

# LONDON BOROUGH OF WALTHAM FOREST PENSION FUND

## PENSION FUND ANNUAL REPORT 2007-8

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## **INTRODUCTION**

This Annual Report covers the management and performance of the London Borough of Waltham Forest Pension Fund (the Fund) for the financial year 2007-8.

It is prepared in line with the requirements set out in the Local Government Pension Scheme (LGPS) Regulations 1997 (as amended).

## **REVIEW OF THE YEAR**

### **Management and Financial Performance**

The year saw major changes both in the nature and structure of the Fund investment management arrangements and also the global investment environment, with world financial markets affected by the end of the era of cheap credit, popularly termed the “credit crunch”, leading on to fears of recession and diminished returns, particularly in the final quarter.

### **Fund Investment Strategy**

2007/8 saw the decisions made in November 2006 to change the investment management structure from two balanced managers (UBS and Aberdeen), to specialist managers for particular asset classes, come to fruition.

During April and May 2007, special meetings of Pension Fund Members Panel (the Panel), were held to select a Global Equities manager, Global Fixed Income manager, and a UK Equities manager. These mandates had attracted large numbers of tenders (44, 17 and 35 respectively) and a specialist selection consultant “bfinance”, was used along with consultancy advice from Mercer, to provide advice allowing final choices to be made. In July 2007, a further meeting was held to select a European Property (including UK) manager, and a Global Tactical Asset Allocation (GTAA) manager. The target date for establishing the equity and fixed income mandates was 1<sup>st</sup> July, with 1<sup>st</sup> August for GTAA and property.

Because of the complex nature of the changeover and move from two balanced managers to the six that resulted from the process, a transition manager was used, Morgan Stanley.

Table 1 below shows the outcome in terms of managers appointed. The intention was originally to appoint one property manager, but the manager scoring highest DTZ, offered a property fund with insufficient UK property weighting. After taking appropriate advice, the Panel retained the UK property investments from UBS to provide an optimal mix of UK and European property investments (targeted at 30% and 70% respectively).

Further detail of the benchmark composition, benchmark indices and performance targets for the manager are contained in the Statement of Investment Principles, Appendix 2, which has been updated to take into account these material changes to investment strategy.

**Table 1 – Fund Managers and Portfolios**

<b>Manager</b>	<b>Asset Class</b>	<b>Benchmark Weight (%)</b>
AXA Framlington	UK Equities	43.0
BankInvest	Global Equities	31.0
ECM (European Credit Management)	Global Fixed Income	15.0
Nordea	Global Tactical Asset Allocation	3.0
DTZ (Aurora Fund)	European Property	5.6
UBS (Triton Fund)	UK Property	2.4

A summary of the resulting distribution of fund assets as at 31<sup>st</sup> March 2008, is shown in Table 2 below. It should be noted that a further manager for UK property investments is shown in the Accounts (“RREEF Limited”). These investments remain from the former Aberdeen portfolios and are in process of being liquidated, but being property this is a process that will occur over the next two to three years.

**Table 2 - Summary of Fund Assets as at 31<sup>st</sup> March 2008**

<b>Manager</b>	<b>Asset Class</b>	<b>Market Value 31<sup>st</sup> March 2008 £M</b>	<b>Percent Total Assets by Market Value (%)</b>
AXA Framlington	UK Equities	167.6	37.6
BankInvest	Global Equities	149.0	33.4
ECM	Global Fixed Income	66.0	14.8
Nordea	GTAA	14.4	3.2
DTZ	European Property	16.8	3.8
UBS	UK Property	21.7	4.9
RREEF	UK Property	10.0	2.2
Morgan Stanley	Transition (Cash balance)	0.4	0.1
<b>TOTAL</b>		<b>445.9</b>	<b>100.0</b>

### **Pension Fund Accounts 2007-8**

The 2007-8 Accounts are attached as Appendix 1. The Fund Account shows that overall there was a net diminution in the net assets of the scheme from £472.3m at 31<sup>st</sup> March 2007, to £444.1m at 31<sup>st</sup> March 2008, (-£28.2m).

From dealings with members, employers and others directly involved in the scheme, there was a net increase £3.3m, (all employer contributions increased by 6.6% year on year, employee contributions by 1.2%. There was also an increase in transfers in from other pension funds, of £1.8m.

Benefits payable and transfers out were little changed year on year (£0.2m).

Taking investment income net of management expenses, plus this addition to the Fund from dealings with members provided £9.2m additional funds for investment. However this was more than offset by the net decrease in the value of the fund investments, (realised and unrealised), of £37.5m. The investment performance for the year is set out in the next section.

## **Pension Fund Performance 2007-8**

### ***Fund Returns 2007-8***

Table 3 below sets out the quarter by quarter results for the Fund in 2007-8. Over the year as a whole the Fund return was -5.6%, whereas the benchmark return was -4.4%, the Fund thus showed relative underperformance of -1.3%. However, the contribution to this overall result was very different between the four quarters.

**Table 3 – Quarterly Fund Returns 2007-8**

<b>LBWF 2007-8</b>	<b>First Quarter April to June 2007</b>	<b>Second Quarter July to September 2007</b>	<b>Third Quarter October to December 2007</b>	<b>Fourth Quarter January to March 2008</b>	<b>Total Annual Performance 2007-2008</b>
	%	%	%	%	%
<b>Fund Return</b>	3.1	-2.3	0.9	-7.1	-5.6
<b>Benchmark Return</b>	3.1	0.3	-0.1	-7.4	-4.4
<b>Relative Return</b>	0.1	-2.6	1.0	0.3	-1.3

*All figures WM Performance Services*

### ***April to June Quarter 2007***

#### *Investment Climate*

The quarter was characterised by moderate returns in UK and US equity markets (+4.5% and +4.3% respectively) with Europe returning +7.0% and the Pacific region a healthy positive return of +10.5%. Bond markets were in negative territory with UK results -2.4%.

#### *Fund Performance*

This was the last full quarter under the old investment management arrangements, with the two balanced managers UBS and Aberdeen Fund Management Ltd. Performance was measured against a fund specific benchmark composed from agreed asset allocation weights applying to each of the two managers. The Fund was invested broadly one third with Aberdeen and two thirds with UBS. The Fund performed closely to benchmark.

## ***July to September Quarter 2007***

### *Investment Climate*

Markets were impacted by the “credit crunch”, primarily the US markets, only the Pacific region was still going strong with a positive +12.0% return. UK equities moved negative at -1.8% while the US stayed just positive at +1.1%. Against the weakness in equities, bonds turned in a moderate positive response (UK +4.1%).

### *Fund Performance*

During the second quarter the principal reorganisation of the Fund’s investment managers took place following the appointment of the new specialist managers in April and May and finally July. The transition was managed by Morgan Stanley and the Panel received a report on the outcome at its meeting of 26<sup>th</sup> February 2008. European Credit Management (ECM), fixed income mandate, had been the first to be funded, on 3<sup>rd</sup> July. Axa Framlington, UK equity mandate, followed on 23<sup>rd</sup> July. BankInvest, with the global equity mandate, were funded from 3<sup>rd</sup> August and Nordea, global tactical asset allocation, on 29<sup>th</sup> August. The UK property portfolio already existed as the UBS Triton funds, while the European property portfolio won by DTZ (Aurora Fund) commenced drawdown on 4<sup>th</sup> October in the third quarter.

The Fund return for the quarter was inevitably affected by this fundamental reorganisation, showing -2.6% relative return, against benchmark return of +0.3%. From 1<sup>st</sup> July, the Fund benchmark was changed as part of the new investment strategy and performance would also have been affected by any transition activity not occurring at precisely this date. The new benchmark is set out in detail in the SIP, (Appendix 1). It is primarily based on weights of 43% for UK equities, 31% global equities, 15% fixed income, 8% property and 3% for global tactical asset allocation.

## ***October to December Quarter 2007***

### *Investment Climate*

As the “credit crunch” continued to bite and other concerns caused by higher food and energy prices impacting on inflation took hold in the markets, equity returns in the UK and US were now both negative at -0.3% and -0.6% respectively. Europe remained strong at +3.0%, and the run of good results in the Pacific region came to a halt, delivering +0.1%. Japan stayed in negative territory at -3.4%. Bonds maintained positive returns at +4.4% in the UK and +6.6% for overseas bonds. Property now became strongly negative at -8.5%.

### *Fund Performance*

This was the first quarters’ results for the new investment strategy with the new specialist managers in place, although drawdown for the Aurora property fund had only just begun. While the benchmark returned -0.1%, the Fund returned +0.9%, a relative outperformance of +1.0%. Particularly strong contributions came from UK equities at +1.5% relative return, global equities at +1.7% relative return, while global tactical asset allocation achieved +0.5% relative. Some of these gains were offset by the fixed income result where there was a

negative (-2.7%) relative performance. Fund results for this quarter were top quartile versus the local authority peer group.

### ***January to March Quarter 2008***

#### *Investment Climate*

This was the quarter in which the weakness in the US economy and currency, triggered by the “credit crunch”, then compounded by concerns on inflation pressures coming through from oil and gas prices and in basic commodities including food staples, really impacted equity markets as recession looked likely to result in many markets. UK equities showed negative returns of -9.9%, the US -9.1%, and the Pacific region now added to the gloom with -10.3%. Japan continued negative at -7.2%. Bonds remained positive at 1.4% for the UK and 10.3% overseas. Property was still negative at -3.4%.

#### *Fund Performance*

The Fund again outperformed the benchmark by 0.3% relative return. Both the UK equities and global equities portfolios outperformed their benchmarks with a relative contributions of +1.6% and +2.3% respectively, although absolute returns were negative this quarter. Existing property investments also contributed a relative return of 0.7%. Fixed income and global tactical asset allocation were impacted by market conditions, with fixed income particularly badly affected at -9.1% relative return.

#### *Annual Result*

The Fund returned -5.6% over the year as a whole, against a benchmark return of -4.4%. Relative return was -1.3%. From the quarterly analyses above it will be seen that the fundamental restructure of the investment management arrangements impacted the relative return in the July to September quarter, while overall, in the two subsequent quarters with the new specialist asset managers in place, positive relative returns were achieved. The overall negative return for the year was principally due to the severe market conditions in the final quarter.

### **Actuarial Results and Funding Position**

The results of the 2007 triennial valuation of the Fund were produced by the Fund actuary, Mercer, during the year. The main results are set out in Note 1 to the Pension Fund Accounts 2007-8 (Appendix 1). The outcome of the valuation was that the level of funding was assessed at 70%, the value placed on Fund assets was £472.3M and Fund liabilities £672.5M. This was the same level of funding revealed at the 2004 triennial valuation, and was achieved despite adverse changes to actuarial assumptions, for example the mortality assumptions taken into account. A formal Actuarial Funding Statement is attached as Appendix 4.

The results of the valuation have been taken into account in revising the Funding Strategy Statement (FSS), attached as Appendix 3, and formulating the recovery plan to achieve the funding target. It is worth repeating the aims of the London Borough of Waltham Forest Pension Fund from the FSS, as they form the context for this strategy:

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies
- manage employers' liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due, and
- maximise the returns from investments within reasonable risk parameters.

Consistent with these aims, a deficit recovery plan has been agreed which involves a maximum deficit recovery period of 20 years. Employers may agree shorter periods if they so wish, or the Council as Administering Authority may require a shorter period depending on the particular circumstances of an individual employer.

Significant increases in employer contribution rates may be phased in over a maximum of three years starting from 2008/9 unless otherwise required by the Council.

The Council's employer contribution rates for the next three years are as follows as a result of this policy:

- 2008-9            18.6%
- 2009-10         19.5%
- 2010-11         21.5%

The next revaluation of the Fund will be as at 31<sup>st</sup> March 2010, unless an interim valuation is commissioned during the triennial period.

## **Administration and Benefits**

### ***Scheme rules and benefits***

The Scheme rules and benefits change with effect from 1 April 2008. The 'New Look' Local Government Pension Scheme takes effect from the above date. Given that much preparation and communications effort has taken place during 2007-8 on this major change, a summary of those rules and benefits effective as at 1 April 2008 is given below.

### ***Scheme membership and income***

(a) All employees of the London Borough of Waltham Forest are eligible for membership of the LGPS. Full and part-time employees, whether permanent or temporary (Contract must be for 3 months or longer), become members automatically with the right to opt out (back-dated to the start of membership if made within three months).

(b) Members' contributions depend on how much they are paid but it will be between 5.5 and 7.5% of their pensionable pay. Part-time workers should note that the rate will be based on the whole time pay rate for their job, although they

will only pay contributions on the pay they actually earn. The pay band ranges that apply from April 2008 are as follows:

Whole Time Rate of Pay (per annum):	Contribution Rate of:
Up to £12,000	5.5%
£12,001 - £14,000	5.8%
£14,001 - £18,000	5.9%
£18,001 - £30,000	6.5%
£30,001 - £40,000	6.8%
£40,000 - £75,000	7.2%
More than £75,000	7.5%

The pay band ranges will be increased each April in line with the cost of living.

For protected manual worker who were paying 5% contributions before 1 April 2008, their contributions will increase on a phased basis over the next three years (beginning 1 April 2008). By the end of that period their contributions will be in line with the contribution bands set out above. From 1 April 2008 the contribution rate for all members who are currently paying 5% contributions increases to 5.25%. From 1 April 2011 the contribution rate for all members paying between 5.5% and 6.5% will be harmonised with those paid by all other members.

Members of the LGPS will attract tax relief at the time contributions are deducted from their salary and will also be contracted out of the State Second Pension scheme (S2P).

(c) Membership accrual rates change with 1 April 2008. For service up to 31 March 2008, the pension is based on 1/80<sup>th</sup> of the member's final year's pensionable pay. For service after 1 April 2008, the pension is based on 1/60<sup>th</sup> of the member's final year's pensionable pay.

### **Benefits available**

*(Three month's membership or more or a transfer value has been received):*

a) Retirement pension and lump sum awarded:

- Payable immediately on cessation of employment:
  - (i) Voluntarily from age 50 onwards (with the Employer consent if under age 60);
  - (ii) Through permanent incapacity at any age;
  - (iii) As a result of redundancy or efficiency after age 50.
- Preserved and payable from retirement age in any other circumstances.

b) Spouses' and children's pensions and a tax-free lump sum death grant following death:

- In employment;
- In receipt of retirement pension (a lump sum may **not** always be payable);
- Before preserved benefits become payable.

Full details of scheme benefits under the new arrangements can be found in the Scheme members' booklet which is available on the Council's website. Link details are included in the section on Communications below.

### ***Scheme Movement Analysis – 1 April 2007 to 31 March 2008***

The following statistics summarise administration activity during the financial year:

Number of retirees / preserved pensions put into payment:	229
Number of new dependant's pension paid:	73
Number of leavers (not entitled to immediate benefits):	190
Number of refund of contributions paid:	5
Number of transfer out payments made:	109
Number of deaths on pension/in service:	126
Number of new members into the scheme:	393

### ***Pensions increases***

Pensions in payment and deferred benefits are subject to annual review under the Pensions (Increase) Act 1971. The Pensions Increase (Review) Order 2008 required an increase of 3.9% (2007: 3.6%) to be awarded from 7 April 2008 (9 April 2007). This is reduced proportionately for pensions in payment for less than 12 months. As usual, the increase corresponds to the increase applied to State benefits and pensions paid by other public service pension schemes. It reflects the rise in the Retail Prices Index during the 12 months ended 30 September 2006.

### ***Communications***

With the changes to the scheme rules from 1 April 2008, communication has never been as important as it has been in the last year. To ensure all members are aware of the changes, a number of communications have been issued:

Pensions News – Issue three – Summer 2007 – Active members were issued with a copy of the newsletter in August 2007. This issue explained the proposals of the CLG in relation to the 'new look' Local Government Pension Scheme.

Pensions News – Issue Four – Winter 2007 - Active members were issued with a copy of the newsletter in December 2007 / January 2008. This issue confirmed the rules changes to the scheme effect from 1 April 2008, providing relevant examples of the changes to the contribution rate and the accrual of benefits.

Our Pensions Administrator, Capita Hartshead, performed a number of presentations to key staff in Human Resources (HR), Payroll, Admitted and Scheduled Bodies and the Trade Unions on the key changes to the scheme and outlined their responsibilities to ensure a smooth transition to the new scheme.

The *Members Booklet* has recently been rewritten to take into account the changes to the scheme. This is sent to all new starters and is available electronically to all interested parties on the LBWF pension website.

In the early part of 2007 a pension specific website was created by our Pensions Administrators, Capita Hartshead – [www.capitahartshead.co.uk/lbwf](http://www.capitahartshead.co.uk/lbwf). The website contains a number of useful documents and videos including the updated scheme booklet, expression of wish form, latest news on the changes to the scheme and the video provided by CLG detailing the new scheme.

A number of pension surgeries have been held for all active members to attend at different locations across the borough. These are held on a bi-monthly basis for half-day sessions. It gives active members the opportunity to speak to the pension's team face-to-face and on a one-to-one basis. The feedback received has been positive and therefore these surgeries will continue to take place.

A pre-retirement course is held four times a year. These courses provide members who are approaching retirement with useful information from State benefits to spare time activities. The pension's team also attends and provides all attendees with a personal estimate and the opportunity to discuss any aspect of their Local Government Pension.

Enquiries concerning the Local Government Pension Scheme with the London Borough of Waltham Forest or entitlement to benefits should be addressed to:

LBWF Pensions Team  
Capita Hartshead  
PO Box 195  
Mowden Hall  
Darlington  
DL1 9FS

Tel: 01737 366 093/094/043  
Fax: 01737 366 100  
Email: [lbwf.pensions@capita.co.uk](mailto:lbwf.pensions@capita.co.uk)

Website: [www.capitahartshead.co.uk/lbwf](http://www.capitahartshead.co.uk/lbwf)

## **GOVERNANCE REPORT**

There have been a number of significant developments in governance practice during the year.

## **Pension Fund Members Panel Observers**

Following the resignation of Mrs E Battson as an observer during 2006-7 the vacancy was advertised to other Fund employers. Mr D Ball (Vice Principal of Sir George Monoux College) applied for the position and was appointed at the meeting of the Panel on 14<sup>th</sup> January 2008.

## **Governance Compliance Statement**

The Council as administering authority to the Fund must publish a statement to demonstrate its compliance with good practice on governance issues. This is required following an amendment to the LGPS Regulations 1997 to apply to the 2007-8 financial year, and to the LGPS Administration Regulations 2008, to apply to the new scheme from 1<sup>st</sup> April 2008. The statement must set out the degree of compliance with nine principles set out in a statutory guidance document issued by the Department of Communities and Local Government. The second version of this statutory guidance was issued in July 2008, and the Fund statement has been revised to take into account the new version of the statutory guidance.

The statutory guidance accepts that there are many models for the administration and management of Local Government Pension Funds and seeks to set out best practice principles for their governance. As such they may be used by the Council to develop its policies for the management of the Fund in the immediate future, in particular where the statement shows the Fund is not fully compliant with the suggested best practice model.

The Governance Compliance Statement for the Fund is attached as Appendix 5.

## **Ethical Investment Policy**

The Panel considered, at its 14<sup>th</sup> January meeting, a number of options for approaching an ethical policy for the Fund. The Panel recognised the need to consider the long term impact on the Fund of the approach taken by companies on responsible investment and sustainable investment issues. However, this a complex issue requiring careful analysis and due regard to the legal responsibilities of the Council.

To progress the issue, the Fund has decided to take account of the experience and approaches of other local authority funds through membership of the Local Authority Pension Fund Forum.

## **Local Authority Pension Fund Forum (LAPFF)**

The Fund joined the LAPFF in January 2008. The Forum exists to promote the investment interests of local authority pension funds and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance amongst companies in which they invest. With around half of all local authority funds as members, the Forum can negotiate with companies with a single authoritative voice, impossible for

smaller funds acting alone. The Forum is developing policy on many issues, including on corporate governance issues such as Directors Pay, and environmental and social responsibility issues.

The LAPFF has issued a self assessment template, "Environmental, Social, Governance Issues for Pension Fund Investment", and this has been completed and considered by the Panel as a first step in policy development in this area. Detailed policy options will be considered at future meetings of the Panel, and will involve consultation with unions and scheme members.

### **Training Plan**

The Myners principles established the importance of decisions being made by those with the skills information and resources necessary to take them effectively. The draft statutory guidance further recognises that to demonstrate good governance, funds should report on the extent to which training facilities available to Council members are also available to lay members sitting on the committees dealing with management and administration of the LGPS. The Panel recognises the importance of this issue and has called for a report to be considered at a meeting early in 2008-9.

**PENSION FUND ANNUAL REPORT 2007 – 8****PENSION FUND ACCOUNT**

2006/07 £000	FUND ACCOUNT	2007/08 £000	Notes
	<b>Dealing with members, employers and others directly involved in the scheme</b>		
	<b>Contributions receivable:</b>		
17,589	Employers:- normal contributions	18,744	
2,575	additional contributions (early retirement)	2,950	
6,670	From members:- normal contributions	6,743	
127	additional contributions	135	
<u>26,961</u>		<u>28,572</u>	
	<b>Transfers In:</b>		
2,466	Transfers from individuals	4,314	3
<u>29,427</u>		<u>32,886</u>	
	<b>Benefits payable:</b>		
19,653	Pensions	21,290	
2,981	Lump sum retirement benefits	4,204	
606	Lump sum death benefits	273	
	<b>Payments to and on account of leavers:</b>		
7	Refund of contributions	3	
5,901	Individual transfers out to other schemes	3,490	
552	<b>Administrative and other expenses borne by the scheme</b>	633	12
<u>29,700</u>		<u>29,893</u>	
<u>(273)</u>	<b>Net (withdrawals)/additions from dealings with members</b>	<u>2,993</u>	
	<b>Returns on Investments</b>		
8,920	<b>Investment Income</b>	8,144	10
	<b>Change in market value of investments</b>		
19,309	Realised Capital Gains/(Losses)	120,975	
1,821	Unrealised Capital Gains/(Losses)	(158,452)	
(887)	<b>Investment management expenses</b>	(1,894)	12
<u>29,163</u>	<b>Net returns on investments</b>	<u>(31,227)</u>	
28,890	<b>Net decrease in the fund during the year</b>	(28,234)	
443,396	<b>Opening net assets of the scheme</b>	472,286	
<u>472,286</u>	<b>Closing net assets of the scheme</b>	<u>444,052</u>	

**PENSION FUND ACCOUNT (continued)**

2006/07 £000	NET ASSETS STATEMENT AS AT 31st MARCH 2008	2007/08 £000	Notes
	<b>Investment Assets</b>		
	Fixed interest securities		
	- Public sector	0	4 (a)
67,130			
5,940	- Other	66,025	4 (a)
341,136	Equities	299,418	4 (c)
36,980	Unit trusts - Property	48,247	4 (e)
18,099	Cash and money market instruments	32,174	9
	<b>Total Investment Assets</b>	<u>445,864</u>	<b>5</b>
469,285			
	<b>Net Current Assets and Liabilities</b>		
	Debtors	3,001	6
6,009			
(3,561)	Creditors	(7,184)	7
553	Cash in hand	2,371	
<u>472,286</u>	<b>Net assets at market value</b>	<u>444,052</u>	

**NOTES TO THE PENSION FUND ACCOUNTS****1 GENERAL**

The Pension Fund is operated under the provisions of the Superannuation Act 1972 (as amended), and the Local Government Superannuation Act 1937 and Regulations issued under these powers, to provide pensions for employees of the Authority who choose to join the scheme, other than teachers. In addition to retirement pensions, the benefits include lump sum retirement grants, death grants and widows' pensions. The pension fund scheme is classified as a contributory defined benefit scheme. Retirement and other benefits are determined by reference to length of service, remuneration etc.

The Director of Finance is responsible for the scheme in accordance with standing authority given by the Council. From the 1st September 2005 the administration of the scheme was transferred to Capita Hartshead Ltd. During 2006, resulting from the regular performance monitoring of the investments of the fund, continuing underperformance of the existing managers led the Council to carry out a detailed review of the investment strategy of the fund and investment consultants were appointed to provide advice to this process. It was acknowledged that investment strategies typically used by large funds had developed considerably since the Council carried out its last review and the use of a small number of balanced managers is no longer considered the optimum way to structure investments. Current practice favours the selection of specialist managers who are considered "best in class" for the particular asset class to be invested in, in the search for suitably diversified assets that can deliver the returns targeted with a risk profile suitable for the funding strategy adopted.

The Pension Fund Members Panel recommended a fully specialist structure at its meeting of 9th November 2006, and five new specialist mandates were proposed – UK Equities, Global Equities, Global Fixed Income, European Property, and Global Tactical Asset Allocation. UK Property was also retained as a specialist mandate. During the first half of 2007 a tender selection process was completed and new managers appointed with targeted take-on of 1st July 2007. Transition specialists Morgan Stanley were appointed to manage the migration of assets to the successful new managers:

Global Equities - BankInvest Asset Management  
 Global Fixed Income - European Credit Management Limited  
 Pan-European Property - DTZ Investment Management  
 Global Tactical Asset Allocation - Nordea Investment Management  
 UK Equities - AXA Framlington Investment Management

UBS were retained for UK property, and property investments from the previous Aberdeen portfolios (RREEF units) remain to be realised.

The fund is subject to professional actuarial valuation every three years and the Council contributes to the fund in accordance with actuarial recommendations. The last valuation at March 2007 showed that the assets were sufficient to cover 70% of the accrued liabilities assessed on an ongoing basis. The Actuary recommended an increase in the employer's contribution to 21.5 % of pay based on a 20 year recovery period. The Actuary agreed that the increase in rate could be phased in three years so the employer contribution rates for the next three years starting in 2008/09 would be 18.6%, 19.5% and 21.5% of pay. The Actuary took into account that the Council was making its own provision for ill health and early retirements. The funding policy of the scheme is set out in the Council's Funding Strategy Statement.

The main assumptions used were:	Past Service	Future Service
Investment Return - Pre retirement	6.4%	6.5%
- Post Retirement	5.4%	6.5%
Pensions increases and price inflation	3.1%	2.75%
Pensionable pay increases	4.6%	4.25%

<b>Valuation at 31st March 2007</b>	<b>2007</b>	<b>2004</b>
	<b>£ million</b>	<b>£ million</b>
Retired members and widows and dependants	295.9	200.5
Deferred pensioners	88.7	72.6
Members in service	<u>287.9</u>	<u>183.9</u>
Total past service liabilities	672.5	457.0
less value placed on assets of the fund (net of reserve)	<u>472.3</u>	<u>318.3</u>
Excess of liabilities accrued up to 31st March	<u>200.2</u>	<u>138.7</u>

At 31st March 2008, there were 6,542 (6,546 at 31st March 2007) employees contributing to the Fund and 5,523 (5,399 in 2005/06) persons in receipt of benefits from the fund and 3,163 persons preserved their benefits.

## 2 ACCOUNTING POLICIES

The Fund's accounts are compiled in accordance with the principles set out in the Statement of Recommended Practice on The Financial Reports of Pension Schemes and the CIPFA Code of Practice on Local Authority Accounting.

The Financial Statements have been prepared on a part accruals basis. Investment income is taken into account where dividends are declared but not paid at the financial year end. Contributions to the fund are also accrued.

Investments are stated at market value with any surplus or deficit on valuation being transferred to the fund balance. Any unlisted investments are shown at fund manager's valuation. Transactions in foreign currencies are taken into account at the rate of exchange at the time of transaction and in the Financial Statements at rates on the 31st March 2008.

The Pension Fund accounts do not account for liabilities to pay future pensions to current and prospective beneficiaries.

## 3 TRANSFER VALUES

Transfer values are paid and received for contributors to the Waltham Forest scheme who transfer to and from other eligible schemes.

## 4 INVESTMENTS

Listed investments are stated at mid-market values, as quoted at the close of business of the relevant stock exchange. Unlisted investments are stated at cost or valuation by the fund.

These consist of amounts held by seven external fund managers and are analysed as follows:-

- (a) Analysis of fixed interest securities by sector using market values at 31st March 2008.

	<b>2007/08</b> <b>£000</b>	<b>2006/07</b> <b>£000</b>
United Kingdom public sector	0	39,787
United Kingdom private sector	0	5,940
Overseas public sector	0	27,343
Overseas private sector	66,025	0
	<u>66,025</u>	<u>73,070</u>

- (b) There were no index-linked bond investments held as at 31st March 2008 or during the year.
- (c) Analysis of equities and convertibles by region using market value at 31st March 2008 :-

	<b>2007/08</b> <b>£000</b>	<b>2006/07</b> <b>£000</b>
United Kingdom - listed	151,850	200,718
United Kingdom - unlisted	0	19
Overseas Equities	2,907	73,193
United States and Canada	53,641	19,618
Europe	71,423	20,449
Japan	7,924	12,787
Other	11,673	14,352
	<u>299,418</u>	<u>341,136</u>

- (d) Analysis of equities and convertibles by type using market values at 31st March 2008 :-

	<b>2007/08</b> <b>£000</b>	<b>2006/07</b> <b>£000</b>
Basic Materials	16,130	1,468
Consumer Goods		
Industry	29,994	35,646
Consumer Services Industry	29,414	24,286
Health Care	15,664	-
Financials	37,975	42,752
Industrials	59,534	-
Telecommunications	14,349	1,232
Technology	19,758	-
Oil & Gas	54,507	-
General Industries	0	9,767
Resources	0	22,535
Unit Trusts	0	197,767
Utilities	22,093	5,683
	<u>299,418</u>	<u>341,136</u>

## (e) Analysis of property unit trusts by type using market values at 31st March 2008 :-

	2007/08 £000	2006/07 £000
United Kingdom - listed	21,474	13,146
United Kingdom - unlisted	9,995	23,834
Overseas - unlisted	16,778	0
	<u>48,247</u>	<u>36,980</u>

**5 PERCENTAGE SPLIT BETWEEN MANAGERS**

The fund investment's are managed by seven specialist fund managers. Details of the management split showing the percentages and the market values are given below:-

	Market Value	
	£000	%
UBS Global Asset Management	21,674	4.86
RREEF Limited	9,995	2.24
DTZ Investment Management	16,778	3.76
AXA Framlington Investment Management	167,605	37.59
Nordea Investment Management	14,402	3.23
BankInvest Asset Management	148,996	33.42
European Credit Management Limited	66,025	14.81
Morgan Stanley (Transition Manager)	389	0.09
Externally managed	<u>445,864</u>	<u>100.00</u>
Internally managed	0	0
Total Fund Value	<u>445,864</u>	<u>100.00</u>

**6 DEBTORS**

Analysis of debtors outstanding at 31<sup>st</sup> March 2008:-

	2007/08 £000	2006/07 £000
London Borough of Waltham Forrest		
March pension contributions	1,345	1,226
Other contributions	0	2,714
Investment income	916	1,446
Other	740	623
	<u>3,001</u>	<u>6,009</u>

**7 CREDITORS**

Analysis of creditors outstanding at 31<sup>st</sup> March 2008:-

	<b>2007/08</b> <b>£000</b>	<b>2006/07</b> <b>£000</b>
London Borough of Waltham Forest	6,158	2,687
Accrued benefits	390	235
HMRC - PAYE	214	205
Other	422	434
	<u>7,184</u>	<u>3,561</u>

**8 PURCHASE AND SALES OF INVESTMENTS**

During the year the fund purchased investment assets totalling £737 million (£84 million in 2006/07) and sold investment assets at a value of £409 million (£77 million in 2006/07). Figures for 2007/08 include the purchase and sale of assets by all fund managers to transfer investments to pooled funds and new investment vehicles.

The timing of disinvestment from legacy portfolios and funding requirements for new portfolios has resulted in increased fund borrowing from Council funds. In particular the necessarily slow realisation of funds from the Aberdeen (RREEF) property holdings has overlapped with the fixed schedule of call notices from the DTZ Aurora property fund necessitating increased borrowing.

No stock lending activities were entered into by pension fund managers on the Council's investments.

**9 OTHER INVESTMENTS**

	<b>2007/08</b> <b>£000</b>	<b>2006/07</b> <b>£000</b>
Cash held by Investment managers	17,772	9,648
Global Tactical Asset Account Funds	14,402	8,450
	<u>32,174</u>	<u>18,098</u>

**10 INVESTMENT INCOME**

Interest and dividends receivable in 2007/08 have been accounted for on an accruals basis. The accrual in the 2007/08 accounts amounted to £0.9 million. The total investment income received during the year came to £8.1 million and was analysed as follows :-

	<b>2007/08</b>	<b>2006/07</b>
	<b>£000</b>	<b>£000</b>
UK index linked	0	0
United Kingdom dividends	3,396	6,126
UK cash interest	172	73
United Kingdom property	882	403
United Kingdom tax reclaimed	387	387
United Kingdom fixed interest	0	1,534
Overseas Index linked	0	0
Overseas dividends	2,083	0
Overseas fixed interest	795	256
Overseas property	105	0
<b>Investment Income</b>	<b>7,820</b>	<b>8,779</b>
Other income	262	116
Currency revaluation	0	0
Internal interest	62	25
Underwriting	0	0
<b>Total Investment and other income</b>	<b>8,144</b>	<b>8,920</b>

## 11 PROPERTY

Interest on property development is not applicable.

## 12 MANAGEMENT AND OTHER EXPENSES

Regulations now permit the Council to charge administration costs to the scheme. A proportion of relevant council officers salaries, including on-costs, have been charged to the fund on the basis of actual time spent on scheme administration and investment related business. The fees of the fund's general investment management have been accounted for on the basis contained within their respective management agreements.

Management expenses during the year were as follows :-

	<b>2007/08</b>	<b>2006/07</b>
	<b>£000</b>	<b>£000</b>
Performance management expenses	306	17
Investment management	1,547	770
Investment management - central administration/other	41	100
<b>Total investment management expenses</b>	<b>1,894</b>	<b>887</b>
Actuary expenses	150	58
Administration	483	494
<b>Total administration expenses</b>	<b>633</b>	<b>552</b>
<b>Total management and other expenses</b>	<b>2,527</b>	<b>1,439</b>

Administration of the fund was outsourced to Capita Hartshead Ltd with effect from 1st September 2005.

### 13 CONTRIBUTIONS

Contributions represent those amounts receivable from the Council in respect of its own contributions and those of pensionable employees. The employer's contributions are determined by the actuary at the periodic valuations of the fund's assets and liabilities required by the Local Government Pension Scheme Regulations 1997 (As Amended).

### 14 SCHEDULED AND ADMITTED BODIES

The Pension Fund had the following scheduled and admitted bodies at 31 March 2008

Ascham Homes	Canopy (Housing Consortium)
Leyton VI Form College	Caxton Facilities Management (PFI schools)
Sir George Monoux College	Chingford Foundation School
Waltham Forest College	CT Plus
Walthamstow Academy	ECT Ltd
	EduAction
	Ellingham Employment Services
	Highams Park Foundation School
	London & Quadrant Housing Trust
	Norlington School
	Orient Regeneration Trust
	Rushcroft School
	Strictly Eduaction
	Thomas Gamuel School
	Warwick School.
	Whitefield School
	Whitehall Primary

### 15 CONTRIBUTIONS RECEIVABLE AND BENEFITS RECEIVABLE

	2007/08 £000	2006/07 £000
<b>Contributions and Transfers Receivable</b>		
London Borough of Waltham Forest	23,100	21,871
Scheduled Bodies	2,082	867
Admitted Bodies	7,704	6,689
	32,886	29,427
<b>Benefits and Transfers Payable</b>		
London Borough Waltham Forest	27,047	27,920
Scheduled Bodies	971	321
Admitted Bodies	1,242	907
	29,260	29,148

**16 ADDITIONAL CONTRIBUTIONS FOR EARLY RETIREMENT**

Additional contributions have been made to the Pension Fund on the basis of recovering the additional costs of early retirement, ill health retirements and corporate redundancies over a period of three years. The additional contribution made in 2007/08 was £2,949,809. The Council contribution in the previous year was £2,575,000.

**17 OTHER**

There are no material transactions that have not been disclosed in the accounts. There were no material contingent liabilities or contractual commitments at the period end. The Pension Fund is a related party of the Council. All of the above transactions are related party transactions between the Council and Pension Fund. The value of the Pension Fund's investments decreased to £446 million at 31st March 2008, reflecting the volatility being experienced in world markets in the latter part of the year.

**18 FURTHER INFORMATION**

Copies of the Pension Fund Annual Accounts, Annual Report, Statement of Investment Principles, Funding Strategy Statement and Myners Compliance Document can be found on the Council's Intranet.