Not Compliant			Fully Compliant	
(a)	✓				

Currently, there is limited scope for stakeholders not directly represented in the scheme's governance arrangements to request to be part of those (on a formal basis).

It is intended that publicity should be given to the employer and employee events described in relation to Principle F. (c).

STATEMENT OF POLICY CONCERNING COMMUNICATIONS WITH MEMBERS AND EMPLOYING AUTHORITIES (including Non-Scheme Employers - "Communications Policy Statement")

1.1 The London Borough of Richmond upon Thames (the Council) is an Administering Authority of the Local Government Pension Scheme (LGPS) as defined by Schedule 2 to Regulation 4.3 of the Local Government Pension Scheme Regulations 1997 (SI 1997 No 1612).

1.2 The purpose of this statement is to set out the Administering Authority's policy concerning communications with:-

(i) members;

(ii) representatives of members;

(iii) prospective members; and,

(iv) employing authorities.

1.3 Groups (i), (ii) and (iii) are provided with the following information (which may be applicable collectively or exclusively to one or more of the groups).

Information	Format	Frequency
Information regarding the LGPS included in "starter pack" and corporate induction programme literature	Printed	Ad hoc
Statutory Notification of Scheme Membership	Printed	Ad hoc
Annual Benefits Statement	Printed	Annually
"Scheme Booklet" (summary of Scheme Regulations/Benefits)	Printed & Electronic (Intranet)	Continuously available; updated when necessary
Annual Pension Fund Report	Electronic (Intranet) Printed (on request)	Annually
Policy Document on the Granting of Discretionary Benefits	Electronic (Intranet)	Continuously available; updated when necessary
Information on changes (or proposed changes) to Scheme Regulations/Benefits	Electronic (Intranet & E-mail)	Ad hoc

1.4 In addition to the above, employing authorities are provided with the following information.

Information	Format	Frequency
Actuarial Valuation of the Fund and Schedule of Contribution Rates	Printed & Electronic (on request)	Tri-ennially
Funding Strategy Statement	Printed & Electronic (on request)	Tri-ennially (or as updated)
FRS17 Reporting	Printed & Electronic (on request)	Annually

Information on changes (or proposed changes) to Scheme Regulations/Benefits or Policy on the Granting of Discretionary Benefits	Printed & Electronic (E-mail)	Ad hoc
Employers' Forum	Presentation / Meeting	Annual
Employer Roadshows (to which employees are invited)	Presentation / Meeting	On request

MANAGEMENT OF THE PENSION FUND'S INVESTMENTS

Introduction

The LGPS is a 'funded' pension scheme in which the contributions that are paid into the Fund during an individual scheme member's employment are invested to provide adequate funds to pay benefits when employment ceases. One of the main responsibilities of the Council, as the Administrating Authority, is to manage the investment of the Fund to maximise the return over time commensurate with an acceptable level of risk.

This section of the Report deals with the investment aspects of the Fund including the Statement of Investment Principles (SIP) and commentary on the investment performance.

Management Arrangements

The Fund appoints professional managers to carry out the investment of the Fund's assets and uses an independent investment advisor to provide professional support and advice on investment matters. A small part of the Fund is directly invested in a property Unit Trust managed by CCLA Investment Management Limited for the Local Authorities Mutual Investment Trust (LAMIT).

The following appointments were in place for 2008/09:

Fund Managers:

Henderson Global Investors	(Multi-Asset including Property)
Schroder Investment Management Limited	(Multi-Asset including Property; Property only from 09/12/08)
Legal & General Investment Management Limited	(Multi-Asset excluding Property from 09/12/08)

Investment Advisor:

Hymans Robertson LLP

Custodians:

JP Morgan

Details of the investments under management and transactions during the year are shown on page 67 of the Accounts section of the Report.

As explained in the Foreword, the Administrating Authority for the Fund is the Council and governance arrangements are delegated to a committee of the Council. During 2008/09 the Pension Fund Committee was responsible for the administration and investment of the Pension Fund. The Committee met on four occasions during 2008/09 – membership of the Committee was:

Councillor C. Percival (Chair)
Councillor J. Elloy (Vice-Chair)
Councillor G. Acton
Councillor G. Evans
Councillor E. Stanier

Staff Observer - Mr. L Johnson

The investment advisor and fund managers also attended meetings of the Investment Committee during 2008/09. Full access to the agendas, reports and minutes of the Investment Committee (and Pension Fund Committee from May 2008) are available on the Council's website from the following link:

http://www.richmond.gov.uk/home/council_government_and_democracy/democratic_processes_and_events/browse_committee_documents.htm

Note: *this link is to browse all committee documents – select Investment Committee (and Pension Fund Committee from May 2008) and the year you wish to search.*

Performance

An important part of the Investment Committee's responsibilities relate to monitoring the investment performance of the Fund. Quarterly reports are considered on each manager's investment activities and performance and periodically the Committee reviews more strategic aspects of its investment management.

Details of investment performance and a commentary on 2008/09 is contained in the final part of this section – Fund Investment Management and Strategy.

STATEMENT OF INVESTMENT PRINCIPLES

1. INTRODUCTION

1.1 This Statement of Investment Principles (SIP) has been adopted by the London Borough of Richmond upon Thames ("the Council") in relation to the investment of assets of the Council's Pension Fund ("the Fund").

1.2 The Local Government Pension Scheme (LGPS) is established by statute to provide death and retirement benefits for eligible employees, principally local government staff. The LGPS is a funded final salary scheme, with tiered employee contribution rates set nationally and variable employer rates dependent on funding level. Statutory benefits (full details of which are set out in the LGPS Regulations) are index-linked and are not related to investment performance achieved. The scheme is operated by designated administering authorities – each of which maintains a Pension Fund and invests surplus monies held. The London Borough of Richmond upon Thames is a designated Administering Authority and incorporates, in addition to the Administering Authority itself, 3 further scheduled bodies and a total of 19 bodies under admission agreements.

1.3 Local authority Schemes are required under The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended) to publish a Statement of Investment Principles (SI 1999 No 3259), and to include disclosure of the extent of compliance with the investment principles issued by the Government in October 2001 in response to proposals in the Myners Review (SI 2002 No 1852).

1.4 Under SI 2004 No 573 The Local Government Pension Scheme (Amendment) Regulations 2004, effective from 1 April 2004, each individual LGPS administering authority is required to prepare and publish a Funding Strategy Statement (FSS) by 31 March 2005, taking into account the CIPFA Pensions Panel document entitled "Guidance on Preparing and Maintaining a Funding Strategy Statement". The purpose of the FSS is to establish a strategy for the funding of future pension liabilities on a prudent and stable basis. The FSS is required to state how the funding strategy is linked to the investment strategy set out in SIP, and therefore the two documents are complementary in nature.

1.5 Investments are monitored by the Pension Fund Committee of the Council (formerly the Investment Committee), comprising five elected members. Advice is received as required from professional advisors. The Committee reviews the performance of investments, investment managers and strategy on a quarterly basis.

1.6 In April 2002, the Pension Fund Committee completed an investment strategy review and agreed a revised, Fund-specific benchmark and performance objective, to be fully implemented by 1 October 2002. Prior to this, the Fund had used the WM Local Authority Universe as its benchmark.

1.7 At the May 2008 meeting, the Pension Fund Committee concluded a review of investment strategy and agreed a revised the Fund-specific benchmark, details of which are provided elsewhere in this document. The revised benchmark was introduced from 10 December 2008.

2. CONTENTS

2.1 The Local Government Pension Scheme Regulations specify the following as minimum requirements for a Statement of Investment Principles:

(a) the types of investment to be held;

(b) the balance between different types of investments;

(c) risk;

(d) the expected return on investments;

(e) the realisation of investments;

(f) the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;

(g) the exercise of the rights (including voting rights) attaching to these investments; and

(h) further to the Local Government Pensions Scheme (Management and Investment of Funds) (Amendment) Regulations 2002: "the extent to which the administering authority comply with the ten principles of investment practice set out in the document published in April 2002 by CIPFA, the Chartered Institute of Public Finance and Accountancy, and called "CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom (Guidance note issue No. 5)". The ten investment principles were issued by the Government in October 2001 in response to proposals in the Myners Review of Institutional Investment in the United Kingdom, issued in March 2001.

3. PRIMARY OBJECTIVE

3.1 The primary objective of the Fund is as follows:
"To provide for members pension and lump sum benefits on their retirement or for their dependants benefits on death before or after retirement, on a defined benefits basis."

3.2 In order that this primary objective can be achieved, the following funding and investment objectives have been agreed.

4. FUNDING OBJECTIVES

4.1 To fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the actuarial value of the Fund's assets and the level of employer's contributions to be met by the Administering Authority (and other Fund employers) remains at the lowest and most stable level compatible with this aim.

4.2 To achieve this objective an actuarial valuation is carried out every three years. The most recent valuation was undertaken as at 31 March 2007. The main financial assumptions, together with the results of this valuation are summarised in Appendix A.

5. INVESTMENT OBJECTIVES

5.1 "To achieve a return on Fund Assets which is sufficient, over the long-term, to meet the funding objectives set out above."

5.2 To achieve these objectives the Pension Fund Committee will ensure that one or more investment managers are appointed who are authorised under the Local Government Pensions Scheme (Management and Investment of Funds) Regulations 1998 (as amended) to manage the assets of the Fund.

Types of Investment to be Held

5.3 Investments must be managed in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998. These regulations specify limits on particular types of investment and these are incorporated within each manager's investment management agreement (or equivalent instructions). Details of the current limits are set out in Appendix B. Derivatives are permitted for use within certain of the pooled investment vehicles held by the Fund, and permission has also been granted for use of these on a segregated basis by one of the managers for the purpose of the efficient tracking of regional benchmark weights. Managers are also permitted on a case-by-case basis to use forward currency contracts to hedge stock-related currency exposure where deemed necessary. (The use of segregated derivatives and currency contracts has, however, been very limited and has not occurred since 2006)

5.4 The Pension Fund Committee, after seeking appropriate investment advice, may give specific directions as to the strategic asset allocation and will ensure the suitability of assets in relation to the needs of the Fund. The investment managers are given a degree of discretion over the choice of individual stocks that is appropriate to the style of management employed[1] and are expected to maintain a diversified portfolio. The investment managers are also given limited discretion (within set parameters) to add value relative to the chosen benchmark via the operation of tactical asset allocation. Currently, however, instructions to managers reflect that the majority of the discretion permitted is designed to accommodate natural relative movements between (and within) major asset classes rather than to facilitate tactical asset allocation.

5.5 The Pension Fund Committee decided in April 2002 to adopt a revised, Fund-specific benchmark to replace the former peer group benchmark (the WM Local Authority Universe) around which the Fund's investment strategy and performance objective had previously been based. In taking this decision, the Committee viewed a fund-specific benchmark as providing the following advantages

- the establishment of a link between strategic asset allocation and the Fund's liability profile and individually determined long-term investment strategy.
- the removal of potentially sub-optimal long-term asset weightings (such as in cash) held due to the influence of the peer group allocation.
- clarity and consistency in reporting and performance monitoring.

5.6 The Pension Fund Committee decided in principle that equities should remain the core asset of the Fund and be given a 72.5% total weighting in the benchmark, whilst recognising in full the risk/return characteristics and volatility associated with this asset type. The other key decision was to introduce a 10% property weighting in the benchmark, again in recognition that its long-term return characteristics are particularly suited to the Fund.

5.7 In May 2008, the Pension Fund Committee agreed to revise the Fund-specific benchmark in order to reduce the extent of the domestic bias within the equity component and to rationalise the bond component by reducing the number of sub-classes held from four to two (dispensing with index-linked and overseas bonds and increasing the allocations to conventional gilts and corporate bonds commensurately). In overall terms, however, the original "top-level" asset allocation of 72.5% equities; 16.5% bonds; 10% property and 1% cash has been maintained.

5.8 The revised Fund Benchmark is given below:

[1] Currently, this discretion does not apply in practice to the Fund's passively managed assets where portfolio is determined wholly by the composition of the reference index.

	Benchmark %	Asset Ranges %
UK Equities	38.0	+/- 2.5%
Overseas Equities	34.5	+/- 2.5%
US	*15.0*	+/- 1.5%
Europe Ex UK	*10.0*	+/- 1.5%
Japan	*3.0*	+/- 1.0%
Pacific Ex Japan	*2.5*	+/- 1.0%
Emerging Markets	*4.0*	+/- 1.0%
Total Equities (incl. Private Equity)	72.5	+/- 4.0%
UK Government Bonds	6.5	+/- 1.5%
Corporate Bonds	10.0	+/- 1.5%
Total Fixed Interest (incl. I/L)	16.5	+/- 3.0%
Property	10.0	+/- 4.0%
Cash/Other	1.0	+/- 1.0%
Total	100.0	

	Index
UK Equities	FTSE All Share Index
Overseas Equities	FT Developed World Indices & FTSE All World Emerging Markets Index
UK Government Bonds	FTSE UK Gilts Index – All Stocks
Corporate Bonds	Merrill Lynch Sterling Non Gilts All Stocks Index
Property	IPD AREF All Balanced Funds Weighted Average
Cash/Other	7-Day LIBID

Performance Objective

5.9 A management agreement (or equivalent) is in place for each investment manager. This specifies the performance target and asset allocation ranges (set around the agreed benchmark) determined by the Committee. An individual performance objective is set for each manager that is appropriate to the style of management employed (see below). Where a margin above a specified index (or composite index) is specified, the requirement to achieve this on an annualised basis over rolling three-year periods.

Investment Style

5.10 The Fund's investments are currently managed using a range of styles demonstrating different approaches (within a relatively narrow spectrum). The style selected in each case reflects the preference of the Pension Fund Committee, taking into account appetite for (active) risk, management cost factors and empirical evidence relating to the success of particular approaches in different markets.

- Passive – conventional market-cap weighted index management.
- Active – conventional active management.

- Enhanced Index – a purpose-designed approach employing a diversified portfolio and a number of specific strategies to achieve a 0.75% outperformance objective combined with a low tracking error.

Investment Managers

5.11 Henderson Global Investors has been appointed to manage the Fund's enhanced equity, active bond and property assets under a multi-asset mandate. Henderson has an outperformance target of 0.75% above-index, reflecting its use of "enhanced index" techniques for the majority of equity categories. L&G manage funds in all of the asset categories excluding property on a passive basis. In view of this they are required as a formal investment objective to match the returns of the reference indices in each asset category (although it may, where possible, attempt to add value relative to these). In addition, the Fund holds some of its property investments via the Schroder Exempt Property Unit Trust and the Local Authorities Mutual Investment Trust (LAMIT) Property Fund, managed by CCLA Investment Management Limited. All property investments are by definition "active" insofar as they seek to outperform the Fund's property benchmark. The respective investment styles used by the principal Fund managers in the benchmark asset categories are as follows.

	Management Style	
	L&G	Henderson
UK Equities	Passive	Enhanced Index
US Equities	Passive	Enhanced Index
European Equities	Passive	Enhanced Index
Japanese Equities	Passive	Enhanced Index
Pacific Rim Equities	Passive	Enhanced Index
Emerging Markets Equities	Passive	Active
UK Government Bonds	Passive	Active
Corporate Bonds	Passive	Active
Property	N/A	Active
Cash/Other	N/A	Active

Fund Managers' Benchmarks

5.12 The benchmarks and asset ranges operated by the multi-asset investment managers have been adjusted relative to the total Fund benchmark set out above to accommodate the "free-standing" property components.

Pooled Investments

5.13 The investment managers exclusively used pooled investment vehicles to achieve exposure to a diversified range of holdings whilst minimising transaction and administrative costs. The styles of passive and enhanced index management currently employed in most asset categories effectively require this approach, due to the increased number of stocks held (by comparison with conventional active styles). Henderson use both authorised and unauthorised unit trusts, and open-ended investment companies, subject to the limit for such vehicles set out in Appendix B. L&G, as is conventional for passive managers, provide insurance policies linked to the values of unitised holdings in underlying assets.

Risk

5.14 Investment-related risk can be separated into at least three major types: benchmark risk (the risk that the chosen benchmark will give rise to asset value fluctuations that are largely uncorrelated with fluctuations in liabilities); portfolio risk (the risk that the Fund performs poorly relative to the chosen benchmark); and operational risk (the risk of fraud and breaches of regulatory constraints).

5.15 In adopting the revised, Fund-specific benchmark, the Pension Fund Committee specifically considered the degree of benchmark risk associated with the equity weighting adopted, and decided that the Fund's capacity to absorb volatility was sufficient to permit a 72.5% equity weighting in combination with the fixed interest and property elements included in the benchmark. Accepting the degree of benchmark risk entailed, the key factors in the selection of equities as the principal Fund asset were (a) the long-term investment horizon of the Fund (b) the associated lower cost of pension provision and (c) the protection afforded against the effect of future increases in pension liabilities arising from inflation and pay growth.

5.16 Portfolio risk is controlled via the adoption of asset allocation ranges and the explicit monitoring of quarterly performance relative to the benchmark return. For the Henderson portfolio, the selection of a 0.75% per annum performance target in excess of the benchmark return is designed to obtain a required degree of out-performance consistent with moderate portfolio risk. In the case of L&G, portfolio risk is minimised by the passive style employed.

5.17 Operational risk is controlled primarily by the audit and compliance functions maintained by the fund managers, supervised by the Council's Audit Services section. The Council relies primarily on the annual FRAG21 (or latterly AAF 01/06) reporting framework on fund managers' internal controls as evidence of their risk management mechanisms, but recognises that this is provided to clients for information purposes only by the reporting auditor.

Expected Return on Investments

5.18 The performance target is expected to produce a return over the long term marginally in excess of the investment return assumed in the actuarial valuation. Due to the nature of the fund management styles employed, the scope to outperform the generic return assumed from the Fund's long-term asset allocation is limited, but the risk of underperforming this should be commensurately reduced.

Realisation of Investments

5.19 The majority of the Fund's investments in pooled vehicles constitute (or are referenced to) assets quoted on major stock markets. Although this provides underlying liquidity it is possible that dilution levies or spread costs may be incurred in realising the pooled investments, unless an in-specie transfer is obtainable. (In many cases, however, these costs would reflect only those that would be incurred in trading the underlying assets on a segregated basis.) Certain of the Fund's investments e.g. the LAMIT property units are relatively illiquid by comparison but represent a modest proportion of the Fund's assets.

Fees

5.20 Investment managers' fees have historically been paid on a fixed percentage, ad valorem basis. Following the decision to adopt an enhanced index approach for part of the portfolio, a performance fee basis has been agreed for the assets managed by Henderson Global Investors (excluding property), in recognition of the lower out-performance target of this portfolio. The assets managed by L&G are subject to a fixed percentage, ad valorem fee, as are all of the property Investments of the Fund. Fee levels are a key factor in the evaluation of potential investment approaches.

Additional Voluntary Contributions (AVCs)

5.21 Scheme members have the opportunity to invest in AVC funds provided by Equitable Life and Clerical Medical.

6. OTHER ISSUES

Exercise of Voting Rights

6.1 Prior to February 2004, the Council operated its own set of corporate governance policies (introduced in the mid-1990s), and voted its shares in accordance with these. Since then, however, responsibility for corporate governance issues (and associated voting policy) has been delegated to the appointed Fund managers. The reason for the change of approach was a recognition that corporate governance issues had become more complex since the inception of the Council's own policies, but also more "mainstream", and that as a result investment managers were devoting more resources to the area, and were therefore well placed to act for clients in this capacity. An additional consideration was the potential advantage to be derived from integrating corporate governance and investment policy rather than treating the two as separate disciplines. The Fund managers report on voting action taken on behalf of the Fund on a regular basis.

Social, Environmental and Ethical Issues

6.2 The Pension Fund Committee has discussed social, environmental and ethical issues in the context of investment strategy. It notes the judgement in the case of Cowan and Others v Scargill and Others in 1984 (commonly referred to as the Megarry Judgement), and has decided that the overriding principle of the Fund's investment policy is to obtain the best possible return. The Committee does, however, recognise that taking account of social, environmental and ethical issues may in some circumstances protect or enhance shareholder returns or that it will deliver some other tangible benefit to stakeholders without compromising financial returns.

6.3 The Pension Fund Committee has from the start in its consideration of these issues decided to adopt an "active shareholder" approach to social, environmental and ethical issues, initially meeting representatives of selected companies directly to discuss environmental performance. Currently, engagement activity in this area is delegated to investment managers.

7. COMPLIANCE WITH THE "MYNERS PRINCIPLES"

The following is a statement of compliance with the "Myners Principles" expressed in the "CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom (Guidance note issue No. 5)", as required under the SI 2002 No. 1852 The Local Government pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2002.

The "Myners Principles" are shown in *italic* and the relevant compliance statement is shown in **bold.**

General

The Council welcomes the publication of the Principles as a framework via which pension funds can critically examine their approach to investment policy. The publication of the Myners Review in March 2001 pre-dated, and

contributed to, the decision to undertake an investment strategy review made by the Pension Fund Committee in May 2001, resulting in the subsequent adoption of a revised, Fund-specific benchmark.

In the most recent investment management review, concluded during the course of 2008, the Myners recommendation that "funds should consider explicitly for each asset class invested whether active or passive management would be more appropriate" was a key factor in the decision to utilise a fully passive mandate for a proportion of the Fund, as part of an overall low-alpha approach.

In respect of the majority of areas covered by the Principles, the Council accepts that there should be no difference in their applicability or relevance to pension funds of all sizes, and recognises that the ability or requirement to optimise the investment return of the Fund is not (and should not be) influenced in any way by scale alone. In certain areas, however (activism being an example), it believes that a reasonable differentiation can be made between expectations of larger (in some cases to the extent of ten to fifteen times) and smaller funds.

The relevant Principles are set out below, in each case followed by a statement of the level of compliance demonstrated by the Fund, or the reasons for non-compliance.

1. Effective Decision-Making

Decisions should only be taken 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 that they take.

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

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

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

The Council recognises the requirement for members of the Pension Fund Committee to be, in the words of the Myners Review "familiar with the issues concerned" and seeks to appoint individuals suitably qualified or experienced. Members of the Committee have continuous access to in-house support should they require it and are now offered external training in investment management matters provided by the National Association of Pension Funds (NAPF), again as required. A log of all investment-related training received by Pension Fund Committee members is maintained.

2. Clear Objectives

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

- *represents their best judgement of what is necessary to meet the fund's liabilities given their understanding of the contributions likely to be received from employer(s) and employees; and*
- *takes account of their attitude to risk, specifically their willingness to accept underperformance 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.

The Pension Fund Committee has recognised the value of this principle in the adoption, from 1 October 2002, of a revised, Fund-specific benchmark. Central to this decision was a wish to pursue a long-term investment strategy which was considered appropriate to the Fund's liability profile, regulatory framework and capacity to absorb volatility of performance. From a conclusion that the Fund had the usual interest in avoiding volatility, but a slightly higher capacity than some (non-LGPS) funds to absorb it where a compensatory long-term benefit may accrue, the existing equity bias of the Fund was retained. Property has been given a significantly higher weighting than previously, reflecting the perceived suitability of this relatively illiquid asset to the Fund. The benchmark weighting for cash, regarded as a sub-optimal long-term asset type, has been reduced. Although the revised benchmark will be used for the purpose of assessing investment managers' performance, the Fund will remain within the WM Local Authority Universe, however, and will continue to compare its overall return with this benchmark to measure the relative performance of the current and former benchmarks.

3. Focus on asset allocation

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

The recognition of this principle was again implicit in the decision to adopt a revised, Fund-specific benchmark. When considering long-term investment strategy, the Pension Fund Committee did not consider that it had a sufficient direct knowledge of the potential methods of exposure to private equity (and the respective performance histories and fee structures applying to these) to allocate a specific amount of the equity allocation to this asset type at the outset. It remains the intention, however, that private equity should be further examined as a potential Fund asset in due course.

4. Expert advice

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

The Fund has used its investment advisors, Hymans Robertson, to provide advice on a range of options regarding asset allocation and manager structure throughout the most recently completed investment management review. Without prejudice to level of satisfaction provided by the current appointee firm, it is the intention to seek submissions from alternative providers of these services in the future.

5. Explicit mandates

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

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

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

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 financial incentives or otherwise – for ensuring that these costs are properly controlled without jeopardising the fund's other objectives. Trustees should not without good reason permit soft commissions to be paid in respect of their fund's transactions.

The Fund benchmark and (where appropriate) performance objective have been incorporated in to the formal instructions issued to both fund managers. Performance objectives have been selected as appropriate to portfolio risk profile. Divergence from benchmark weightings is reported to the Pension Fund Committee by each manager on a quarterly basis. The Pension Fund Committee has specifically not given an undertaking to managers in relation to termination for underperformance within a prescribed period, as it believes this could, in certain circumstances, compromise its overriding obligation to manage the investment arrangements of the Fund to the maximum benefit of the Council.

The Pension Fund Committee has not hitherto permitted the use of financial instruments such as futures and options as they have not been persuaded of the need for a Fund of the size of the Council's to use these for efficient portfolio management. Derivatives are used within certain of the pooled investment vehicles held by the Fund, and are permitted to be used (if required) on a segregated basis for the purpose of the efficient tracking of regional benchmark weights. Managers have also used forward currency contracts to hedge stock-related currency exposure where deemed necessary. Following the most recent investment management review all of Fund's investments (except cash) are in pooled vehicles. Whilst in every case these selections have been made in the perceived long-term interest of the Fund, the degree of discretion held by the Fund over matters such as soft commission and transaction costs is limited; however, as the majority of the equity vehicles are either fully passive or enhanced index, it is inherent that cost control is central to the achievement of the Funds' investment objective.

6. Activism

The mandate and trust deed should incorporate the principle of the US Department of Labor Interpretative Bulletin on activism. Trustees should also ensure that managers have an explicit strategy, elucidating the circumstance 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 Pension Fund Committee does not intend to adopt any formal policy or published principle relating to shareholder activism, as (a) it considers that this is one of a limited number of areas where the relatively small size of the Fund has a legitimate bearing on the practicability of action (or at least effective individual action) and (b) it considers that activism in relation to major issues affecting shareholder value is sufficiently related to the normal business of investment management as to be primarily the responsibility of Fund managers. In addition, the use of pooled vehicles limits (to some extent) the degree of influence that can be exercised in relation to underlying investments.

7. Appropriate benchmarks

Trustees should:

- *explicitly consider, in consultation with their investment manager(s), whether the index benchmarks they have selected are appropriate; in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies;*
- *if setting limits on divergence from an index, ensure that they reflect the approximations involved in index constructions and selection;*
- *consider explicitly for each asset class invested, whether active or passive management would be more appropriate given the efficiency, liquidity and level of transaction costs in the market concerned; and*
- *where they believe active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving the managers the freedom to pursue genuinely active strategies.*

The Pension Fund Committee consulted its investment advisors and the investment managers with regard to the selection of benchmark indices, and does not consider that the characteristics of any selected are likely to promote sub-optimal investment strategies. Certain of the reference indices adopted in 2002 have been revised since, including in the course of the most recently completed investment management review. The Pension Fund Committee took clear regard of the requirement to consider the use of passive strategies (in the light of experience and available evidence) in adopting the current manager structure, comprising predominantly passive and enhanced index approaches.

8. Performance measurement

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

The Fund's performance (including individual managers' performance) is assessed on both a quarterly and an annual basis by the WM Company, including annual ranking within the chosen peer group. This service is provided directly to the Council, independently of any similar services obtained by the investment managers for their own use. The Fund continues to pay regard to performance relative to both its own benchmark and that of local authority funds generally, as represented by the WM Local Authority Universe.

9. Transparency

A strengthened Statement of Investment Principles should set out:

- *who is taking which decisions and why this structure has been selected;*
- *the fund's investment objective;*
- *the fund's planned asset allocation strategy, including projected investment returns on each asset class, and how the strategy has been arrived at;*
- *the mandates given to all advisers and managers; and*
- *the nature of the fees structures in place for all advisers and managers, and why this set of structures has been selected.*

The revised Statement of Investment Principles, of which this disclosure is a part, has attempted to cover the above issues to the maximum extent possible.

10. Trustees should publish their Statement of Investment Principles and 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 Council has previously provided information on the investment activities and performance of the Fund to members and, recognising it to be best

practice, intends to do so in the future on an annual basis. In doing so, however, it recognises both the necessity not to imply a connection between investment performance and the level of benefits payable to scheme members, and the significant interests of other stakeholders in minimising the long-term cost of pension provision.

APPENDIX A

ACTUARIAL VALUATION

Main Actuarial Assumptions as at 31 March 2007

	Nominal % p.a.	**Real % p.a.**
Inflation	3.20	0.00
Increases in Pay (excluding Increments)	4.70	1.50
Investment Returns (Average)		
Risk-Free "Gilt-based" Discount Rate	4.5%	1.3%
Funding Basis Discount Rate	6.0%	2.8%

Valuation Method – Liabilities

The value of scheme members' benefits is determined by estimating the payments which will be made from the Fund throughout the future lifetime of existing active members, deferred benefit members, pensioners and their dependants and, by reference to the investment returns shown above, calculating the amount of money that will be required to meet those payments after allowing for income and growth. Separate calculations are made in respect of benefits arising in relation to service before the valuation date ("past service") and for service after the valuation date ("future service"). A comparison of the value of the existing assets of the Fund with the present value of past service liabilities gives rise to a surplus or deficit position, commonly referred to as the "funding level" of the Fund.

The name of the particular method used to value future liabilities is the Projected Unit Method of valuation.

Valuation Method – Assets

At the 2007 valuation assets were taken into account at their market value as indicated in the Fund accounts for the period ended 31 March 2007.

Valuation Results

Past Service Liabilities	**£m**	**% of Total Liabilities**
Active Members	168.9	41
Deferred Pensioners	89.4	22
Pensioners	152.8	37
Total	**411.1**	**100**
Assets / Funding Level	335.8	82
Surplus / (Deficit)	(75.3)	18

The funding level has increased relative to that measured at 31 March 2004 which was 74%. This was principally due to higher than expected investment returns in the intervaluation period.

The future contribution rate has been maintained at 23.9% as result of the latest valuation. The rate comprises a future service funding rate of 15.7% and a past service adjustment of 8.2%. The "past service adjustment" element of the future contribution rate assumes that the deficit will be funded over a 15-year period.

APPENDIX B

LIMITS ON INVESTMENTS

Limits on investments are specified by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998. The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2003 amended the Regulations to permit authorities to increase the limits in respect of certain investments, subject to conditions, details of which are to be specified in the authority's Statement of Investment Principles.

1% Limit

1. Any single sub-underwriting contract [5%].

2% Limit

2. All contributions to any single partnership [5%].

5% Limit

3. All contributions to partnerships [15%].

10% Limit

4. All deposits with a person specified in paragraph 12 or 13 of Schedule 2 to the Banking Act 1987 and all loans (but see 12 below).
5. All investments in unlisted securities of companies [15%].
6. Any single holding (but see 13 and 14 below).
7. All deposits with any single bank, institution or person (other than the National Savings Bank).

15% Limit

8. All sub-underwriting contracts.

25% Limit

9. All investments in:
   - (a) units or other shares of the investments subject to the trusts of unit trust schemes managed by any one body (but see 14 below) [35%], and
   - (b) open-ended investment companies where the collective investment schemes constituted by the companies are managed by any one body [35%].
10. All insurance contracts [35%].
11. All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements

Exceptions to Limits

12. The restriction in 4 above does not apply to a Government loan.
13. The restriction in 6 above does not apply if:
    - (a) the investment is made by an investment manager appointed under Regulation 6, and
    - (b) the single holding is in units or other shares of the investments subject to the trusts of any one unit trust scheme.
14. The restrictions in 6 and 9 above do not apply:

(a) to any investment falling within paragraph 1 of Part I (National Savings) or paragraph 1 or 2 of Part II (interest bearing securities, loans etc) of Schedule 1 to the Trustee Investments Act 1961, or

(b) to a deposit with a relevant institution.

This summary is intended as a guide only. Reference should be made to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 for a full interpretation of the restrictions on investments.

Use of Extended Limits

The Fund utilises the extended limit [35%] permitted under regulation 11A of the main Regulations (as amended) in respect of item 9 above:-

"units or other shares of the shares of the investments subject to the trusts of unit trust schemes managed by any one body (but see 14 above)."

In doing so, the Administrating Authority has taken proper advice and has taken account of factors relating to diversification and suitability set out in regulation 9(3), and of any risks attending the use of the extended limit.

Further information relating to the use of the extended limit is set out below.

(a) The extended limit of 35% applies to the use of two unit trusts managed by Henderson Investment Funds Limited. The unit trusts comprise UK and North American quoted equity investments and are managed on an "enhanced index" basis. The unit trusts explicitly seek to minimise negative variance in investment performance relative to the broad-based, market-cap weighted indices to which they are benchmarked, whilst simultaneously seeking (in each case) to exceed the index return to an indicative level of 0.75% per annum. In each case it is a practical requirement of the management approach (involving a highly diversified portfolio of stocks) that investments should be organised on a collective basis.

(b) The collective sum in the two unit trusts marginally exceeds the default 25% limit but is not expected to exceed 27.5% in normal circumstances.

(c) The decision has been taken explicitly to minimise portfolio risk (as detailed in paragraph 5.16 of the main document).

(d) The use of the extended limit is not subject to maximum duration.

(e) Notwithstanding (d), and for avoidance of doubt, the particular investments made under the extended limit will independently be subject to the requirements to review investment managers' performance as set out in regulation 8 of the main Regulations.

(f) The Administrating Authority believes that the use of the extended limit complies with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended).

INVESTMENT MANAGEMENT AND PERFORMANCE

The Fund's investment approach is centred around equities, bonds and property. Equities are managed on either a fully passive or low-alpha targeting "enhanced index" approach, whilst bonds are divided between both active and passive portfolios. The Fund does not currently invest in any "alternative" asset classes except property.

During 2008/09, the Fund implemented the results of its most recent investment strategy review, the key elements of which were:-

(i) the inception of a passive mandate with Legal & General Investment Management Limited in December 2008 (replacing Schroder Investment Management for all ex-property asset classes);

(ii) the simultaneous implementation of a revised scheme benchmark.

Further, more detailed information relating to the Fund's current investment approach is included in the Statement of Investment Principles that forms part of this Report.

Fund Performance

In the year to 31 March 2009, the Fund's overall investment return relative to that achieved by local authorities as a whole (represented by the WM Local Authority Universe), and the specific indices comprising the scheme-specific benchmark were as follows.

Investment Category	London Borough of Richmond	WM Local Authority Universe (Weighted Av.)	WM Ranking (Percentile)	LBR Scheme-Specific Benchmark
UK Equities	-24.8	-29.1	10	-29.3
US Equities	-11.9	-16.6	20	-14.0
EU Equities	-31.4	-30.0	66	-30.8
Jap Equities	-13.6	-14.0	42	-10.6
Pac Equities	-22.7	-20.5	76	-22.1
EM Equities	-25.9	-27.1	52	-25.8
UK Bonds	1.1	-1.7	34	-4.3
O/S Bonds	25.7#	9.2	N/A	32.1
I/L Bonds	-4.6#	-1.5	N/A	-10.2
Property	-29.4	-27.1	52	-27.1
Cash	4.6	3.0	31	3.8
Total Assets	-18.4	-19.9	31	-21.7
Total Asset Comparison (Longer Term)				
3 years	-5.6	-5.9	38	-6.8
5 Years	3.2	3.1	45	2.6
10 Years	1.8	2.0	52	2.0

Source: WM
part-period return only

Commentary

In a highly volatile global environment, the Fund's above-average allocations to real assets in the form of equities and property were unhelpful. However, significant relative gains were secured in the closing periods of Schroder's mandate against a background of almost unprecedented dispersion of stock, sector and ultimately fund manager returns. These gains, most obviously evidenced in the Fund's UK equity outperformance, were sufficient to offset the unfavourable asset allocation factors and result in second quartile ranking for the Fund (with top decile achieved in UK equities). Although the Fund has not used the WM Local Authority Universe as its official benchmark since 2002, we believe it remains a useful and valid point of comparison especially over longer periods.

Fund Managers' Performance

Due to the mid-year change in fund manager structure and investment benchmark, individual fund manager performance is quoted for each of ongoing portfolio component at summary level for the period 9 December 2008 to 31 March 2009. Performance of all managers both for the year to 31 March 2009 and historically is reflected in the table above.

Mandate	Performance	Benchmark
HGI ex-Property	-3.3	-4.5
L&G ex-Property	-4.2	-4.5
Internal Cash	0.4	0.3
HGI Property	-12.4	-10.3
Schroder Property	-15.2	-10.3
CCLA Property (LAMIT)	-16.2	-10.3

INTRODUCTION

Contributions into the Pension Fund

The pension contributions into the Pension Fund for employees are prescribed in the LGPS regulations. The basis of these contributions is the same nationally for all members of the LGPS and cannot be varied by the Administering Authority or employer organisations in the Fund. Lump sum and retirement benefits are also prescribed by the LGPS.

Employer contributions are not fixed and are required to be set at a level that is sufficient to enable the Pension Fund to meet its future obligations to pay benefit entitlements due under the LGPS. The level of employer contributions is determined by an Actuarial Valuation undertaken every three years.

The Fund is required to appoint an independent qualified actuary to undertake the triennial valuation and the Fund's actuary is Hymans Robertson LLP.

Actuarial Valuation

This valuation takes into account the current value of the Fund's investments and membership and projects forward the income into the Fund (contributions and investment income) and the expenditure on benefits to calculate a projected surplus or deficit in the Fund's assets (investments) over its liabilities (future benefits). The employers' future contributions into the Fund are then adjusted to take account of the actuarial valuation. In recent years the Pension Fund, along with other funds in the LGPS and generally, has been in deficit.

Summary details of the last valuation, undertaken as at 31st March 2007 are given in the next two parts of this section – the Actuarial Statement and Funding Strategy. The employers' contribution rates are set out in the Funding Strategy.

Actuarial Statement

As required by Regulation 77 of the Local Government Pension Scheme Regulations 1997, the last actuarial valuation of the London Borough of Richmond Pension Fund's assets and liabilities was carried out as at 31 March 2007.

Security of prospective rights

In my opinion, the resources of the Fund are likely in the normal course of events to meet the liabilities of the Fund as required by the Regulations. In giving this opinion, I have assumed that the following amounts will be, and have been, paid to the Fund:

- Contributions by the members in accordance with the Local Government Pension Scheme Regulations 1997 until 31 March 2008, then in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007;
- Contributions by employers in accordance with the Rates and Adjustments Certificate dated 8 March 2005 for the year ending 31 March 2008. Thereafter for the three years commencing 1 April 2008 as specified in our Rates and Adjustments certificate dated 17 March 2008.

Summary of methods and assumptions used

Full details of the method and assumptions are described in our valuation report dated 17 March 2008 and the Rates and Adjustments certificate contained therein.

Copies of these documents are available on request from the Finance Department of the London Borough of Richmond.

My opinion on the security of the prospective rights is based on the projected unit valuation method where there is an expectation that new employees will be allowed to join the Fund.

These methods allow for future salary increases and assess the cost of benefits accruing to existing members during the year following the valuation.

The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities and the assessed value of assets.

Valuation of assets

A "market related" valuation method has been used for the actuarial valuation as at 31 March 2007. This is consistent with the methodology adopted at the 2004 valuation. The Fund's assets are taken at their market value on the date of the valuation (in this case 31 March 2007).

Valuation assumptions

The key financial assumptions adopted at the 2007 valuation are set out in the table below:

Assumption	Derivation	Rate at 31 March 2007	
		Nominal	Real
Price Inflation (RPI)	Market expectation of long term future inflation as measured by the difference between yields on fixed and index-linked Government bonds as at the valuation date	3.2%	-
Pay Increases *	Assumed to be 1.5% p.a. in excess of price inflation	4.7%	1.5%
'Gilt based' discount rate	The yield on fixed-interest (nominal) and index-linked (real) Government bonds	4.5%	1.3%
Funding basis discount rate	Assumed to be 1.47% p.a. above the yield on fixed interest Government bonds	6.0%	2.8%

* *Plus an allowance for promotional pay increases.*

The 2007 valuation revealed that the Fund's assets, which at 31 March 2007 were valued at £336 million, were sufficient to meet approximately 82% of the liabilities accrued up to that date.

Employers' contributions have been set in accordance with the Fund's Funding Strategy Statement. The deficit in the Fund is being spread over a period of 15 years.

Experience since April 2007

The financial experience of the Fund since 31 March 2007 has been unfavourable. Assets have significantly underperformed relative to the assumptions set at the valuation causing the funding level to deteriorate. In addition, increases in the future expectations of inflation and a fall in the real bond yields has increased the value of the liabilities. Further, this rise in inflation expectations has a significant impact on the expected cost of future benefits accruing since the valuation.

Accordingly, the level of employer contributions would be expected to increase above the current levels if a valuation were carried out at a current date on the current funding strategy. Our opinion on the security of prospective rights above is dependent upon any increased contribution requirements being met by the employers. However, this statement should also be read in the context of the statutory nature of the scheme.

The next valuation of the Fund will be carried out as at 31 March 2010.

Prepared by:-

Peter Summers

30 September 2009

For and on behalf of Hymans Robertson LLP

FUNDING STRATEGY STATEMENT

1. Introduction

This is the Funding Strategy Statement (FSS) of the London Borough of Richmond upon Thames Pension Fund ("the Fund"), which is administered by the Council of the London Borough of Richmond upon Thames ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, and after consultation with the Fund's employers and investment advisor. It is effective from 1 April 2008.

1.1 Regulatory Framework

Members' accrued benefits are guaranteed by statute. Members' contributions are fixed in the Regulations at a level which covers only part of the cost of accruing benefits. Employers pay the balance of the cost of delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers pay for their own liabilities.

The FSS forms part of a framework which includes:

- the Local Government Pension Scheme Regulations;
- the Rates and Adjustments Certificate, which can be found appended to the Fund actuary's triennial valuation report;
- actuarial factors for valuing early retirement costs and the costs of buying extra service; and
- the Statement of Investment Principles.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions, and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

1.2 Reviews of FSS

The FSS is reviewed in detail at least every three years as part of the triennial valuation process, and the current FSS was agreed as part of the valuation undertaken as at 31st march 2007 and is applicable from 1 April 2008. More frequently, Annex A is updated to reflect any changes to employers.

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues. If you have any queries please contact Malcolm Smith in the first instance at m.smith@richmond.gov.uk or on 020 8891 7249.

2. Purpose

2.1 The purpose of the FSS is:

- "to establish a clear and transparent Fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory framework to maintain as nearly constant employer contribution rate as possible; and,
- to take a prudent longer-term view of funding those liabilities."

These objectives are desirable individually, but may be mutually conflicting.

This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis.

2.2 Purpose of the Fund

The Fund is a vehicle by which scheme benefits are delivered. The Fund:

- receives contributions, transfer payments and investment income; and,
- pays scheme benefits, transfer values and administration costs.

One of the objectives of a funded scheme is to reduce the variability of pension costs over time for employers compared with an unfunded (pay-as-you-go) alternative.

The roles and responsibilities of the key parties involved in the management of the pension scheme are summarised in Annex B.

2.3 Aims of the Funding Policy

The objectives of the Fund's funding policy include the following:

- to ensure the long-term solvency of the Fund (and of the share of the Fund attributable to individual employers);
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to help employers recognise and manage pension liabilities as they accrue;
- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations; and
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective.

3. Solvency Issues and Target Funding Levels

3.1 Derivation of Employer Contributions

Employer contributions are normally made up of two elements:

(a) the estimated cost of future benefits being accrued, referred to as the "future service rate"; plus

(b) an adjustment for the funding position or ("solvency") of accrued benefits relative to the Fund's solvency target, referred to as the "past service adjustment". If there is a surplus there may be a contribution reduction; if a deficit a contribution addition, with the surplus or deficit spread over an appropriate period.

The Fund's actuary is required by the Regulations to report the Common Contribution Rate for all employers collectively at each tri-ennial valuation. It combines (a) and (b) and is expressed as a percentage of pay. For the purpose of calculating the Common Contribution Rate, the surplus or deficit under (b) is currently spread over a period of 15 years.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer. It is the adjusted contribution rate which employers are actually required to pay.

Annex A contains a breakdown of each employer's contributions following the 2007 valuation for the financial years 2008/09, 2009/10, 2010/11.

Any costs of non ill-health retirements in excess of the projected costs previously allowed for by the actuary (based on a member's "normal retirement age") must be paid to the Fund as lump sum payments at the time of the employers' decision in addition to the contributions described above. Any costs of ill-health retirements in excess of an annual allowance for such contingencies made by the actuary in the course of the tri-ennial valuation must similarly be paid to the Fund as lump sum payments.

3.2 Solvency and Target Funding Levels

The Fund's actuary is required to report on the "solvency" of the whole Fund at least every three years.

"Solvency" for ongoing employers is defined to be the ratio of the market value of assets to the value placed on accrued benefits, on the Fund actuary's ongoing funding basis. This quantity is known as a funding level.

The ongoing funding basis is that used for each triennial valuation and the Fund actuary agrees the financial and demographic assumptions to be used for each valuation with the Administering Authority.

The Fund operates the same target funding level for all ongoing employers of 100% of its accrued liabilities valued on the ongoing basis. Please refer to paragraph 3.7 for the treatment of departing employers.

3.3 Ongoing Funding Basis

The demographic assumptions are intended to be best estimates of future experience in the Fund.

The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes allowance for anticipated returns from equities in excess of bonds. There is, however, no guarantee that equities will out-perform bonds. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

It is therefore normally appropriate to restrict the degree of change to employers' contributions at triennial valuation dates.

Given the very long-term nature of the liabilities, a long-term view of prospective returns from equities is taken. For the 2007 valuation, it is assumed that the Fund's equity investments will deliver an average real return of around 2% a year in excess of the return available from investing in index-linked government bonds at the time of the valuation.

The same financial assumptions are adopted for all ongoing employers.

3.4 Future Service Contribution Rates

The future service element of the employer contribution rate is calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service. The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies that may have the power not to admit automatically all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

3.4.1 Employers that Admit New Entrants

The employer's future service rate will be based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year. Technically these rates will be derived using the Projected Unit Method of valuation with a one-year control period.

If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time.

Currently, it has been decided that the membership characteristics and histories of all the employer bodies detailed in Annex A which remain open to new entrants are sufficiently similar to permit a future service funding rate common to all to apply at present.

3.4.2 Employers Closed to New Entrants

Where Admission Bodies have closed the scheme to new entrants, leading to an increase in the average age of employee members over time, the actuary may vary the future service funding rate to reflect the increasing maturity of the liabilities (and consequent proximity of pension payments).

Future service rates will include expenses of administration to the extent that they are borne by the Fund and include an allowance for benefits payable on death in service and ill health retirement.

3.5 Stability of Employer Contributions

3.5.1 Deficit Recovery Periods

The Administering Authority instructs the actuary to adopt specific recovery periods for all employers when calculating their contributions.

The Administering Authority normally targets the recovery of any deficit over a period not exceeding 15 years.

The Council, as Administering Authority, has considered the possibility of varying deficit recovery periods for specific employers (or groups of employers) to periods both shorter and longer than 15 years, but has concluded that the maintenance of a 15-year deficit recovery period for all employers is appropriate at the present time.

Whilst acknowledging the differing nature of the employer bodies in terms of constitution and tax-raising powers (and the prerogative granted to the Administering Authority to differentiate on these grounds), the Council does not conclude that the risk inherent in the "pension guarantee" offered to these bodies would be mitigated to a material extent by the imposition of a shorter deficit recovery period. This conclusion takes into account various factors such as the size, nature, and funding regime of the various employer bodies in addition to the duration of their membership of the Fund.

The Council also intends to maintain for the present a 15-year deficit recovery period in respect of its own contributions to Fund.

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2008 for the 2007 valuation). The Administering Authority would normally expect an equivalent period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example to improve the stability of contributions.

3.6 Phasing In of Contribution Rises

Due to the determination of a Common Contribution Rate at the 2007 valuation (23.9%) equivalent to that determined at the 2004 valuation, it has not been necessary to phase a contribution increase from 1 April 2008. The rate of 23.9% will be effective from that date (as scheduled under the phasing associated with the 2004 valuation) and will not (in normal circumstances) be varied within the period to 31 March 2010.

3.7 Admission Bodies Ceasing

Admission Agreements are generally assumed to be open-ended and to continue until the last pensioner dies. Contributions, expressed as capital payments, can continue to be levied after all the employers have retired. These Admission Agreements can however be terminated at any point.

If an Admission Body's admission agreement is terminated, the Administering Authority instructs the Fund actuary to carry out a special valuation to determine whether there is any deficit.

The assumptions adopted to value the departing employer's liabilities for this valuation will depend upon the circumstances. For example:

(a) For Admission Bodies that elect to voluntarily terminate their participation, the Administering Authority must look to protect the interests of other ongoing employers and will require the actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in the future. This could give rise to significant payments being required.

(b) For Admission Bodies with guarantors, it is possible that any deficit could be transferred to the guarantor in which case it may be possible to simply transfer the former Admission Bodies' members and assets to the guarantor, without needing to crystallise any deficit.

Under (a), any shortfall would be levied on the departing Admission Body as a capital payment.

3.8 Early Retirement Costs

3.8.1 Non-Ill Health Retirements

The actuary's funding basis makes no allowance for premature retirement except on grounds of ill health. Employers are required to pay additional contributions wherever an employee retires before attaining the age at which the valuation assumes that benefits are payable.

It is assumed that members' benefits on age retirement are payable from the earliest age that the employee could retire without incurring a reduction to their benefit and without requiring their employer's consent to retire.

The additional costs of premature retirement are calculated by reference to these ages.

3.8.2 Ill Health Monitoring

The Fund monitors each employer's, or pool of employers', ill health experience on an ongoing basis. If the cumulative number of ill-health retirements in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases.

4. Links to Investment Strategy

Funding and investment strategy are inextricably linked. Investment strategy is set by the Administering Authority, after consultation with employers and after taking investment advice.

4.1 Investment Strategy

The investment strategy currently being pursued is described in the Fund's Statement of Investment Principles.

The current investment strategy (most recently amended on a significant basis in 2008) is set for the long-term, but is reviewed from time to time to ensure that it remains appropriate to the Fund's liability profile. The central part of the strategy is an investment benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. The proportion of equities and property within the benchmark is 82.5% of the total Fund assets, with the remainder held in bonds and cash. The full benchmark is shown in table below.

Category	%
UK Equities	38.0
US Equities	15.0
Europe Ex UK Equities	10.0
Japanese Equities	3.0
Pacific Rim Equities	2.5
Emerging Markets Equities	4.0
UK Government Bonds	6.5
Corporate Bonds	10.0
Property	10.0
Cash	1.0
Total	100.0

The lowest risk investment strategy in terms of potential variance to liabilities – but not necessarily the most cost effective in the long-term – would be 100% investment in index-linked government bonds.

The Fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from index-linked bonds. (This strategy recognises the relatively immature liabilities of the Fund and the secure nature of most employers' covenants.)

The same investment strategy is currently followed for all employers. The Administering Authority does not currently have the facility to operate different investment strategies for different employers.

4.2 Consistency with Funding Basis

The Fund's investment advisor's current best estimate of the long-term return from equities is around 3% a year in excess of the return available from investing in index-linked government bonds.

In order to reduce the volatility of employers' contributions, the funding policy currently anticipates returns of 2% that is 1% a year less than the best estimate return.

The anticipated future returns from equities used to place a value on employers' liabilities only relate to the part of the Fund's assets invested in equities (or equity type investments), assumed for the purposes of the tri-ennial valuation to be 75% of all the Fund's assets. (The actual allocation to these asset classes in the Fund's investment benchmark is 72.5% equities and 10% property.)

Non-equity assets invested in bonds and cash are assumed to deliver long-term returns of around 0.4% more than the prevailing redemption yield on Government bonds.

In this way, the employer contributions anticipate returns from Fund assets which in the Fund actuary's opinion there is a better than 50:50 chance of delivering over the long-term (measured over periods in excess of 20 years).

However, in the short-term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even the medium-term, asset returns will fall short of this target. The stability measures described in section 5 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.3 Balance Between Risk and Reward

Prior to implementing its current investment strategy, the Administering Authority considered the balance between risk and reward by altering the level of investment in potentially higher yielding, but more volatile, asset classes like equities. This process was informed by the use of Asset-Liability techniques to model the range of potential future solvency levels and contribution rates.

At portfolio level, the vast majority of equity exposure is divided between pooled vehicles managed on either a fully passive or enhanced index basis. This is considered to represent the best balance between risk and reward (including in this computation the factor of management cost) for this asset class. Bonds are managed using a combination of active and passive mandates. The property portfolio is divided between 3 balanced property unit trusts to ensure diversification of risk (relative to benchmark).

4.4 Intervaluation Monitoring of Funding Position

The Administering Authority monitors investment performance relative to the growth in the liabilities by reference annual FRS17 reporting, routine investment performance monitoring and, where required, ad hoc interim valuation reporting commissioned from the actuary.

5. Key Risks & Controls

5.1 Types of Risk

The Administering Authority has an active risk management programme in place. The measure that the Administering Authority has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

5.2 Financial Risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Analyse progress at three yearly valuations for all employers. Intervaluation roll-forward of liabilities

	between formal valuations, when considered appropriate.
Inappropriate long-term investment strategy.	Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.
Fall in risk-free returns on Government bonds, leading to a rise in value placed on liabilities.	Intervaluation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Short-term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Intervaluation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk.
Effect of possible increase in employer's contribution rate on service delivery and admission/schedule bodies.	Seek feedback from employers on scope to absorb short-term contribution rises. Mitigate impact through deficit spreading and phasing in of contribution rises.

5.3 Demographic Risks

Risk	Summary of Control Mechanisms
Pensioners living longer.	Set mortality assumptions with some allowance for future increases in life expectancy. Fund actuary monitors combined experience of around 50 funds to look for early warnings of lower pension amounts ceasing than assumed in funding.
Deteriorating patterns of early retirements.	Employers are charged the extra capital cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored.

5.4 Regulatory Risks

Risk	Summary of Control Mechanisms
Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees.	The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.

Changes to national pension requirements and/or HM Revenue & Customs rules e.g. effect of abolition of earnings cap for post 1989 entrants from April 2006.	It considers all consultation papers issued by the CLG and comments where appropriate. The Administering Authority will consult employers where it considers that is appropriate.

5.5 Governance Risks

Risk	Summary of Control Mechanisms
Administering Authority failing to commission the Fund actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.	The Administering Authority monitors member movements on a quarterly basis, via a report from the administrator at quarterly meetings.
Administering Authority not advised of an employer closing to new entrants.	The actuary may be instructed to consider revising the Rates and Adjustments certificate to increase an employer's contributions (under Regulation 78) between triennial valuations.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The risk is mitigated by: ▪ Seeking a funding guarantee from another scheme employer, or external body, wherever possible. ▪ Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. ▪ Vetting prospective employers before admission. ▪ Where permitted under the regulations requiring a bond to protect the scheme from the extra cost of early retirements on redundancy if the employer failed.

Annex A – Employers' Contributions, Spreading and Phasing Periods

Following the 2007 valuation, the minimum employer contributions shown in the Rates and Adjustment certificate attached to the 2007 valuation report are based on the deficit recovery periods and phasing periods shown in the tables below. The tables also show the individual adjustments under Regulation 77(6) to each employer's contributions from the "Common Contribution Rate" *(note that this list of employers excludes those that have no contributing members and either formally or for practical reasons cannot admit new members)*.

Employer	Deficit Recovery Period	Phasing-in Period	Common Contribution Rate
LB Richmond upon Thames	15 Years	N/A	23.9%
Richmond upon Thames College	15 Years	N/A	23.9%
Richmond Adult & Community College	15 Years	N/A	23.9%
Association of District Councils	15 Years	N/A	23.9%
Hampton School	15 Years	N/A	23.9%
Institute of Revenues, Rating & Valuation	15 Years	N/A	23.9%
Museum of Richmond	15 Years	N/A	23.9%
Notting Hill Housing Trust	15 Years	N/A	23.9%
Project for Children with Special Needs	15 Years	N/A	23.9%
Richmond Citizens' Advice Bureau	15 Years	N/A	23.9%
Richmond Council for Voluntary Service	15 Years	N/A	23.9%
Richmond Music Trust	15 Years	N/A	23.9%
South West Middlesex Crematorium Board	15 Years	N/A	23.9%
St Mary's University College	15 Years	N/A	23.9%
Twining Enterprise Limited	15 Years	N/A	23.9%
Cleanaway	15 Years	N/A	23.9%
Mears Building Contractors Limited	15 Years	N/A	23.9%
Richmond Housing Partnership	15 Years	N/A	23.9%
St Catherine's School	15 Years	N/A	23.9%

Employer	Adjusted Contributions for the Years Ending 31March		
	2009	2010	2011
LB Richmond upon Thames	23.9%	23.9%	23.9%
Richmond upon Thames College	23.9%	23.9%	23.9%
Richmond Adult & Community College	23.9%	23.9%	23.9%
Association of District Councils	23.9%	23.9%	23.9%
Hampton School	23.9%	23.9%	23.9%
Institute of Revenues, Rating & Valuation	23.9%	23.9%	23.9%
Museum of Richmond	23.9%	23.9%	23.9%
Notting Hill Housing Trust	23.9%	23.9%	23.9%
Project for Children with Special Needs	23.9%	23.9%	23.9%
Richmond Citizens’ Advice Bureau	23.9%	23.9%	23.9%
Richmond Council for Voluntary Service	23.9%	23.9%	23.9%
Richmond Music Trust	23.9%	23.9%	23.9%
South West Middlesex Crematorium Board	23.9%	23.9%	23.9%
St Mary’s University College	23.9%	23.9%	23.9%
Twining Enterprise Limited	23.9%	23.9%	23.9%
Cleanaway	25.9%	25.9%	25.9%
Mears Building Contractors Limited	25.9%	25.9%	25.9%
Richmond Housing Partnership	25.9%	25.9%	25.9%
St Catherine’s School	25.9%	25.9%	25.9%

Annex B – Responsibilities of Key Parties

The Administering Authority should:-

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

The Individual Employer should:-

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

The Fund actuary should:-

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard top the FSS; and
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

INTRODUCTION TO THE PENSION FUND ACCOUNTS

Basis on which the Accounts have been prepared

The Pension Fund Accounts (the Accounts) present the financial position of the Pension Fund for the accounting year that ended on 31st March 2009. The Accounts have been prepared and presented in accordance with 'proper practices' in relation to the Accounts (as required by the Accounts and Audit Regulations), principally 'statements of recommended practice' (SORPs) that have been issued for local government and pension schemes. These are set out in Note 2 to the Accounts.

Presentation of the Accounts

The Accounts have been approved and audited as an integral part of the Council's Statement of Accounts (Council's accounts) as they are required to be under the SORP. For the purposes of this Report the Accounts are reproduced with only superficial changes such as the numbering of the Notes to the Pension Fund Accounts (to reflect their relationship in the Accounts in this publication).

Accounting Policies

The accounting policies of the Pension Fund are set out in Note 2 to the Accounts. These state that the accounting policies adopted by the Council are applied to the Pension Fund Accounts except where they are not applicable or overridden by the specific policies set out in Note 2. The full disclosure note setting out the Council's accounting policies is not included in this publication but is available in the Council's Statement of Accounts 2008/09 and can be found at the following link:

http://www.richmond.gov.uk/statement_of_accounts_for_the_year_ending_march_2009.pdf

Further Information

If you have any questions or require further information on the Accounts please refer to the contact details on page 4.

PENSION FUND ACCOUNTS

FUND ACCOUNT

	Note	2008/09 £000	2008/09 £000	2007/08 Restated £000	2007/08 Restated £000
DEALINGS WITH MEMBERS AND EMPLOYERS					
Contributions receivable					
From employers:	6				
Normal		(11,628)		(9,074)	
Augmentation		(309)		123	
Deficit funding		(6,052)	(17,989)	(7,154)	(16,105)
From members (Normal)	6		(4,988)		(4,209)
Transfers In:					
Group transfers from other schemes		(16)		0	
Individual transfers from other schemes		(1,916)	(1,932)	(2,968)	(2,968)
			(24,909)		(23,282)
Benefits payable	6				
Pensions		12,286		11,455	
Commutation of pensions and lump sum retirement benefits		2,752		2,953	
Lump sum death benefits		161	15,199	142	14,550
Payments to and on account of Leavers	7				
Refunds of Contributions		54		31	
Transfers Out (Individual Transfers from other Schemes or Funds within the LGPS)		1,173	1,227	2,303	2,334
Administrative and other Expenses borne by the Scheme	9		524		496
Net Additions from Dealings with Members			**(7,959)**		**(5,902)**
RETURNS ON INVESTMENTS					
Investment income					
Interest from fixed interest securities		(567)		(696)	
Dividends from equities		(3,512)		(4,192)	
Income from index linked securities		(52)		(42)	
Income from pooled investment vehicles		(7,336)		(8,008)	
Interest on cash deposits		(329)		(633)	
Other		(4)	(11,800)	(2)	(13,573)
Change in market value of investments:					
Realised (gains) / losses		17,894		(8,983)	
Unrealised losses		54,420	72,314	36,748	27,765
Investment management expenses	19		731		830
Net Returns on Investments			**61,245**		**15,022**
Net decrease in the Fund during the year			53,286		9,120
Opening net assets of the Fund			(325,214)		(334,334)
Closing net assets of the Fund			**(271,928)**		**(325,214)**

NET ASSET STATEMENT

	Note	2008/09 £000	2008/09 £000	2007/08 Restated £000
Investment Assets				
Fixed interest securities:				
Public sector			0	17,402
Equities			0	96,395
Index-linked securities				
Public sector			0	3,243
Pooled investment Vehicles :				
Unit trusts:				
Property		19,079		28,399
Other		72,316	91,395	97,815
Unitised insurance policies:				
Other		124,559	124,559	0
Open ended investment companies (OEICS):				
Other		51,645	51,645	49,351
Other Pooled Vehicles:				
Other		0	0	20,235
Cash (Interest Bearing Deposits)			3,948	11,571
Total assets invested	11		**271,547**	**324,411**
Other investment balances				
Investment debtors:				
Investment income accrued		1,133		602
Investment creditors:				
Investment settlements outstanding		(1,027)	106	0
			271,653	**325,013**
Net Current Assets and Liabilities				
Debtors:				
Monthly Contributions due from employers		386		274
Other		171	557	296
Creditors:				
Unpaid benefits (lump sum entitlements)		(20)		(178)
Investment management expenses		(109)		(89)
Other		(153)	(282)	(102)
			275	**201**
Total Net Assets	11 & 13		**271,928**	**325,214**

LIABILITIES TO PAY PENSIONS AND OTHER BENEFITS AFTER THE BALANCE SHEET DATE
Unlike most financial statements, pension funds' financial statements do not take account of any liabilities in respect of pension and other benefit liabilities due beyond the year of account. This aspect of the Pension Fund's financial position is specifically covered by the actuarial valuation and report by the Fund's actuary in the following notes.

THE PENSION FUND ANNUAL REPORT IS AUTHORISED FOR ISSUE ON 23rd NOVMBER 2009.
In accordance with Financial Reporting Standard 21 (FRS 21) this is the date up to which any events have been considered in the Statement of Accounts.

Mark Maidment
Director of Finance and Corporate Services
23rd November 2009

NOTES TO THE PENSION FUND ACCOUNTS

Note 1 DESCRIPTION AND OPERATION OF THE FUND

Description of the Fund

Employees of the Council are generally entitled to join an occupational pension scheme. Non-teaching staff can join the Local Government Pension Scheme (the LGPS). The LGPS is a statutory scheme, and rules in respect of membership and benefits etc. are prescribed under regulation. The LGPS is a defined benefits scheme, in which members of the scheme make a contribution based on a percentage of pensionable salary, and on retirement receive a guaranteed, index-linked pension based on their final pensionable salary and the period of scheme membership. Full details on the LGPS can be found at the following website:

www.lgps.org.uk

Responsibilities of the Council to administer the Pension Fund

The Council is an Administering Authority under the Local Government Pension Scheme (Administration) Regulations 2008 (SI 2009/1025), and as such is required to operate the LGPS on its own behalf and on behalf of other nominated employers (see below). The Fund is a separate entity for accounting purposes and its Fund Account and Net Asset Statement are separate financial statements although they are also presented, but not consolidated, in the Council's accounts for information because the Council is the Administering Authority.

The Council as an employer within the Pension Fund is responsible for collecting and paying over employee contributions to the Fund. Under the LGPS rules, employee contributions are periodically set by the government, whereas employer contributions have to be set at a level sufficient to meet the long-term obligations of the Fund, as determined by the triennial Actuarial Valuation.

The role of the Pension Fund is to collect employees' and employers' contributions from the Council and the other employer bodies, invest surplus funds and make payment of benefits out of the Fund. It is also responsible for making and receiving transfer payments for members joining and leaving the Fund.

Governance arrangements for the Fund

Until May 2008, the Council had appointed the Investment Committee to have responsibility for Pension Fund matters that were principally related to the Fund's investments. Following changes to LGPS regulations, that included the requirement to publish an annual report, and a decision by the Audit Commission to make the accounts of local authority pension funds separate audit engagements (they were previously audited as part of the Administering Authority's accounts – in this case the Council's accounts), the terms of reference and title of the Investment Committee were changed and the Pension Fund Committee became responsible for all Pension Fund matters, including the accounts and audit.

The Pension Fund Committee (and previously the Investment Committee) meets at least four times each year. The membership of both Committees during 2008/09 was:

Councillor C. Percival (Chair)
Councillor J. Elloy (Vice-Chair)
Councillor G. Acton
Councillor G. Evans
Councillor E. Stanier

In addition to these Councillors, Mr L Johnson is a non-voting attendee at meetings of the Committee as staff observer.

The Fund's investment advisor (Mr J Hastings of Hymans) also attends Committee meetings to provide professional investment advice and representatives of appointed fund managers attend as required. The Fund's independent auditor attends the Committee to present both the audit plan and report on matters arising from the audit of the Pension Fund accounts.

Investment management arrangements

The Fund has appointed fund managers to undertake its investment management responsibilities. During 2007/08 the Fund employed two managers (Henderson Global Investors and Schroder Investment Management Limited), each with roughly half of the Fund's investments. During 2008 the Investment Committee appointed Legal & General Investment Management Limited to replace Schroders in respect of all the latter's non-property assets. Details of investments under management are provided in Note 13 to Note 16.

In addition, the Fund has an investment in a property unit trust – the Local Authorities Property Fund (LAPF), managed by Local Authorities Mutual Investment Trust (LAMIT).

The Fund has also made the following external appointments:

Investment advisors –	Hymans Robertson LLP
Independent auditors –	PKF (this appointment is made directly by the Audit Commission)
Custodians –	JPMorgan Chase & Co

Other professional advice (e.g. legal advice) is provided by Council officers.

Note 2 PENSION FUND ACCOUNTING POLICIES

Basis of Preparation

The Fund's accounts are prepared in accordance with proper accounting practice that represents compliance with:

- The Code of Practice on Local Authority Accounting in the UK 2008; A Statement of Recommended Practice (the local government SORP), and
- Financial Reports of Pension Schemes; A Statement of Recommended Practice (Revised May 2007) – (the Pensions SORP).

Change in Accounting Policy

The Pensions SORP applies to the accounts of local authority pension funds from 1 April 2008. The SORP requires investment assets to be recognised at Fair Value and this is a change in accounting policy from the previous basis of recognition that was generally at mid-market prices. This is described in more detail in the paragraph below on valuation of investments. In accordance with FRS 3 and FRS 18, the comparative figures for 2007/08 are re-stated on the basis of Fair Value, with the effect of reducing the Fund balance at 31 March 2008 by £1.421million (0.43%), from £326.635million previously stated to £325.214million.

Accounting Policies

General Policies

The general accounting policies that are adopted by the Administering Authority – the Council of the London Borough of Richmond upon Thames, are applied to the accounts of the Pension Fund where they are applicable.

The accounts are prepared on an accruals basis with the significant exception that no recognition is made in respect of liabilities to pay pensions and other benefits after the year-end of account. This treatment is prescribed in the Pensions SORP on the basis that future liabilities that are subject to actuarial valuation are best considered in the context of the full actuarial valuation and the consequent funding statement and funding policy.

The only other exception to the accruals basis is in respect of transfer values. Transfer payments are made normally when an employee changes employer and moves from one pension scheme to another. Occasionally, following a reorganisation for example, a group of employees may transfer to different pension scheme. In normal circumstances, the receiving pension scheme will not be liable for any pension benefits in respect of the transferring member until the relevant assets (the transfer value) have been received. Transfer values are therefore accounted for on the basis of when they are paid or received as required under the Pensions SORP.

Valuation of Investments

Investments are recognised at Fair Value. This is the amount for which an asset could be exchanged, or a liability settled, between unrelated, willing and knowledgeable parties, in an arms-length transaction, and is generally taken as the appropriate market value at the quoted bid price. These are taken at close of business on 31st March or the last prior trading day for relevant markets.

The majority of the Fund's investments are held in pooled vehicles. These are valued on the basis of bid prices with the exception of pooled vehicles managed by Hendersons where the values are recognised on the basis of the quoted mid-price less a percentage liquidation fee that reflects the price the Fund would receive if it realised these investments.

In respect of investments managed by Schroders, bid prices for investments held at 31 March 2008 have not been provided to the Fund. To arrive at Fair Value the investment values provided at mid-price have been discounted to effective bid-price by using an appropriate 'spread' between mid and bid-price at 31 March issued by another of the Fund's managers.

Further details of the valuation of investment assets are provided in Note 16 on page 70.

Foreign Currency Translation

All non-sterling transactions and valuations are translated using the closing rate of exchange as at the date of valuation.

Overseas income is translated at rates of exchange applicable when remitted.

All gains and losses arising from currency transactions in the purchase of non-sterling investments are shown in the Fund Account as realised gains or losses.

Gains or losses arising from currency futures contracts are only recognised when contracts are closed and are accounted for as either realised gains or losses.

Administrative Expenses charged by the Administering Authority

The administrative costs of the Fund are set out in Note 9 on page 65. Administration and processing costs (such as salaries, accommodation and ICT costs) are initially borne by the Council (as the Administrating Authority) and charged to the Fund on appropriate bases such as time spent on work related to the Fund and floor area of office accommodation occupied by those staff.

Note 3 MEMBERSHIP OF THE FUND

Although the Fund is administered by the Council, it also includes the employees of certain other bodies. These are either scheduled bodies (required by statute to be members of the Fund) or admitted bodies (admitted to the Fund by agreement).

The scheduled and admitted bodies act as employers in the same way as the Council and all are responsible for making deductions from their employees and paying these and their own employer's contributions to the Fund on a regular basis. The Fund makes pension and other benefit payments directly to Fund members.

Membership details as at 31st March are summarised in the following table:

*(Note admitted bodies marked * had no contributing members in 2008/09 and paid no contributions to the Fund in that year).*

FUND MEMBERSHIP	31 March 2009 Contributors	Members with Preserved Benefits	Pensioners and Dependents	Total Members	31 March 2008 Total Members
Admitted Bodies:					
Association of District Councils*	0	3	19	22	21
Hampton School	60	17	12	89	83
Notting Hill Housing Trust	1	9	10	20	20
St. Mary's College	159	79	76	314	280
SW Middlesex Crematorium Board	11	7	13	31	31
Richmond CAB *	0	0	1	1	2
Housing Organisations Mobility & Exchange Services *	0	10	3	13	14
Richmond Council for Voluntary Services*	0	4	4	8	10
Richmond upon Thames Music Trust	7	2	2	11	9
Christ's Community Management Body *	0	2	0	2	2
IRRV	12	21	3	36	36
Project for Children with Special Needs *	0	2	2	4	4
St. Catherine's School	3	7	1	11	10
Museum of Richmond*	0	2	0	2	2
Richmond Housing Partnership	23	30	13	66	71
Twining Enterprises	1	9	3	13	13
Mears Building Contractors Ltd	1	6	6	13	13
Scout Solutions *	0	16	8	24	23
Veolia (formerly Cleanaway)	44	11	8	63	63
Total Admitted Bodies	**322**	**237**	**184**	**743**	**707**
Scheduled Bodies:					
Richmond Magistrates' Court*	0	33	9	42	44
Richmond upon Thames College	229	170	110	509	487
Richmond Adult & Community College	63	138	29	230	216
Total Scheduled Bodies	**292**	**341**	**148**	**781**	**747**
LBRUT	2,767	2,752	2,507	8,026	7,576
TOTAL MEMBERSHIP	**3,381**	**3,330**	**2,839**	**9,550**	**9,030**

Note 4 BASIS OF ACTUARIAL VALUATION

The latest actuarial valuation of the Fund was completed as at 31st March 2007. The actuarial method used to determine the contribution rate required to meet liabilities accruing in the future is known as the Projected Unit Method. The principal financial assumptions adopted in the valuation were as follows:

Investment Return	
Composite	6.0%
Increases in Liabilities	
Salary Increases	4.7%
Pension Increases	3.2%

The market value of the scheme's assets at the date of valuation in March 2007 are shown in the following table.

	Valuation as at 31 March 2007	
ASSET CATEGORY	**£000**	**%**
UK Equities	144,305	43.0%
UK Fixed Interest Gilts	15,028	4.5%
UK Corporate Bonds	22,328	6.5%
UK Index Linked Gilts	2,204	0.7%
Overseas Equities	100,087	29.8%
Overseas Bonds	5,242	1.6%
Property	34,631	10.3%
Cash	11,036	3.3%
Net Debtors & Creditors (net current assets)	930	0.3%
Total Net Assets at Valuation Date	**335,791**	100.0%

Note 5 ACTUARIAL VALUATION – RESULTS

The results of the last actuarial valuation undertaken as at 31 March 2007 are summarised in the Actuarial Statement included in the Fund's Annual Report. Employers' contributions are then set taking into account the results of the valuation and the Funding Strategy for the Fund, which is also included in the Annual Report. The key elements in this process are:

Level of Funding

The results of the last revaluation at 31st March 2007 indicated that the actuarial value of the available assets of £335.8m (see table above) were sufficient to cover 82.1% of the accrued liabilities to that date.

Funding Policy

The Council is required to set employers' contributions rates to the Fund such as to ensure that the Fund is sufficient to meet 100% of its liabilities.

In accordance with the Funding Strategy, employers' contributions to the Fund are being made up over a period of 15 years, to bring the funding level up to a fully solvent position. The additional contribution rate set to achieve this is 8.2%, and this funding policy applies to all employers in the Fund.

Note 6 CONTRIBUTIONS AND BENEFITS

The following tables analyse contributions and benefits received and paid by the Fund by reference to the different scheme employers:

Contributions

	2008/09			2007/08		
	Employers	Members	Total	Employers	Members	Total
Contributions	£000	£000	£000	£000	£000	£000
Administering Authority (LBRUT)	14,441	3,995	18,436	12,954	3,366	16,320
Scheduled Bodies	1,448	423	1,871	1,361	367	1,728
Admitted Bodies	2,100	570	2,670	1,790	476	2,266
Total Contributions	**17,989**	**4,988**	**22,977**	**16,105**	**4,209**	**20,314**

Benefits

	2008/09	2007/08
Benefits	£000	£000
Administering Authority (LBRUT)	13,422	12,915
Scheduled Bodies	792	749
Admitted Bodies	985	886
Total Benefits	**15,199**	**14,550**

Note 7 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

The following table provides details of the payments made to, and on account of, leavers in respect of the Council's Pension Fund:

	2008/09	2007/08
	£000	£000
Individual transfers to other schemes	1,173	2,303
Refunds to members leaving service	54	31
	1,227	**2,334**

Note 8 ADDITIONAL VOLUNTARY CONTRIBUTIONS

The Council is required to offer the facility for Additional Voluntary Contributions (AVCs). These contributions are voluntary and are paid over to the AVC provider for investment on behalf of the members concerned. These transactions are not included in the Fund Account or the Fund Net Assets Statement but details are given in the following table:

	31 March 2009 £000	31 March 2008 £000
Value of Investments		
Clerical Medical	1,175	1,190
Equitable Life	954	1,105
Total	**2,129**	**2,295**
Number of Members Participating		
Clerical Medical	119	120*
Equitable Life	200	159*
Total	**319**	**279***
	2008/09 £000	**2007/08 £000**
Contributions received from members in year	174	152

* *Note: figures for AVC members for 31 March 2008 were not notified in time for publication in the accounts and were included on an estimated basis.*

Note 9 ANALYSIS OF ADMINISTRATIVE COSTS

The following table provides details of the administrative costs of the Fund.

Administration Costs	2008/09 £000	2007/08 £000
Administration and processing	378	375
Actuarial fees	71	66
Audit Fees	33	0
Communication with Members	25	25
Other	17	30
Total Benefits	**524**	**496**

Note 10 INVESTMENT PRINCIPLES

Local authority pension schemes are required to publish a Statement of Investment Principles (SIP) and to include disclosure of the extent of compliance with the investment principles issued by the Government. The Fund's SIP is set out in full from page 24 of this Report.

Note 11 RECONCILIATION OF MOVEMENT IN INVESTMENTS

The following table reconciles the movement in the Fund's investment assets in the year.

	Value as at 1 April 2008 Restated	Purchases	Sale proceeds	Profit / Loss on Disposal	Change in Market Value	* Other	Value as at 31 March 2009
	£000	£000	£000	£000	£000	£000	£000
Legal & General	0	130,662	0	0	(6,104)	0	124,558
Henderson	145,215	58,672	(34,424)	135	(38,222)	0	131,376
Schroders	162,933	44,264	(172,779)	(17,986)	(8,288)	635	8,779
LAMIT (property)	4,692	0	0	0	(1,806)	0	2,886
	312,840	**233,598**	**(207,203)**	**(17,851)**	**(54,420)**	**635**	**267,599**
Cash deposits	11,571	Foreign Exchange Gain / Loss		(43)			3,948
Total assets invested	**324,411**						**271,547**
Net Current Assets	803			**(17,894)**			381
Total Net Assets	**325,214**						**271,928**

* Other: Capitalisation of income distribution

Note 12 INVESTMENT TRANSACTION COSTS

Transaction costs are included in the costs of purchases and sale proceeds. Transaction costs include costs charged directly to the Fund, such as commission, stamp duty and other fees. These were:

	2008/09	2007/08
	£000	£000
Investment transaction costs	289	251

In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles.

Note 13 INFORMATION ON ASSETS UNDER MANAGEMENT

Change of Investment Manager

A change in investment policy was made in 2008/09 to switch a proportion of the Fund from active management to passive management. Schroders' investment mandate was to operate an actively managed fund and, following a selection process, Legal & General were appointed to replace Schroders with a passive management mandate. This change took place in November 2008 together with some minor consequential adjustments to the Fund's investments to maintain various benchmark allocations.

Summary of investment assets under management

Type of Asset	L&G £000	Schroders £000	Henderson £000	Total £000	Schroders £000	Henderson £000	Total £000
	31 March 2009				31 March 2008 Restated		
UK Investments							
Listed	75,831	8,779	84,522	169,132	106,417	98,402	204,819
Overseas Investments							
Listed	48,727	0	46,854	95,581	56,516	46,813	103,329
Cash	0	965	(726)	239	5,038	2,738	7,776
Total Under Management	**124,558**	**9,744**	**130,650**	**264,952**	**167,971**	**147,953**	**315,924**
Percentage of Fund under management	47%	4%	49%	100%	53%	47%	100%
Other investment assets:							
Directly held UK investments (LAMIT)			2,886			4,692	
Cash (interest bearing deposits)			3,709			3,795	
Other investment balances - debtors and creditors			106	6,701		602	9,089
Total investment assets				**271,653**			**325,013**
Other net current assets				275			201
Total Net Assets				**271,928**			**325,214**
Analysis of All Investments:							
Total UK Investments (includes directly held LAMIT investment)				172,018			209,511
Total Overseas Investment				95,581			103,329
Cash and deposits				239			7,776
Total invested				**267,838**			**320,616**
All investments are in pooled investment vehicles with quoted prices							

Note 14 ASSETS UNDER MANAGEMENT – TRANSACTIONS

The following table provides a summary of investment transactions for each fund manager.

	L&G £000	Schroders £000	Henderson £000	Total £000	Schroders £000	Henderson £000	Total £000
	2008/09				2007/08		
Purchases	130,662	44,264	58,672	233,598	54,312	14,887	69,199
Sales	0	172,779	34,424	207,203	41,541	9,421	50,962
Total Transactions	**130,662**	**217,043**	**93,096**	**440,801**	**95,853**	**24,308**	**120,161**

Note 15 STATUS OF INVESTMENTS UNDER MANAGEMENT

This note provides details of the investments held by each manager at year-end. It gives details of each of the pooled vehicles used by each manager and the percentage that each investment represents of the total of Fund. All fund managers are incorporated and registered in the UK with the exception of Henderson, which is incorporated and registered in Jersey.

The types of pooled vehicles are shown by the following abbreviations:

AUT	Authorised Unit Trust
PUT	Property Unit Trust
UUT	Unauthorised Unit Trust
OEIC	Open Ended Investment Company
USM	United States Mutual Fund
UCITS	Fund managed under the EU Directives: Undertakings for Collective Investments in Transferable Securities

Status of individual investments under management

The three managers with responsibility for the Fund's investments during the relevant period are shown below.

(A) Henderson Global Investors Investments are managed by five separate entities and each of these invests in a number of pooled vehicles:

	Value of Assets Under Investment			
	31 March 2009		31 March 2008 Restated	
	£000	% of Fund	£000	% of Fund
Pooled Investments				
Henderson Investment Funds Limited				
UK Equity Enhanced Trust 'Z' (AUT)	51,611	19	63,620	20
Exempt North American Enhanced Equity 'Z' (UUT)	20,705	8	14,490	5
	72,316	**27**	**78,110**	**25**
Henderson Strategic Investment Funds				
European Enhanced Equity Fund 'Z' (OEIC)	12,208	4	14,830	5
Japan Enhanced Equity 'I' (OEIC)	3,325	1	5,721	2
Asia Pacific Ex Japan Enhanced Equity Fund 'I' (OEIC)	3,977	2	4,766	2
	19,510	**7**	**25,317**	**9**
Henderson Global Funds				
Henderson Overseas Bond Fund 'I' (OEIC)	0	0	3,712	1
Emerging Markets Fund 'I'	6,639	2	3,294	1
	6,639	**2**	**7,006**	**2**
Henderson UK & Europe Funds				
Henderson UK Gilt Fund 'I' (OEIC)	7,715	3	0	0
Henderson Index Linked Bond Fund 'I' (OEIC)	0	0	2,877	1
Henderson All Stock Credit 'I' (OEIC)	14,747	6	3,547	1
Henderson Long Dated Credit Fund 'I' (OEIC)	3,034	1	10,603	3
	25,496	**10**	**17,027**	**5**
Henderson Property Management (Jersey) Limited				
UK Property Fund Units (PUT)	7,415	3	10,532	3
	7,415	**3**	**10,532**	**3**
Segregated Investments				
Fixed interest - public sector	0	0	7,223	2
Total invested (Note 83)	**131,376**	**49**	**145,215**	**46**
Cash	(726)	0	2,738	1
Total all Henderson Funds	**130,650**	**49**	**147,953**	**47**

(B) Legal and General Investments managed by Legal and General Investment Management Ltd. These are held in two unitised insurance policies providing passive management based on index-linked returns covering the benchmark portfolio allocation.

	Value of Assets Under Investment			
	31 March 2009		31 March 2008 Restated	
	£000	% of Fund	£000	% of Fund
Pooled Investments				
Legal and General Assurance (Pensions Management) Limited				
Policy Number 35334-2/000 (Insurance Policy)	62,279	23.5	0	0
Policy Number 35336-7/000 (Insurance Policy)	62,279	23.5	0	0
	124,558	**47**	**0**	**0**

(C) Schroders Investments managed by Schroder Investment Management Ltd were managed on an active basis with holdings directly in pooled investment funds, and equities and fixed interest securities held on a segregated basis. No individual segregated investment exceeded 5% of the Fund's total asset value.

	Value of Assets Under Investment			
	31 March 2009		31 March 2008 Restated	
	£000	% of Fund	£000	% of Fund
Pooled Investments				
Schroder Unit Trusts Limited				
Institutional UK Smaller Cos. Fund (AUT)	0	0	755	0
Japan Smaller Cos. Fund Income Units (AUT)	0	0	162	0
Intermediate Corporate Bond Fund 'X' Accumulation (AUT)	0	0	13,284	4
Institutional International Bond Fund 'X' Accumulation (AUT)	0	0	1,251	1
	0	**0**	**15,452**	**5**
Schroder Investment Management North America Inc				
Global Series Trust North America Equity Fund (USM)	0	0	20,189	6
	0	**0**	**20,189**	**6**
Schroder Investment Management (Luxembourg) SA				
International Selection Fund Taiwanese Equity Class 'I' Distribution (UCITS)	0	0	47	0
	0	**0**	**47**	**0**
Schroder Investment Management (Guernsey) Limited				
Institutional Developing Markets Fund 'A' Units (UUT)	0	0	4,253	1
	0	**0**	**4,253**	**1**
Schroder Property Investment Management Limited				
Schroder Exempt Property Unit Trust (PUT)	8,779	3	13,175	4
	8,779	**3**	**13,175**	**4**
Segregated Investments				
Fixed interest - public sector	0	0	10,179	3
Index linked - public sector	0	0	3,243	1
Fixed interest - other	0	0	0	0
Equities - UK	0	0	65,781	21
Equities - other	0	0	30,614	10
	0	**0**	**109,817**	**35**
Total invested (Note 83)	**8,779**	**3**	**162,933**	**51**
Cash	965	1	5,038	2
Total all Schroders Funds	**9,744**	**4**	**167,971**	**53**

Note 16 VALUATION OF FUNDS UNDER MANAGEMENT

The Pension SORP 2007 requires investments to be valued at their Fair Value basis. Where there is an active market for a particular investment, the bid price is usually the appropriate quoted price to represent the fair value of that investment. The following paragraphs describe the valuation basis used:

Henderson

Investments are held in a variety of pooled investment vehicles. Units in these are all valued at a 'mid-price'. There is no 'bid' price quoted for these vehicles so Fair Value of these investments is determined by applying a "dilution levy" issued on a monthly basis by the manager for each investment vehicle. This levy reflects the estimated liquidation cost of the underlying assets based on the current conditions and liquidity of the relevant market and is designed to protect the interests of ongoing unit holders. Mid price less the dilution levy represents the minimum realisable value of the investment and represents the fair value of these assets. The exception to this is Henderson's Property Unit Trust, where a conventional unit bid value is quoted by the manager.

L&G

Investments with L&G are held via two insurance policies. Under this arrangement, which is the conventional form of UK passive fund management, the surrender value of the policy is directly linked to underlying units in L&G's index-tracking funds, held (and maintained) in proportion to the policy holder's required asset distribution. The policy holder has no title to or direct beneficial ownership of either the units or underlying physical securities, which are the property of L&G. The policy values have been shown in the accounts in accordance with the bid values of the reference units issued by L&G, representing the effective surrender value of the policy.

Schroders

Schroders' Property Unit Trust has been valued at the official unit bid value issued by the manager for each respective year end. In view in of the unavailability of specific bid values for both Schroders' segregated and unitised investments as at 31 March 2008, equivalent figures have been estimated using figures issued by another of the Fund's managers for similar vehicles in the relevant asset classes.

Note 17 RESTRICTIONS AFFECTING THE REALISATION OF INVESTMENTS

There were no formal restrictions affecting the ability of the Fund to realise its investments at their carrying value at year-end. However, in common with most, if not all property-related pooled vehicles, it is likely that a delay would arise in the event of the Fund realising its holdings in any of the LAMIT, Henderson and Schroder property vehicles, if actual disposals were required within the relevant pooled vehicle.

Note 18 INFORMATION ON ASSETS DIRECTLY HELD

In addition to funds under the management of fund managers, the Fund directly holds 1,485,701 units in the Local Authorities Property Fund (LAPF). This is a property unit trust to which the trustee is the Local Authorities Mutual Investment Trust (LAMIT), responsible for the appointment of the property manager, CCLA Investment Management Limited.

	31 March 2009		31 March 2008 Restated	
	£000	% of Fund	£000	% of Fund
LAMIT Local Authorities Property Fund (PUT)	2,886	1	4,692	1

There were no purchases or sales in these units by the Fund during 2008/09 or 2007/08.
The Fund assets are valued by surveyors appointed by the trustee managers of the trust and the units are carried in the balance sheet at bid price, reflecting their fair value.
There were no restrictions affecting the ability of the Fund to realise its investments at their carrying value at year-end.

Note 19 ANALYSIS OF INVESTMENT MANAGEMENT COSTS

	2008/09 £000	2007/08 £000
Investment management expenses:		
Investment managers' fees	667	772
Custodian Fees	17	24
Investment advisor's fees	35	22
Performance Measurement Fees	12	12
	731	**830**

Note 20 MATERIAL TRANSACTIONS WITH RELATED PARTIES

The Pension Fund is a separate entity from the Council with its own Fund Account and Net Asset Statement. The following material transactions took place between the Council and the Pension Fund:

	2008/09 £000	2007/08 £000
Income:		
Pension Contributions-from the Council (employer's contributions)	(14,441)	(12,954)
Pension Contributions-from employees (deductions paid over)	(3,995)	(3,365)
Interest	(90)	(116)
Total Income	**(18,526)**	**(16,435)**
Expenditure:		
Indirect support costs provided by the Council	**378**	**375**

Note 21 CONTINGENT ASSETS AND LIABILITIES

Apart from future pension and benefit liabilities, the Pension Fund had no contingent assets or liabilities as at 31st March 2009.

Note 22 EVENTS AFTER THE BALANCE SHEET DATE

The accounts for the Pension Fund are authorised for issue on the date that the Statement of Responsibilities for these accounts was signed – 22nd June 2009. There are no events after 31st March 2009 that require adjustment to the accounts.

The only non-adjusting event that is reported is that investment values have generally increased since 31st March and are approximately 23% higher (based on the valuation at end of August), equivalent to around £62million more than reported in the Net Asset Statement
.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF RICHMOND UPON THAMES COUNCIL

We have audited the pension fund accounts of London Borough of Richmond upon Thames Council for the year ended 31 March 2009. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of London Borough of Richmond upon Thames Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Director of Finance and Corporate Services and auditor

The Director of Finance and Corporate Services is responsible for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008. In preparing this pension fund accounts, the Responsible Financial Officer is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgments and estimates that were reasonable and prudent;
- keeping proper accounting records which were up to date;
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Our responsibility is to audit the pension fund accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year. We also report to you whether, in our opinion, the information which comprises the commentary on the financial performance included within the Pension Fund Annual Report, is consistent with the pension fund accounts. That information comprises the section entitled Investment management and Performance.

We review whether the governance compliance statement published in the Pension Fund Annual Report reflects compliance with the requirements of Regulation 34(1)(e) of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. We report if it does not meet the requirements specified by the Department of Communities and Local Government or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read other information published with the pension fund accounts and related notes and consider whether it is consistent with the audited pension fund accounts. This other information comprises the remaining elements of the Pension Fund Annual Report. This other information comprises the sections entitled Foreword, Introduction by the Chair of the Pension Fund Committee, Administration, Investments (Management of the Pension Fund's Investments and Statement of Investment Principles only) and Actuarial Statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund accounts and related notes. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounts and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the pension fund accounts and related notes.

Opinion

In our opinion:

- the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund's assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year; and

- the information given in the commentary on financial performance included within the Pension Fund Annual Report is consistent with the pension fund accounts.

Leigh Lloyd-Thomas
for and on behalf of **PKF (UK) LLP**
London, UK

23 November 2009

GLOSSARY OF TERMS

Active: describes an investment approach designed to add value (often referred to as "alpha") relative to a specified benchmark index.

Annualised: a formula-derived way of expressing a series of disparate, consecutive annual returns as single (annual) return yielding the same aggregate return if applied to the entire period. Allows series of variable annual returns to be easily compared.

Asset Allocation: [1] strategic asset allocation is the mix of equities, bonds, property (and potentially other asset classes) deemed to be appropriate to the Fund's return objective, investment horizon and risk appetite, comprising the Fund's investment benchmark (definition 1); [2] tactical asset allocation is the short-term, discretionary movement away from an asset's central benchmark weighting (usually within defined limits), designed to add value based on a prediction of (short-terms) relative returns.

Asset Ranges: parameters limiting the maximum permitted divergence from the central benchmark asset weightings.

Benchmark: [1] the % allocation of the investment fund to different asset types; [2] the index used as a proxy or comparator for the performance of the asset type e.g. FTSE All-Share; [3] the quantitative performance of either the composite benchmark or individual components. Generally, although the term is used interchangeably in the above contexts, it essentially implies the Fund's long-term or strategic asset allocation, set by reference to factors such as the Fund's liability profile, funding level, risk appetite and capacity to absorb volatility.

Bond: a fixed interest security issued either by a sovereign government or a company (a "corporate" bond), whose value is broadly related to prevailing interest rate for the maturity period and (especially in the case of corporate bonds) the perceived credit-worthiness of the issuer.

Custodian: the party providing safekeeping and servicing of the investment assets of the Fund. Functions typically include: physical or electronic custody of securities; holding cash; processing settlement instructions; receiving income; reclaiming tax; processing voting instructions and corporate actions. Historically, custody was usually provided by (or via) a fund manager, but is now more commonly obtained as a separate service. The fund manager and custodian will establish reporting lines between themselves so that data required to carry out instructions and maintain records can be exchanged. Where custody is obtained separately, funds will typically employ a single "global" custodian for all the Fund's assets. The use of an independent custodian is generally helpful when changing fund managers, as "physical transfer" of assets is not (necessarily) required.

Derivative: a generic term applied to an instrument whose value is referenced to a specific index, stock or rate etc.

Equity: a security conferring ownership of a company (and usually voting rights) whose price is broadly related to the market's perception of company's underlying value.

Forward Currency Contract: an agreement to buy or sell currency at a future date at a price specified at the inception of the contract (used to protect against potential currency-related losses when holding non-sterling investment assets).

FRAG21 Report (Now largely replaced by the AAF 01/06 Report): an annual report on the efficacy of internal control procedures issued by "investment custodians" (which includes fund managers for this purpose). The report is produced for the directors of the investment custodian by an appointed auditor, for the use of the investment custodian's clients (and the clients' auditors). (The terms under which the report is issued usually seek to limit the reporting firm's liability to third parties using the report.) The principal purpose of the report is to serve in lieu of individual client audits of managers' internal controls, and the inevitable duplication thereby entailed.

Fund Manager (also Asset / Investment Manager): directly responsible for managing the investment assets of the Fund. At its narrowest definition, fund management covers only "front office" functions such as stock selection and execution, but "back office" functions such as portfolio administration and accounting, client reporting, compliance and settlement, and potentially also custody services may be provided (usually by a third party) as part of a fund management contract.

Funding Strategy Statement: a document statutorily required to be published (and updated) by LGPS Administering Authorities setting out the Fund's approach to meeting its long-term liabilities, encompassing policies with regard to both investment strategy and contributions.

Index-Linked: linked to the RPI (Retail Price Index).

Investment Horizon: the period over which an investor expects / requires and particular investment strategy to deliver its expected return. Generally, a longer investment horizon disposes an investor toward less liquid and / or more volatile asset classes.

Investment Strategy: the general term the whole approach of a fund toward investment matters (although by implication broadly its long-term approach), encompassing its strategic asset allocation and implementation in terms of manager structure.

Investment Management Agreement ("IMA"): the term commonly used to describe a fund management contract. May also cover the provision of related services where these are provided. Typically consists of a set of generic terms and conditions (often "industry standard") preceded by a set of client-specific provisions.

LAMIT: the Local Authorities' Mutual Investment Trust is the trustee body to the Local Authorities' Property Fund ("LAPF"), a balanced Property Unit Trust invested in exclusively by local authorities. The LAPF is managed by CCLA Investment Management Limited.

LBRUT: an abbreviation for 'London Borough of Richmond Upon Thames' that is used as an alternative to the term 'Council'.

Liquidity: [1] cash; [2] a measure of the ease with which an investment can be bought or sold, especially the extent to which market price may be impacted by a given volume of transactions.

LGPS Investment Regulations: based on SI 1998 No. 1831 ("The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998) (as amended), the statutory regulations covering the permitted investments of LGPS funds.

Myners' Report: a report commissioned by the Treasury (and published in 2001) to examine perceived weaknesses in the practice of institutional investment in the UK. It is a statutory obligation on LGPS funds to include a "compliance" statement with the 10 "Myners principles" in their Statement of Investment Principles (SIP). The full Myners report can be found at: http://www.hm-treasury.gov.uk./media/1/6/31.pdf

Passive (also Index and Index-Tracking): a non-discretionary form of asset management designed to replicate in portfolio terms the composition of a specified index and thereby obtain a return very close to that of the index itself.

Peer Group: in benchmark context, refers to the practice of constructing a benchmark from the collective returns and asset allocations of a group of similar funds. The WM Local Authority Universe is an example of a peer group benchmark. The practice of using a peer group benchmark as a fund's official benchmark (as opposed to a secondary comparator) is now far less common than it once was, with fund-specific (or customised) benchmarks being much more common.

Pooled Investments (also Pooled Vehicles): collective investment schemes such as authorised unit trusts, Open Ended Investment Companies ("OEICs") and Pension Fund Pooling Vehicles ("PFPVs"), whereby a unitised, pro-rata holding in a pool of assets under uniform management is held by the client. Pooled vehicles are generally used where they provide efficiency advantages in obtaining exposure to a diverse range of underlying assets.

Opportunity Cost: the cost of foregoing a potential alternative course of action.

Performance Objective: generally, the degree of outperformance of a specified benchmark (over a given period) required of an active investment approach.

Risk-free: a comparative term, usually denoting the return available from the lowest risk investments such as cash and government bonds.

Segregated: the direct holding of a security by its owner, with no intermediation i.e. the default alternative to "pooled".

Stock Selection: the element of relative return derived from holding stocks in weightings divergent from that of benchmark index.

Transaction Costs: costs incurred in trading securities which, other things being equal, detract from the return obtained by the Fund. These can be "explicit" e.g. brokerage, stamp duty, levies etc or "implicit" e.g. the movement in the price of a stock (especially if relatively illiquid) effected by the transaction(s).

Trustee: an individual (or body) with fiduciary responsibility for a Pension Fund. Does not apply within the LGPS (which is a statutory fund) but "trustee" is used in many contexts interchangeably to denote those with oversight of LGPS funds e.g. elected members.

Value: a particular active investment style focussing of the "fundamental value" of a security and seeking above all to avoid overpaying relative to this. Tends to place less emphasis than many other approaches on "macro" factors unrelated to the stock itself.

Volatility: the propensity of a stock, index or similar to fluctuate in value.

ALTERNATIVE FORMATS

Please contact us at the address below if you would like this information in Braille, audiotape, or another language. We can also arrange a telephone interpreting service.

Nese keni veshtersi per te kuptuar kete botim, ju lutemi ejani ne recepcionin ne adresen e shenuar me poshte ku ne mund te organizojme perkthime nepermjet telefonit.

જો તમને આ પુસ્તિકાની વિગતો સમજવામાં મુશ્કેલી પડતી હોય તો, કૃપયા નીચે જણાવેલ સ્થળના રિસેપ્શન પર આવો, જ્યાં અમે ટેલિફોન પર ગુજરાતીમાં ઇન્ટરપ્રિટીંગ સેવાની ગોઠવણ કરી આપીશું.

إذا كانت لديك صعوبة في فهم هذا المنشور، فنرجو زيارة الإستقبال في العنوان المعطى أدناه حيث بإمكاننا أن نرتب لخدمة ترجمة شفوية هاتفية.

ਜੇਕਰ ਤੁਹਾਨੂੰ ਇਸ ਪਰਚੇ ਨੂੰ ਸਮਝਣ ਵਿਚ ਮੁਸ਼ਕਲ ਪੇਸ਼ ਆਉਂਦੀ ਹੈ ਤਾਂ ਹੇਠਾਂ ਦਿੱਤੇ ਗਏ ਪਤੇ ਉੱਪਰ ਰਿਸੈਪਸ਼ਨ 'ਤੇ ਆਓ ਜਿੱਥੇ ਅਸੀਂ ਟੈਲੀਫ਼ੋਨ ਤੇ ਗੱਲਬਾਤ ਕਰਨ ਲਈ ਇੰਟਰਪ੍ਰਿਟਰ ਦਾ ਪ੍ਰਬੰਧ ਕਰ ਸਕਦੇ ਹਾਂ।

اگر آپ کو اِس اشاعت کو سمجھنے میں کوئی مشکل ہے تو، براہِ کرم نیچے دیئے ہوئے ایڈریس کے استقبالیے پر جا کر ملیئے، جہاں ہم آپ کیلئے ٹیلیفون انٹرپریٹنگ سروس (ٹیلیفون پر ترجمانی کی سروس) کا انتظام کر سکتے ہیں۔

এই প্রকাশনার অর্থ বুঝতে পারায় যদি আপনার কোন সমস্যা হয়, নিচে দেওয়া ঠিকানায় রিসেপ্শন-এ
চলে আসুন যেখানে আমরা আপনাকে টেলিফোনে দোভাষীর সেবা প্রদানের ব্যবস্থা করতে পারবো।

اگر در فهمیدن این نشریه مشکل دارید، لطفا به میز پذیرش در
آدرس قید شده در زیر رجوع فرمایید تا سرویس ترجمه تلفنی
برایتان فراهم آورده شود.

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