

Your Pension

LPFA Fund Members Report - Autumn 2002

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Welcome

This newsletter is intended to give you some important information from the Annual Report and Accounts for 2001-02 which was published recently. The whole document is too weighty to send out to every fund member and a large part of the contents will not be of interest to very many. However, if you want to know more, please tell us and we will help.

Some of the key bits of information that you will find on the following pages was handed out to those who were able to attend the Forum and will show you:

- The type of work we are doing, the increase in workloads and membership, and our performance in dealing with our work on time (pages 4 and 5)
- Investment returns and a report on the activities related to the fund, plus a special report on compliance with the Myners investment principles (pages 8 and 9)
- A summary of the figures from the accounts (pages 10 & 11)

Also you will find

- A brief report of the Fund Members Forum held on 18th July (pages 12 and 13)
- Details of the Race Equality Scheme that we have to publish by law, inviting any comments you may have (page 14)
- Some current notices on page 15; and
- Useful contact references on the back page

2001-02 has been another active year for LPFA with rising workloads, new agency business opportunities and operational challenges.

We continue to operate for your benefit and to give you the best service that we can provide. If we make mistakes or you are not happy, please let us know and we will try to put things right.

Our next newsletter comes out in March 2003 with details of the next increase in pensions and further items of current news.

Peter Scales
Chief Executive



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Message from the Chairman

Strategic vision

The Authority is required to submit a strategy statement to the Mayor in December each year setting out LPFA's aims, objectives and plans over a three year period and take into account comments by the Mayor prior to final publication. A budget statement is also submitted.

The key themes of the strategy for 2002 to 2005 centre on continuous improvement, equality and diversity, and responsibility. We shall be reviewing that strategy with the Mayor early in 2003.

The Board met quarterly during the year and considered a total of 52 reports covering investment monitoring, presentations from investment managers, scheme reviews, accounts, budgets, the valuation and other policy issues, plus reports from each committee.

In the newsletter last year, I referred to the tragic events on 11th September 2001 and the subsequent effects on world markets. Since then, we have witnessed further loss of confidence in the wake of financial scandals, big business failures and a collapse of the technology boom. All this means a continuing trend of negative investment returns and the prospects of lower returns for many years to come.

May I reassure you, none of this affects your pension or the benefits you have earned from the scheme. But it does make the investment strategy more difficult to manage and emphasise the need to hold the types of investments which are not losing value and will realise the cash to pay your pensions. We are keeping our investment choices under close scrutiny.

Many of you will have read in the press about pension scheme closures, some may even have read stories and doubts about the future of local government pensions. True the scheme is under review with a view to modernising its provisions and LPFA is in the forefront of discussion. But rest assured, the Government has confirmed that the future of the Local Government Pension Scheme is secure for its current membership.

I am grateful to my fellow Board Members and staff for all their hard work over the past year, and I wish to record a special thank you to Maurice Stonefrost who retired from the Board last Christmas ~ he has been replaced by Ray Ambrose who some of you may remember from the Legal Department at GLC.

May I on behalf of the Board and members of staff wish all of you and your families a most enjoyable Christmas and a well deserved Happy New Year.



Neil Newton – chairman

Committees of the Board

- Audit and Scrutiny
- Investment Strategy
- Business Development
- Remuneration

Board Members:

Neil Newton - Chairman

Cllr Pamela Batty, Niaz Alam, Kumar Murshid,
Bill Roots, Andrew Cornwell, Ray Ambrose,
Cllr Serge Lourie, Cllr Keith Toms, Dr Ann Robinson,
Jenny Rosser

Investment Advisors

Peter Moon, Chief Investment Officer USS Ltd,
David Rough - Consultant for L&G Investments

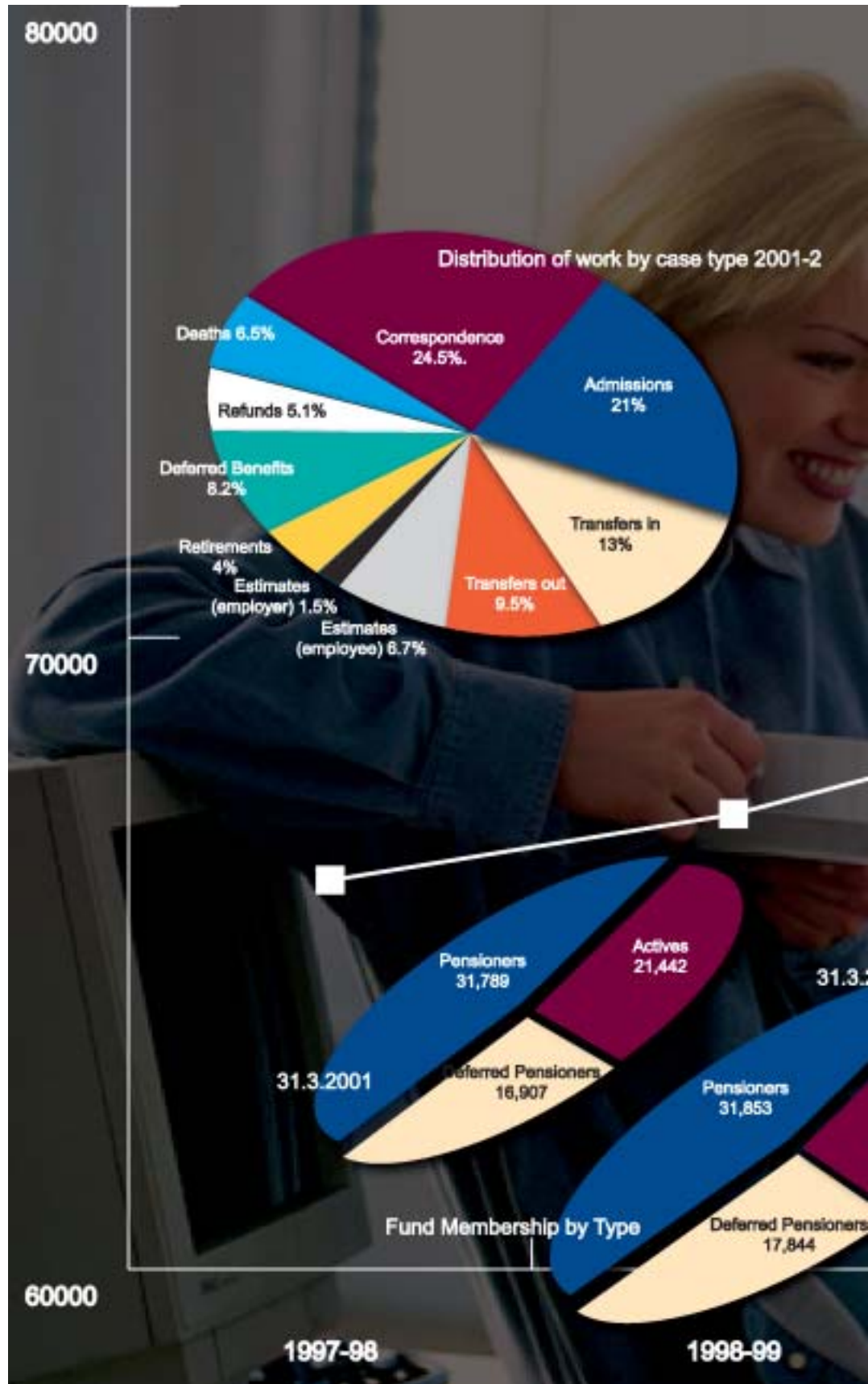
Fund Actuary

Ronnie Bowie - Hymans Robertson

Best value

During 2001-02:

- target response times were met close to 100% despite increasing workloads
- customer satisfaction levels remain high at over 90%
- 40 complaints were received: this represents 0.10% of workload and reflects the continuing high standard of service delivered
- total Fund membership increased by more than 2,000; contributors increased by a net 1,000
- local and national performance indicators to monitor trends in performance and to allow comparison with other pensions organisations have been developed
- an employer panel was established to aid consultation and future developments
- LGPS literature was updated to recognise legislative changes and customer feedback
- contributions were made to the ODPM stocktake exercise, particularly in respect of efficient pensions administration



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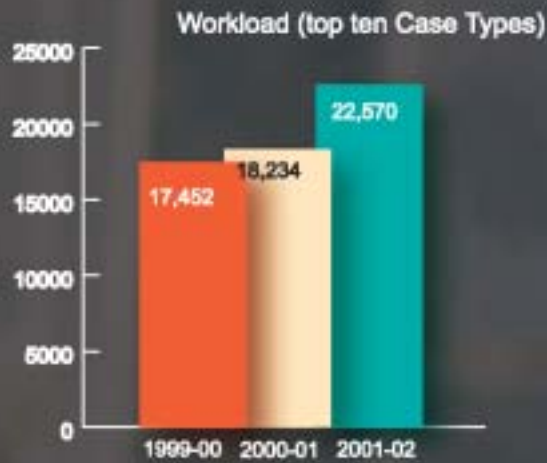


Best Value, as a statutory process, does not yet apply but LPFA continues to operate in a manner consistent with best value principles.

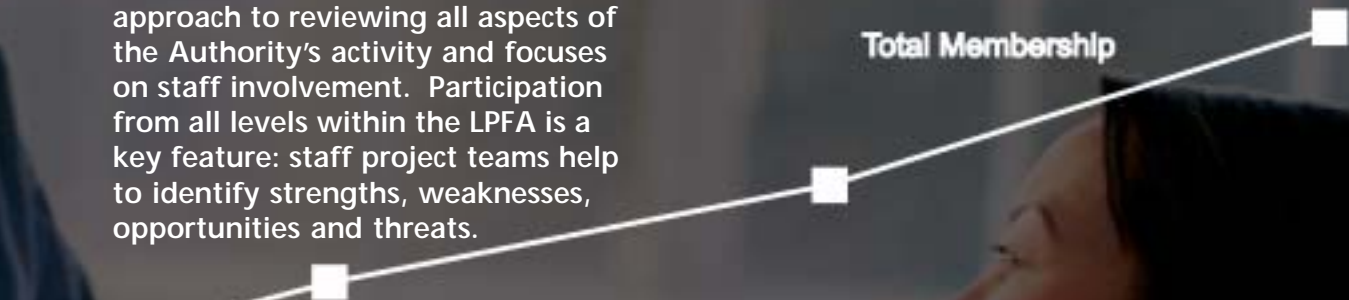
The 'Corporate Achievement Programme' (CAP) is the Authority's chosen method of conducting service reviews.

CAP, along with a recently launched leadership development programme, provides a fully co-ordinated approach to reviewing all aspects of the Authority's activity and focuses on staff involvement. Participation from all levels within the LPFA is a key feature: staff project teams help to identify strengths, weaknesses, opportunities and threats.

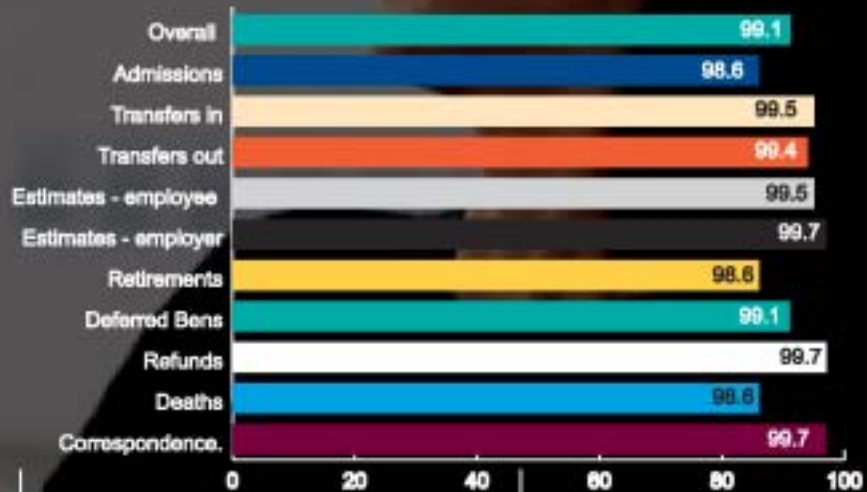
Details of CAP achievements during the year are shown below



Total Membership



Performance by top ten Case Types % on time



1999-00

2000-01

2001-02

Key actions during 2001-02:

- the main operational tasks were reviewed and changes made to AVC processing
- a new guide on administrative procedures was produced for employers
- all existing Scheme publications updated taking into account member feedback
- Fund Member Website redesigned taking into account member feedback
- targeted newsletters issued twice a year to Contributors, Deferred and LGPS Pensioners
- setting up an on-line system for employers to access cases in progress
- developing a new performance management / staff appraisal framework

Investment Performance

Investment objective

The investment objective of the Fund is to follow an investment strategy which will maintain the solvency of the Fund, while delivering low and stable contribution rates, and which ensures all statutory payments are made accurately and on time.

For 2002

The total Fund return is based on a mix of two quite different investment approaches, where the return for the year was flat at 0% which did not match RPI of 1.3%, but was ahead of the WM All funds median of -1.0%. LPFA was the top performing fund in 2001 due to the heavy weighting in bonds.

Over the medium term (3 years)

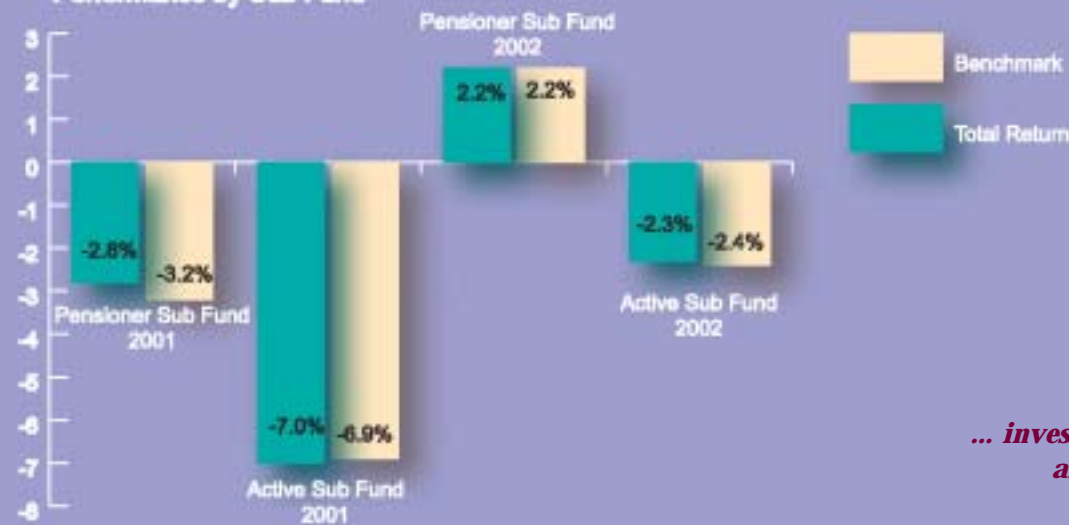
The active sub-Fund at -0.1% belies the real stagnation in global equity valuations whilst the pensioner sub-fund at 2.6% has been insulated from the slide in stockmarket values.

Over the longer term (8 years)

The track record for both the active sub-Fund at 6.9% and pensioner sub-fund at 7.8% is similar despite the markedly different strategies of the equity/bond bias for the respective funds. The Fund overall has exceeded RPI and fallen just short of the WM ALL Funds.

Performance Summary	2002	3 Yrs	8 Yrs
Active sub-Fund	-2.3	-0.1	+6.9
Benchmark	-2.4	+0.1	+8.1
Pensioner sub-Fund	+2.2	+2.6	+7.8
Benchmark	+2.2	+2.1	+7.6
Total Fund	0.0	+1.2	+7.3
WM All funds	-1.0	+1.8	+8.8
RPI	+1.3	+2.1	+2.6

Performance by Sub Fund



... investments can go down as well as up ...



Investment Report

During 2001-02:

- The investment objective was reviewed and confirmed.
- An asset liability study was commissioned from the actuary following the three yearly Fund valuation results and a full review of investment strategy is in progress.
- The programme of stock lending was suspended (since reinstated) following the events of 11th September 2001.
- A presentation on climate change has led to LPFA's involvement in an institutional investor group and further consideration of active engagement in environmental and socially responsible issues in relation to the Fund's investments.
- The use of money market funds operated by Barclays Global Investors, Fidelity and JP Morgan has been introduced.
- An investment of £5m (matching London boroughs) was made in the Capital Fund (London), a regional investment fund sponsored by the DTI.
- Two independent investment advisers have been appointed.
- The Myners report on institutional investment was adopted by H M Treasury and, with very few exceptions, LPFA complies with the recommended investment principles. The Myners principles, together with LPFA's position on compliance, are set out on the next two pages.

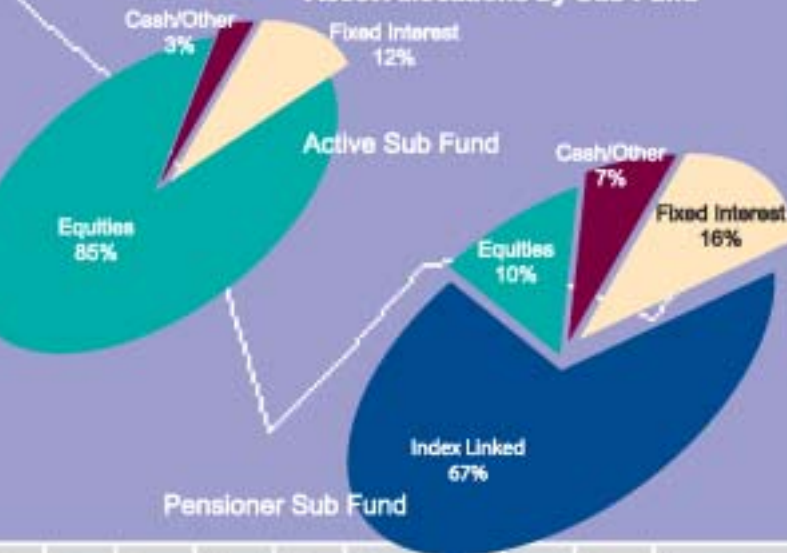
Current plans to achieve full compliance include:

- *Preparing analyses of transaction related costs.*
- *Revising the Statement of Investment Principles to incorporate the transparency requirements in the Myners principles.*

Asset Allocations Total Fund



Asset Allocations by Sub Fund



Geographical analysis of LPFA Fund equity holdings at 31st March 2002

	Active Sub Fund £m	Pensioner Sub Fund £m	Total Fund £m
United Kingdom	821.1	108.3	929.4
North America	96.2	21.4	117.6
Europe	106.4	23.7	130.1
Other Far East	116.9	26.0	142.9
Emerging Markets	14.0	3.1	17.1

Myners Investment Principles - Compliance Statement

Principle 1. Effective decision-making

Decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.

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

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

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

✓ **Full compliance. The LPFA Board, appointed for the purpose by the Mayor of London, operates an Investment Strategy Committee within a formal framework of financial controls and decision making, supported by the actuary, independent advisers and officers**

Principle 2. Clear objectives

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

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

Objectives for the overall fund should not be expressed in terms which have no relationship to the fund's liabilities, such as performance relative to other pension funds, or to a market index.

✓ **Full compliance ~ Investment objective and attitude to risk reviewed and re-stated in June 2002 based on an asset liability study**

Principle 3. Focus on asset allocation

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

✓ **Full compliance ~ Other asset classes, covering the full range of permitted investment vehicles is currently under review**

Principle 4. Expert advice

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

Full compliance ~ Two independent advisers were appointed in March to provide the Board with investment advice. Actuarial services are currently subject to a separate open tender process

Principle 5. Explicit mandates

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

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

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

Full compliance ~ revised mandates subject to the control limits set in the investment regulations are currently under review with the external managers and advisers.

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