

LONDON BOROUGH OF RICHMOND UPON THAMES

PENSION FUND ANNUAL REPORT

2009/10

Contents	Page
Foreword	3
Introduction by the Chair of the Pension Fund Committee	5
Administration	
• Management and Administration of the Pension Fund	6
• Governance Compliance Statement	16
• Statements of Policy Concerning Communications with Members and Employing Authorities	22
Investments	
• Management of the Pension Fund's Investments	24
• Statement of Investment Principles	26
• Investment Management and Performance	39
Actuarial Statements	
• Introduction	41
• Actuarial Statement	42
• Funding Strategy Statement	44
Pension Fund Accounts	
• Introduction to the Pension Fund Accounts	56
• Pension Fund Accounts	57
• Independent Auditors' Report	73
Glossary of Terms	75
Alternative Formats	78

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 mainly by local authorities, or in some cases statutory bodies established to administer the LGPS scheme for larger areas covering a number of local authorities. These councils and pension authorities 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.

Details of the management and administration of the Richmond Pension Fund are provided in the first main section of this report.

Introduction to the Pension Fund Annual Report

This is the third Pension Fund Annual Report that 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 and Employing Authorities
- 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 are reviewed on a regular basis and the current versions are included in this Report. The principal changes are in respect of the Statement of Investment Principles (SIP) and arise because of changes in the LGPS Regulations governing the management and investment of funds (SI 2009 No. 3093). There are minor changes to the Governance Compliance Statement and the Communications Policy Statement that are made for consistency in terminology and presentation that do not change the substance of these Statements.

Content of the Report

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

- Administration of the Fund
- Investments of the Fund
- Actuarial and Funding Statements
- Pension Fund's Accounts for 2009/10

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 9 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 78 for details.

CONTACT DETAILS

Our website is:

www.richmond.gov.uk

Contact us by letter or phone:

Steve Carter

Chief Accountant

London Borough of Richmond upon Thames

44 York Street

Twickenham

Middlesex TW1 3BZ

Telephone: 020 8891 7200

Email us at:

accountancy@richmond.gov.uk

INTRODUCTION BY THE CHAIRMAN OF THE PENSION FUND COMMITTEE

Although this seems to have become something of a recurring theme, 2009/10 was another eventful year for the Pension Fund in both a local and a wider context.

On the investment side, the year to March saw annual equity market returns unprecedented in recent history, with the Fund's target benchmark return reaching nearly 40%, and the Fund itself achieving a 41% return. In comparative terms, it is pleasing to see the Council's Fund within the top third of its peer group over a 10-year period (and significantly higher over the more recent periods). This has represented a steady recovery in ranking over time from a much less favourable position, which has been assisted by the switching of a significant part of the fund into a passive mandate managed by L&G, just under two years ago. Both this and the Fund's enhanced index mandate with Henderson Global Investors have, in relative terms, weathered the aftermath of the "liquidity crisis" fairly robustly, in a period when returns from active managers have shown (by historical standards) a very wide dispersion. With continued market volatility, however, nothing in this area can be taken for granted, especially absolute returns. With this in mind, the Pension Fund Committee is intending in the near future to examine possible alternative asset classes, recognising of course that no investment approach can be without risk, and that risk itself can take various forms.

On the actuarial side, we await the results of the 2010 triennial valuation. This is also taking place against a background of considerable uncertainty for the Local Government Pension Scheme (LGPS) and public sector pensions generally, with Lord Hutton's Review currently working to incorporate the broad policy initiatives of the Comprehensive Spending Review into its recently issued interim principles. This follows earlier initiatives from the Department for Communities and Local Government in areas such as cost sharing and revised approaches to long-term funding. From this perspective, the major scheme changes introduced into the LGPS only at the start of the previous financial year seem now to be relatively remote. It looks to be a certainty, however, that a further major reform of the LGPS will now take place. Already, some significant changes to public sector pensions are either a reality (such as the linking of future pension increases to the CPI index rather than the RPI) or clearly foreshadowed (higher employee contributions). Although it is easy to state and difficult to achieve, it can only be hoped that the ultimate outcome is one that is fair and equitable to all stakeholders – a clear theme of the first Hutton report.

Looking forward, the Pension Fund Committee, which includes four Members newly elected in May of this year, is going to have plenty to consider over the ensuing months.

Cllr Geoff Acton
Chairman, Pension Fund Committee

MANAGEMENT AND 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 scheme members are determined by LGPS Regulations and are on the same basis for all members within the LGPS. The contributions made by employer organisations are determined by actuarial valuations that are separately assessed for each Pension Fund. This is explained more fully in 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 Investment, Management and Performance.

This section of the Report deals separately with the overall management of the Fund (governance arrangements, investment and policy matters) and the day to day administration of the Fund in its dealings with scheme members and employers.

Governance and management of the Fund

The Council has delegated its functions as the Administering Authority for the LGPS within the London Borough of Richmond upon Thames to the Pension Fund Committee. These arrangements were put in place in June 2008 in advance of changes affecting the governance of LGPS pension funds that included the establishment of separate audit engagements for LGPS funds, the statutory requirement to publish an annual report (with prescribed content) and subsequent moves to improve transparency and the independence of LGPS funds from their Administering Authority. More details on governance arrangements are included in the Governance Compliance Statement.

Governance arrangements

The formal governance arrangements are set out in the Governance Compliance Statement (on page 16). The Pension Fund Committee (the Committee) has responsibility for the overall policy of the Fund, within the statutory framework of the LGPS, and for its governance arrangements. The Committee consists of five Councillors and details of its membership, advisors and staff involvement are set out below.

The Committee meets at least four times each year and its principal business relates to:

- overall governance matters including the review of its responsibilities, approving the appointment of the principal advisors to the Fund (including investment

managers and the Fund's actuary), approving formal policies and statements that are required by legislation;

- matters relating to the LGPS – considering and commenting on government proposals for overall design of the LGPS;
- policy on admission of external bodies to the Fund;
- matters relating to the investment of the Fund including determining the long-term investment strategy, establishing an appropriate investment management structure to implement this strategy and on-going monitoring of both these arrangements in the light of investment performance, changes in the overall investment environment and the circumstances of the Fund;
- matters relating to the future liabilities of the Fund to pay benefits that include receiving and commenting on the tri-ennial valuation of the Fund and approving a Funding Strategy that is required to ensure the long-term solvency of the Fund;
- matters relating to the accounts of the Fund that include the formal approval of the Fund's accounts and considering the independent auditor's report on these accounts and related matters in his report to 'those charged with governance'.

The Director of Finance and Corporate Services (and also on his behalf the Principal Pensions Officer) is authorised to interpret and implement the statutory provisions of the LGPS and the Director is also responsible for the proper administration of the financial affairs of the Fund and its day to day operation.

Size of the Fund and impact on its and managements

The Fund is one of the smallest in the LGPS measured in terms of its size (Net Assets) and is classified by the Audit Commission (along with all London Boroughs) as a 'single employer fund'. Although this is not technically the case (the Fund includes 22 other bodies), the Council of the London Borough of Richmond upon Thames (the Borough Council) is the dominant employer with 84% of the membership at 31 March 2010. Only three other bodies had membership representing more than 1% of the total, the highest being 5.3%.

To put this in context, the larger funds within the LGPS are up to 30 times the size of the Richmond Fund and typically (apart from London boroughs) will have a number of employer bodies of substantial size.

This relatively small size has a significant bearing on the management and administration of the Fund, its systems and staffing arrangements and its governance arrangements with regard to the smaller bodies in the Fund. In simple terms, the Fund's day to day management arrangements are integrated within those of the Borough Council in order to ensure an economic and efficient use of resources. This contrasts with the larger LGPS funds that are 'stand-alone' entities in most respects with their own staff, IT systems etc.

Committee Members, scheme management and advisers

Members of the Pension Fund Committee during 2009/10 were:

- Councillor C. Percival (Chairman to September 2009)
- Councillor P. Hodgins (Chairman from October 2009)
- Councillor G. Acton
- Councillor J. Elloy
- Councillor G. Evans
- Councillor S. Knight (Vice Chairman)

In addition to these Councillors, Mr L Johnson was a non-voting attendee at meetings of the Committee as staff observer during 2009/10. All Councillors have full voting rights.

Details about the Committee, including agendas and minutes are available on the Council's website at:

<http://moderngov.richmond.gov.uk/mgCommitteeDetails.aspx?ID=443>

External investment managers, advisors and service providers appointed by the Committee, are:

Investment Managers

Henderson Global Investors

Legal and General Investment Management Limited

Schroder Investment Management Limited

Investment Advisor

Hymans Robertson LLP

Custodians

JP Morgan

Fund Actuary

Hymans Robertson LLP

AVC Providers

Clerical Medical

Equitable Life

Auditors

PKF (UK) LLP

Bankers

Barclays Bank PLC

Further details of the Fund's investment management are included in the next section of the Report. The following paragraphs deal with the administration of the Fund and the LGPS.

Administrative Arrangements

All the administration of the Fund is carried out internally by staff of the Council. The administration of the LGPS includes day to day dealings with employers and individual members of the LGPS and is carried out by the Pensions Team which is described in more detail in the following section.

Support services to the Fund are provided by a range of Council services and cover all aspects of the Fund's activities including investments. Apart from staff in the Pensions Team no individual staff members are engaged full time on Pension Fund work and, in most cases, this work represents only a small proportion of individual's time. The main support is from the Accountancy section that provides overall financial management, accounting, treasury etc. services and manages the overall investment activities carried out by managers. Other support is provided by Internal Audit and Risk Management and ICT, and occasionally Legal Services. These support costs are recharged to the Fund on the basis of time allocations of the staff involved.

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 2009/10 staffing of the service was 2.7 full time equivalent staff dealing with over 9,800 individual Fund members and 23 employer organisations. Details of the membership of the Fund are shown on page 62 in Note 3 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: j.hyde@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 referred to 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 2009/10 year there were 54 performance targets set, against which over 5,500 individual activities were measured. Overall, 83% of individual activities were completed within the target timescales and the 'top ten' most important targets, 96% were achieved within the target.

There is also a comprehensive Administration Strategy that formally sets out detailed performance standards for both the Administering Authority and employers in the Fund. This is included in the following section of this report.

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 website	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 Pensions Committee (part of the Local Government Employers organisation) 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 1 December following the year end

ADMINISTRATION

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 Government Actuary's Department 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

ADMINISTRATION

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	3 rd 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

ADMINISTRATION

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 19 th 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

ADMINISTRATION

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 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 4.2 of the Local Government Pension Scheme Regulations 2008 (SI 2008 No 239).
- 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) considering and responding to 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 Fund and keeping this under review at appropriate intervals;
 - (iv) implementing this strategy through deciding on, and keeping under review, appropriate arrangements for investment management, appointing managers and monitoring their performance;
 - (v) appointing the Fund’s 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) determining the Pension Fund’s communications strategy and policies toward corporate governance and responsible investment;
 - (viii) 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; and
 - (ix) 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.
- 1.5 The Director of Finance and 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

A. Structure

- (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 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 their 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 Pension Fund Committee (as formally constituted), although every Committee meeting is attended by at least one representative of the Administering 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 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 reimbursement 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 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).

1. 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 an 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 4.2 of the Local Government Pension Scheme Regulations 2008 (SI 2008 No 239).
- 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;
 - (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
Members’ Newsletters	Printed and Electronic (Intranet)	Annual

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

ADMINISTRATION

Information	Format	Frequency
Actuarial Valuation of the Fund and Schedule of Contribution Rates	Printed & Electronic (on request)	Triennially
Funding Strategy Statement	Printed & Electronic (on request)	Triennially (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 2009/10:

Fund Managers:

Henderson Global Investors	(Multi-Asset including Property)
Schroder Investment Management Limited	(Property only)
Legal & General Investment Management Limited	(Multi-Asset including Property)

Investment Advisor:

Hymans Robertson LLP

Custodians:

JP Morgan

Details of the investments under management and transactions during the year are shown in Notes 13 to 15 from page 67 in the Accounts section of the Report.

As explained in the Management and Administration section, the Administrating Authority for the Fund is the Council and governance arrangements are delegated to the Pension Fund Committee of the Council and details of the Committee's governance arrangements are included in that section.

The Committee reviews the Fund's investments on a quarterly basis at each of its regular meetings (the Committee meets at least four times a year) and considers:

- officers' reports on investment activity, investment valuations and performance. Performance is reviewed for each manager, type of investment assets and against the Fund's benchmark;
- managers' reports covering their investment activities in the past quarter and policies for the current period;
- in the light of these, the Fund's assets allocation is reviewed within its overall benchmark.

The Committee also receives commentary and advice at each of its meetings from its investment advisor and commissions and considers specific reports from time to time as required. Managers attend the Committee on a rota basis to make presentations to the Committee and answer questions. Because of the relatively passive nature of the Fund's investments, there is less of a requirement to discuss particular investment policies with the managers than if the Fund had an active investment management policy.

At least annually the Committee receives a report and a presentation at the meeting, from an independent performance measurement service (currently provided by the WM Company) on the Fund's detailed comparative performance.

Full access to the agendas, reports and minutes of the Committee (and the Investment Committee prior to 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 Pension Fund Committee (and Investment Committee before May 2008) and the year you wish to search.*

Performance

Details of investment performance and a commentary on 2009/10 are contained in the final part of this section – Fund Investment Management and Performance.

Risk

The Statement of Investment Principles includes a section on risk that explains the reliance on formal assurance reports on the internal control environments of fund managers and custodians in the absence of the direct physical holding of investments and cash. These reports (called AAF 1/06 and based on guidance issued by the Audit and Assurance Faculty of the Institute of Chartered Accountants In England and Wales) are produced annually and satisfactory reports have been received from the Fund's three Fund Managers and Custodian in respect of 2009/10.

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 were 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). The revised main Investment Regulations, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, extend the scope of required disclosures to (i) include reference to the management and measurement of risk, and stock lending and (ii) state the extent to which the administering authority complies with guidance given by the Secretary of State (representing the latest version of the Myners principles as interpreted by the CIPFA Pensions Panel). The first statement including the new requirements is to be published by 1 July 2010.
- 1.4 LGPS administering authorities are also required to prepare and publish (and update) a Funding Strategy Statement (FSS), 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, 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 (Management and Investment of Funds) Regulations 2009 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, including the ways in which risks are to be measured and managed;
 - (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) stock lending;
- 2.2 In addition, the above Regulations require that the Statement must also state the extent to which the administering authority complies with guidance given by the Secretary of State, and, to the extent the authority does not comply, the reasons for not complying.

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 2009 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 2009. 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. This dispensation has been used in the past, but is unlikely to be used under current arrangements, where no significant tactical asset allocation in non-sterling denominated assets is undertaken.
- 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 employed¹ 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.

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.

5.8 The revised Fund Benchmark is given below.

	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 have been appointed to manage the Fund's enhanced equity, active bond and property assets under a multi-asset mandate. Henderson

have an outperformance target of 0.75% above-index, reflecting their 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, and property on an active 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 they 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	Active	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 Internal Audit and Risk Management 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.
- 5.18 It is recognised that in adopting a benchmark in which equities are the dominant asset class, the Fund is exposed to considerable volatility, both in the short-term and in terms of longer-term potential outcome. This volatility encompasses both the absolute value of the investment fund and its value relative to the liabilities of the Fund. From previous measurements, it is recognised that Fund's benchmark has an expected annual volatility² relative to its liabilities of around 20%.
- 5.19 The Fund has in the past undertaken asset liability modelling but does not currently measure properties such as Value at Risk³ (VaR) on an ongoing basis. It is intended that more in-depth analysis, including VaR, will be carried out in the course of a review of potential alternative asset classes, intended to be commenced in the latter part of 2010. It is emphasised, however, that this does not signal a definite intention (at this point) to revise the Fund's asset allocation.

Expected Return on Investments

- 5.20 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

- 5.21 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.

² Representing one standard deviation i.e. the range within which approximately two-thirds of annual outcomes will fall. This is not, therefore, the most likely outcome but rather a relative measure of volatility.

³ Value at Risk (VaR) is a general term used to describe a mechanism for the measurement of the risk of loss on a portfolio of financial assets. In the context of a defined benefit pension scheme, it typically encompasses the liabilities of the scheme and their correlation to assets, thereby quantifying the risk of volatility in scheme funding level, as opposed to that of assets and liabilities discretely.

the LAMIT property units are relatively illiquid by comparison but represent a modest proportion of the Fund's assets.

Stock Lending

- 5.22 Being wholly invested (for the time being) in pooled investments, the Fund does not currently undertake any stock lending activity as principal. Stock lending is undertaken within various of the pooled vehicles in which the Fund invests, and the level of activity undertaken is governed by the discretion of the manager, subject to the rules under which the collective schemes operate.

Fees

- 5.23 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)

- 5.24 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 guidance issued by the Secretary of State (see section 2. on content). This guidance is currently issued in the form of the publication “Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles”. In the following statement, the term “the Fund” is employed to indicate the administering authority acting via its principal governance entity, the Pension Fund Committee.

Principle 1: Effective Decision Making

Administering Authorities should ensure that:

- **decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and**
- **those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.**

The Fund receives advice from and maintains regular contact with its appointed external investment advisor, Hymans Robertson.

In addition, officers advising the Fund seek independently to obtain the widest possible range of training, information and opinion on investment matters.

Members of the Pension Fund Committee are encouraged to attend training from a range of providers on a regular basis, and a log of training received by both Members and officers is maintained.

In appointing to the Pension Fund Committee, consideration is given to relevant skills and experience.

When considering any proposed investment strategy, the Fund seeks challenge and evaluate all advice received.

Principle 2: Clear Objectives

An overall investment objective(s) should be set out for the fund that takes account of the scheme’s liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

A clear objective is set for the Fund via the selected investment benchmark. The current benchmark explicitly does not seek to match the Fund’s liabilities in the short term.

The Fund recognises and accepts the significant level of risk relative to liabilities (both short- and long-term) associated with its investment benchmark. The Fund elects to take a relatively low level of active risk, however, obtaining the majority of its investment exposure via passive and near-passive strategies. These strategies also contribute to the minimisation of investment management fees and transaction costs.

Where fees above a minimum level are paid for the Fund’s equity and bond exposure, these are proportionate to index outperformance.

Principle 3: Risk & Liabilities

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.

These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

The Fund is substantially non-compliant, at this point, with the precepts that (i) investment strategy should relate to (or be devised by reference to) the form and structure of a fund's liabilities, and (ii) that risk relative to liabilities should be measured on a continuous and sophisticated basis. The investment benchmark predominantly comprises relatively volatile "risk assets" such as equities, acknowledged to be a poor match to the Fund's liabilities over the short-term (and potentially also the long term, for some of a range of outcomes).

In support of its current and historical approach, the Fund refers to the very long term record of equities in providing a significant above-inflation return, against the context of the long investment horizon of the LGPS as an open defined benefit pension scheme.

The Fund does not currently carry out VaR analysis but intends to undertake this or similar analysis as part of an evaluation of potential alternative asset classes to be commenced in the latter part of 2010.

The Fund has not previously made investments on an employer-specific basis, and does not plan to do so in the near future.

Principle 4: Performance Assessment

Arrangement should be put in place for the formal measurement of performance of the investments, investment managers and advisors.

Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

The Fund receives independent reporting on the performance of its investments, from the WM Company. This is received both quarterly and annually (in various formats) and in the form of an annual performance presentation to the Pension Fund Committee.

Being predominantly passively oriented (in overall terms) the Fund currently has fewer relative performance issues to monitor and address than the majority of LGPS funds, allowing attention to be focussed on those areas where the limited active risk is taken.

The Fund adopted its broadly passive stance in response to perceived difficulties in managing and assessing the performance of fully active managers, and in the light of consistent research evidence of the difficulty, over the long-term, in achieving index outperformance after fees via active strategies.

The Fund does not currently seek formally to measure the performance of its investment advisors, recognising the difficulty of establishing a suitable methodology for this. The recent decision not to employ any conventional active mandates was partly informed by, and in response to, a recognition of the poor historical record of the Fund, in overall terms, in the successful governance of these mandates (over a period in excess of 20 years).

The Fund reports its investment performance relative to its own benchmark and the average performance of LGPS funds to scheme members on an annual basis.

Principle 5: Responsible Ownership

Administering Authorities should:

- **adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents;**
- **include a statement of their policy on responsible ownership in the statement of investment principles; and,**
- **report periodically to scheme members on the discharge of such responsibilities.**

The Fund delegates currently responsibility for voting and responsible ownership issues to its appointed investment managers.

Both of the Fund's principal investment managers have adopted the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.

The Fund has previously been at the forefront of shareholder activism within the LGPS but recognised that as such issues became more "mainstream" (with fund managers developing more capacity in the area) and the Fund progressively adopted a pooled approach to investment, it would be both more practicable and more efficient to delegate this activity.

In this area the Fund believes that it is reasonable to make some differentiation between expectations placed on larger LGPS funds and those considerably smaller in size, of which the Fund is one.

The Fund does not currently have its own statement of policy on responsible ownership.

Principle 6: Transparency & Reporting

Administering Authorities should:

- **act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives;**
- **provide regular communication to scheme members in the form they consider most appropriate.**

The governance of the Fund is via the Pension Fund Committee, whose business has been conducted wholly in public for a number of years and is reported via the Council's (Administering Authority's) website.

The Fund provides limited information to scheme members on a direct basis, but this includes reporting investment performance relative to benchmark and other local authorities.

The Pension Fund Annual Report, containing all the Fund's statutory declarations, accounts and additional information on investment approach and performance is available to all stakeholders via the above website.

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.

LIMITS ON INVESTMENTS

Limits on investments are specified by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (“the Regulations”). Under regulation 14(3), an Administering Authority may increase the limit on the proportion of the fund invested in that type of investment, having taken appropriate advice on risks. The maximum limits allowed by the Regulations are shown in brackets.

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. The sum of:-
 - (a) all loans [*excluding government loans*]; and
 - (b) any deposits with:-
 - (i) any local authority; or
 - (ii) any body with the power to issue a precept or requisition to a local authority, or to the expenses of which a local authority can be required to contribute, which is an exempt person (with the meaning of the 2000 Act) in respect of accepting deposits as a result of an order made under section 38(1) of that Act.
5. All investments in unlisted securities of companies [15%].
6. Any single holding [*excluding investments made by an investment manager authorised as such under the Regulations, unit trusts, National Savings Certificates, UK government bonds or securities on which interest payments are guaranteed by the UK government, or a deposit with relevant institution*].
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 units or other shares of the investments subject to the trusts of unit trust schemes managed by any one body [35%]
10. All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by any one body [35%].
11. Any single insurance contract [35%].
12. All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements [35%].

This summary is intended as a guide only and does not necessarily follow the precise format, wording or order of the Regulations. Details of exclusions in italics are paraphrases of the Regulations for ease of use, and reference should be made to the full Regulations for a complete interpretation of the restrictions on investments.

Use of Extended Limits

The Fund utilises the extended limit [35%] permitted under regulation 14(3) of the Regulations 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.”

In doing so, the Administering Authority has taken proper advice and has taken account of factors relating to diversification and suitability set out in regulation 15 of the Regulations 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 Administering 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 2009.

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); and,
- (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.

In 2009/10, the essential structure put in place in December 2008 was maintained throughout. The only material change was that L&G were asked to add property to the existing range of assets managed.

Fund Performance

In the year to 31 March 2010, 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 was as follows.

Investment Category	London Borough of Richmond	WM Local Authority Universe (Weighted Av.)	WM Ranking (Percentile)	LBR Scheme-Specific Benchmark
UK Equities	53.8	51.9	17	52.3
US Equities	44.1	42.9	28	43.2
Eur'pn Equities	49.6	47.4	38	48.2
Jap Equities	30.3	32.6	68	29.6
Pac Equities	69.1	64.8	37	69.7
EM Equities	71.1	68.1	41	74.5
UK Bonds	13.9	16.9	61	13.1
Property	11.2	9.9	32	11.6
Cash	0.6	2.0	57	0.4
Total Assets	41.0	35.2	11	39.5
Total Asset Comparison (Longer Term)				
3 years	3.3	1.7	16	1.5
5 Years	8.1	7.1	12	7.2
10 Years	4.1	3.8	30	4.1

Source: WM

Commentary

The Fund benefitted from the exceptionally high equity returns across all markets in the year to March 2010. In particular, the Fund's higher-than-average allocation to UK equities (itself the highest returning of the major equity markets) ensured that a ranking just outside the top decile in the WM Local Authority Universe was achieved. The year was again characterised by extreme (by historical standards) dispersion in returns to active fund managers, which the

Fund's predominantly passive stance protected against (in fact relative returns in both the multi-asset mandates were positive).

2009/10 also saw high returns in corporate bonds (c.20%) but much more modest ones in gilts (c.1%). Property showed as positive return for the first time in three years.

Fund Managers' Performance

As noted above, both of the Fund's principal managers (including the passive manager, L&G) recorded positive relative returns in a year of high absolute returns. Performance across the Fund's property mandates was more mixed, although two out of the three managers (who managed for the entire year, therefore excluding L&G) produced good relative outperformance (especially CCLA), with the third (Schroders) narrowly below the index.

Mandate	Performance	Benchmark
HGI ex-Property*	45.1	43.3
L&G ex-Property	44.3	43.7
Internal Cash	0.4	0.4
HGI Property	14.1	11.6
Schroder Property	9.2	11.6
CCLA Property (LAMIT)	20.6	11.6

Source: WM & Fund Managers* (where necessary to obtain returns relative to manager-specific benchmark amendments and to exclude off-benchmark holdings). No return for L&G property due to part-year holding only.

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, however, 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 for every Fund within the LGPS.

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 information on 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 and income) 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.

As at November 2010, the results of the next valuation (based on Fund data as at 31 March 2010) are still awaited. The results of this valuation exercise will apply to employer contributions from 1 April 2011 and will be incorporated in next year's Annual Report.

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 have 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

26 August 2010

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 outperform 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	Set Fund-specific benchmark, informed

ACTUARIAL STATEMENTS

strategy.	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.	<p>The risk is mitigated by:</p> <ul style="list-style-type: none"> ▪ 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%

ACTUARIAL STATEMENTS

Employer	Adjusted Contributions for the Years Ending 31 March		
	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 to 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 2010. 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. 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 2009/10 and can be found at the following link:

http://www.richmond.gov.uk/2009-10_september_published.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	2009/10		2008/09	
		£000	£000	£000	£000
DEALINGS WITH MEMBERS AND EMPLOYERS					
Contributions receivable					
From employers:	6				
Normal		(12,123)		(11,628)	
Augmentation		(111)		(309)	
Deficit funding		(6,300)	(18,534)	(6,052)	(17,989)
From members (Normal)	6		(5,244)		(4,988)
Transfers In:					
Group transfers from other schemes		0		(16)	
Individual transfers from other schemes		(5,912)	(5,912)	(1,916)	(1,932)
			(29,690)		(24,909)
Benefits payable					
Pensions	6	13,079		12,286	
Commutation of pensions and lump sum retirement benefits		2,920		2,752	
Lump sum death benefits		305	16,304	161	15,199
Payments to and on account of Leavers					
Refunds of Contributions	7	20		54	
Transfers Out:					
Group transfers to other schemes		1,027		0	
Individual Transfers (to other Schemes or Funds within the LGPS)		2,517	3,564	1,173	1,227
Administrative and other Expenses borne by the Scheme					
	9		504		524
Net Additions from Dealings with Members					
			(9,318)		(7,959)
Returns on Investments					
Investment income					
Interest from fixed interest securities		0		(567)	
Dividends from equities		(22)		(3,512)	
Income from index linked securities		0		(52)	
Income from pooled investment vehicles		(5,942)		(7,336)	
Interest on cash deposits		(19)		(329)	
Other		(9)	(5,992)	(4)	(11,800)
Change in market value of investments:					
Realised (gains) / losses		(313)		17,894	
Unrealised (gains) / losses		(106,439)	(106,752)	54,420	72,314
Investment management expenses					
	19		1,044		731
Net Returns on Investments					
			(111,700)		61,245
Net (increase) / decrease in the Fund during the year					
			(121,018)		53,286
Opening net assets of the Fund 1 st April					
			(271,928)		(325,214)
Closing net assets of the Fund 31st March					
			(392,946)		(271,928)

PENSION FUND ACCOUNTS

NET ASSET STATEMENT

	Note	31 March 2010		31 March 2009
		£000	£000	£000
Investment Assets				
Pooled investment Vehicles :				
Unit trusts:				
Property		25,409		19,079
Other		106,520	131,929	72,316
Unitised insurance policies:				
Other			179,824	124,559
Open ended investment companies (OEICS):				
Other			74,243	51,645
Cash (Interest Bearing Deposits)			7,610	3,948
Total assets invested	11		393,606	271,547
Other investment balances				
Investment debtors:				
Investment income accrued		1,032		1,133
Investment creditors:				
Investment settlements outstanding		(900)	132	(1,027)
			393,738	271,653
Net Current Assets and Liabilities				
Debtors:				
Monthly Contributions due from employers		370		386
Other		100	470	171
Creditors:				
Unpaid benefits (lump sum entitlements)		(223)		(20)
Investment management expenses		(522)		(109)
Other		(517)	(1,262)	(153)
			(792)	275
Total Net Assets	11 & 13		392,946	271,928

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.

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 Note 3). 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 Council is therefore effectively responsible for the financial liabilities of the Fund (in respect of its employees) and, for this reason, the disclosure notes in respect of the financial position of the Fund's liabilities are attributed to the Council.

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. The Fund's accounts and disclosure notes reflect these responsibilities as opposed to those of the Council.

Governance arrangements for the Fund

The Council's responsibilities for administering the Pension Fund are delegated to the Pension 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.

The Pension Fund Committee meets at least four times each year. The membership of both Committees during 2009/10 was:

Councillor C. Percival (Chairman to September 2009)
Councillor P. Hodgins (Chairman from October 2009)
Councillor G. Acton
Councillor J. Elloy
Councillor G. Evans
Councillor S. Knight (Vice Chairman)

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

The Fund's investment advisor (Mr J Hastings of Hymans) also attended Committee meetings to provide professional investment advice and representatives of appointed fund managers attend as required. The Fund's independent auditor attended 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 2009/10 the Fund employed two principal external fund managers with multi-asset mandates (Henderson Global Investors and Legal & General Investment Management Limited), each with approaching half of the Fund's total investments, and Schroder Investment Management Limited with whom the Fund holds property unit trusts. The Fund also holds a direct investment in property units managed by the Local Authorities Property Fund (LAPF), managed by Local Authorities Mutual Investment Trust (LAMIT).

Details of investments under management are provided in Notes 13 to 16.

The Fund has made the following external appointments:

Investment advisors –	Hymans Robertson LLP
Independent auditors –	PKF (UK) LLP (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 2009; 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).

Accounting Policies

General Policies

The general accounting policies are those that have been adopted by the Administering Authority – the Council of the London Borough of Richmond upon Thames, and these 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. As the future net liabilities are required to be funded by employer contributions, these are covered in some detail in the Council's accounts where the full impact of future pension liabilities are disclosed in accordance with Financial Reporting Standard (FRS)17.

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 and when the receiving scheme has accepted the liability.

Specific accounting policies are adopted in relation to investments. These are covered in the following statements.

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.

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. Administration and processing costs (such as salaries, accommodation and ICT costs) are initially borne by the Council (as the Administering 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.

PENSION FUND ACCOUNTS

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 2009/10 and paid no contributions to the Fund in that year).*

FUND MEMBERSHIP	31 March 2010				31 March 2009
	Contributors	Members with Preserved Benefits	Pensioners and Dependents	Total Members	Total Members
Admitted Bodies:					
Association of District Councils*	0	2	20	22	22
Hampton School	53	20	16	89	89
Notting Hill Housing Trust	2	8	12	22	20
St. Mary's College	175	85	81	341	314
SW Middlesex Crematorium Board	11	9	14	34	31
Richmond CAB *	0	0	1	1	1
Housing Organisations Mobility & Exchange Services *	0	10	3	13	13
Richmond Council for Voluntary Services*	0	4	4	8	8
Richmond upon Thames Music Trust	7	1	3	11	11
Christ's Community Management Body *	0	2	0	2	2
IRRV	12	19	4	35	36
Project for Children with Special Needs *	0	2	2	4	4
St. Catherine's School	3	7	1	11	11
Museum of Richmond*	0	2	0	2	2
Richmond Housing Partnership	18	34	19	71	66
Twining Enterprises	1	9	4	14	13
Mears Building Contractors Ltd	1	6	6	13	13
Scout Solutions *	0	16	8	24	24
Veolia (formerly Cleanaway)	42	14	8	64	63
Total Admitted Bodies	325	250	206	781	743
Scheduled Bodies:					
Richmond Magistrates' Court*	0	15	11	26	42
Richmond upon Thames College	227	184	117	528	509
Richmond Adult & Community College	63	142	34	239	230
Total Scheduled Bodies	290	341	162	793	781
LBRUT	2,835	2,911	2,556	8,302	8,026
TOTAL MEMBERSHIP	3,450	3,502	2,924	9,876	9,550

Note 4 BASIS OF ACTUARIAL VALUATION

The latest actuarial valuation of the Fund was completed as at 31st March 2007, and work on the next valuation (as at March 2010) is currently under way, and results are expected later in 2010. 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 is shown in the following table.

ASSET CATEGORY	Valuation as at 31 March 2007	
	£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 on pages 42 and 43 of the 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.

PENSION FUND ACCOUNTS

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

	2009/10			2008/09		
	Employers £000	Members £000	Total £000	Employers £000	Members £000	Total £000
Contributions						
Administering Authority (LBRUT)	14,887	4,217	19,104	14,441	3,995	18,436
Scheduled Bodies	1,505	446	1,951	1,448	423	1,871
Admitted Bodies	2,142	581	2,723	2,100	570	2,670
Total Contributions	18,534	5,244	23,778	17,989	4,988	22,977

Benefits

	2009/10 £000	2008/09 £000
Benefits		
Administering Authority (LBRUT)	14,251	13,422
Scheduled Bodies	903	792
Admitted Bodies	1,150	985
Total Benefits	16,304	15,199

Note 7 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

During 2009/10, a group of 16 Fund members with deferred benefits, who were former employees of Richmond Magistrates Court, were transferred to the London Pensions Fund Authority, for which the Fund received a transfer value of £1,027,000.

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:

PENSION FUND ACCOUNTS

	31 March 2010 £000	31 March 2009 £000
Value of Investments		
Clerical Medical	1,354	1,175
Equitable Life	953	954
Total	2,307	2,129
Number of Members Participating		
Clerical Medical	122	119
Equitable Life	182	200
Total	304	319
	2009/10 £000	2008/09 £000
Contributions received from members in year	148	174

Note 9 ANALYSIS OF ADMINISTRATIVE COSTS

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

	2009/10 £000	2008/09 £000
Administration Costs		
Administration and processing	378	378
Actuarial fees	62	71
Audit Fees	30	33
Communication with Members	21	25
Other	13	17
Total Benefits	504	524

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 included at pages 26 to 38.

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 2009 £000	Purchases £000	Sale proceeds £000	Profit / Loss on Disposal £000	Change in Market Value £000	Value as at 31 March 2010 £000
Legal & General	124,558	4,500			55,469	184,527
Henderson	131,376	16,307	(9,649)	278	50,335	188,647
Schroders	8,779	522			312	9,613
LAMIT (property)	2,886				323	3,209
	267,599	21,329	(9,649)	278	106,439	385,996
Cash deposits	3,948					
			Residual profit on unquoted equity	35		7,610
Total assets invested	271,547			313		393,606
Net Current Assets	381					(660)
Total Net Assets	271,928					392,946

Note 12 INVESTMENT TRANSACTION COSTS

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

The Fund is now invested predominantly in pooled vehicles in which there are no direct transaction costs – these being reflected in the bid/offer prices for units. The only exception in 2009/10 was a purchase of secondary property units through Schroders which resulted in direct transaction costs of £3,600.

	2009/10 £000	2008/09 £000
Investment transaction costs	4	289

PENSION FUND ACCOUNTS

Note 13 INFORMATION ON ASSETS UNDER MANAGEMENT

Summary of investment assets under management

Type of Asset	31 March 2010				31 March 2009			
	L&G £000	Schroders £000	Henderson £000	Total £000	L&G £000	Schroders £000	Henderson £000	Total £000
UK Investments - Listed	112,013	9,613	118,629	240,255	75,831	8,779	84,522	169,132
Overseas Investments - Listed	72,514	0	70,018	142,532	48,727	0	46,854	95,581
Cash	0	395	(387)	8	0	965	(726)	239
Total Under Management	184,527	10,008	188,260	382,795	124,558	9,744	130,650	264,952
Percentage of Fund under management	48%	3%	49%	100%	47%	4%	49%	100%
Directly held UK investments (LAMIT)			3,209				2,886	
Cash (interest bearing deposits)			7,602				3,709	
Other investment balances - debtors and creditors			132	10,943			106	6,701
Total investment assets				393,738				271,653
Other net current assets				(792)				275
Total Net Assets				392,946				271,928
Analysis of all investments:								
Total UK Investments (includes directly held LAMIT investment)				243,464				172,018
Total Overseas Investment				142,532				95,581
Cash and deposits				8				239
Total invested				386,004				267,838
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.

	2009/10				2008/09			
	Legal and General £000	Schroders £000	Henderson £000	Total £000	Legal and General £000	Schroders £000	Henderson £000	Total £000
Purchases	4,500	522	16,307	21,329	130,662	44,264	58,672	233,598
Sales	0	0	9,648	9,648	0	172,779	34,424	207,203
Total Transactions	4,500	522	25,955	30,977	130,662	217,043	93,096	440,801

Note 15 STATUS OF INVESTMENTS UNDER MANAGEMENT

This note provides details of the investments held by each manager at 31 March. 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 2010		31 March 2009	
	£000	% of Fund	£000	% of Fund
Pooled Investments				
<u>Henderson Investment Funds Limited</u>				
UK Equity Enhanced Trust 'Z' (AUT)	75,230	20%	51,611	19%
Exempt North American Enhanced Equity 'Z' (UUT)	31,291	8%	20,705	8%
	106,521	28%	72,316	27%
<u>Henderson Strategic Investment Funds</u>				
European Enhanced Equity Fund 'Z' (OEIC)	18,746	5%	12,208	4%
Japan Enhanced Equity 'I' (OEIC)	5,678	1%	3,325	1%
Asia Pacific Ex Japan Enhanced Equity Fund 'I' (OEIC)	5,305	1%	3,977	2%
	29,729	7%	19,510	7%
<u>Henderson Global Funds</u>				
Emerging Markets Fund 'I' (OEIC)	8,998	2%	6,639	2%
	8,998	2%	6,639	2%

This table is continued on the next page

PENSION FUND ACCOUNTS

This table is continued from the previous page

<u>Henderson UK & Europe Funds</u>				
Henderson UK Gilt Fund 'I' (OEIC)	9,391	2%	7,715	3%
Henderson All Stock Credit 'I' (OEIC)	22,499	6%	14,747	6%
Henderson Long Dated Credit Fund 'I' (OEIC)	3,625	1%	3,034	1%
	35,515	9%	25,496	10%
<u>Henderson Property Management (Jersey) Limited</u>				
UK Property Fund Units (PUT)	7,884	2%	7,415	3%
	7,884	2%	7,415	3%
Total invested (Note 13)	188,647	48%	131,376	49%
Cash	(387)	0%	(726)	0%
Total all Henderson Funds	188,260	48%	130,650	49%

(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 2010		31 March 2009	
	£000	% of Fund	£000	% of Fund
Pooled Investments				
<u>Legal and General Assurance (Pensions Management) Limited</u>				
Policy Number 35334-2/000 / 01	92,264	24%	62,279	23%
Policy Number 35336-7/000 / 01	92,263	24%	62,279	23%
Total invested (Note 13)	184,527	48%	124,558	46%

(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 2010		31 March 2009	
	£000	% of Fund	£000	% of Fund
Pooled Investments				
<u>Schroder Property Investment Management Limited</u>				
Schroder Exempt Property Unit Trust (PUT)	9,613	3%	8,779	3%
Total invested (Note 13)	9,613	3%	8,779	3%
Cash	395	0%	965	0%
Total all Schroders Funds	10,008	3%	9,744	3%

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.

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 2010		31 March 2009	
	£000	% of Fund	£000	% of Fund
LAMIT Local Authorities Property Fund (PUT)	3,209	1%	2,886	1%

There were no purchases or sales in these units by the Fund during 2009/10 or 2008/09. 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.

PENSION FUND ACCOUNTS

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

	2009/10	2008/09
	£000	£000
Investment management expenses:		
Investment managers' fees	1,004	667
Custodian Fees	7	17
Investment advisor's fees	19	35
Performance Measurement Fees	14	12
	1,044	731

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:

	2009/10	2008/09
	£000	£000
Income:		
Pension Contributions-from the Council (employer's contributions)	(14,887)	(14,441)
Pension Contributions-from employees (deductions paid over)	(4,217)	(3,995)
Interest	(15)	(90)
Total Income	(19,119)	(18,526)
Expenditure:		
Indirect support costs provided by the Council	378	378

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 2010.

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 – 30th September 2010. There are no events after 31st March 2010 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, based on values at 30th September, the Fund's investments are approximately 1.7% higher than at the balance sheet date, which is equivalent to around £6.7million.

STATEMENT OF RESPONSIBILITIES

Responsibilities of the Council

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Director of Finance and Corporate Services;
- Manage its affairs to secure economic, efficient and effective use of resources, and safeguard its assets;
- Approve the Council's Accounts, including those of the Pension Fund.

Responsibilities of the Director of Finance and Corporate Services

The Director of Finance and Corporate Services is responsible for the preparation of the Council's Accounts, including those of the Pension Fund, in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in United Kingdom ("the SORP").

In preparing the Pension Fund Accounts, the Director of Finance and Corporate Services has:

- Selected suitable accounting policies, and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Local Authority SORP.

The Director of Finance and Corporate Services has also:

- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities;
- Ensured the Pension Fund Accounts give a true and fair view of the financial transactions during the year ended 31st March 2010, and the amount and disposition of the Fund's assets and liabilities as at 31st March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Certificate

I certify that the Accounts of the Pension Fund give a true and fair view of the financial transactions of London Borough of Richmond upon Thames Pension Fund during the year ended 31st March 2010, and the amount and disposition of the Fund's assets and liabilities as at 31st March 2010.

Mark Maidment
Director of Finance and Corporate Services
30th September 2010

THESE PENSION FUND ACCOUNTS ARE AUTHORISED FOR ISSUE ON 30th SEPTEMBER 2010.

In accordance with Financial Reporting Standard 21 (FRS 21), this is the date up to which any events will have been considered in these Accounts (see Note 22).

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

We have audited the London Borough of Richmond upon Thames Pension Fund ("the Pension Fund") accounting statements for the year ended 31 March 2010 under the Audit Commission Act 1998. The Pension Fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The Pension Fund accounting statements 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 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 published by the Audit Commission in April 2008.

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

The Director of Finance and Corporate Services' responsibilities for preparing the Pension Fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the Pension Fund accounting statements 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 accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of 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 read other information published in the Council's Statement of Accounts and consider whether it is consistent with the audited Pension Fund accounting statements. This other information comprises the Foreword and the Glossary of Terms. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Pension Fund accounting statements. 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 accounting statements. It also includes an assessment of the significant estimates and judgments made by the Council in the preparation of the Pension Fund accounting statements, and of whether the accounting policies are appropriate to the Pension Fund'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 accounting statements 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 accounting statements.

Opinion

In our opinion: the Pension Fund accounting statements give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund's assets and liabilities as at 31 March 2010, 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 accounting statements.

Leigh Lloyd-Thomas

For and on behalf of **PKF (UK) LLP**
London, UK

22nd November 2010

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 the 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 for carrying out instructions and maintaining 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 for 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: formerly based on SI 1998 No. 1831 (The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998) (as amended), now based on SI 2009 No. 3093 (The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009), 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. Now updated represented (in an LGPS context) by the CIPFA publication “Investment Decision Making

and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles”.

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 on 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

If you have difficulty understanding this publication, please visit Reception at the address below where we can arrange a telephone interpreting service

Civic Centre
44 York Street
Twickenham
Middlesex
TW1 3BZ

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.

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

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

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

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

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

اگر آپ کو اس اشاعت کو سمجھنے میں کوئی مشکل ہے تو، براؤ کریم نیچے دیئے ہوئے ایڈریس کے استقبالیے پر جا کر ملیئے، جہاں ہم آپ کیلئے ٹیلیفون انٹر پریٹنگ سروس (ٹیلیفون پر ترجمانی کی سروس) کا انتظام کر سکتے ہیں۔