LONDON BOROUGH

OF

HACKNEY

PENSION FUND

ANNUAL REPORT AND ACCOUNTS

2005-2006

CONTENTS

ANNUAL REPORT

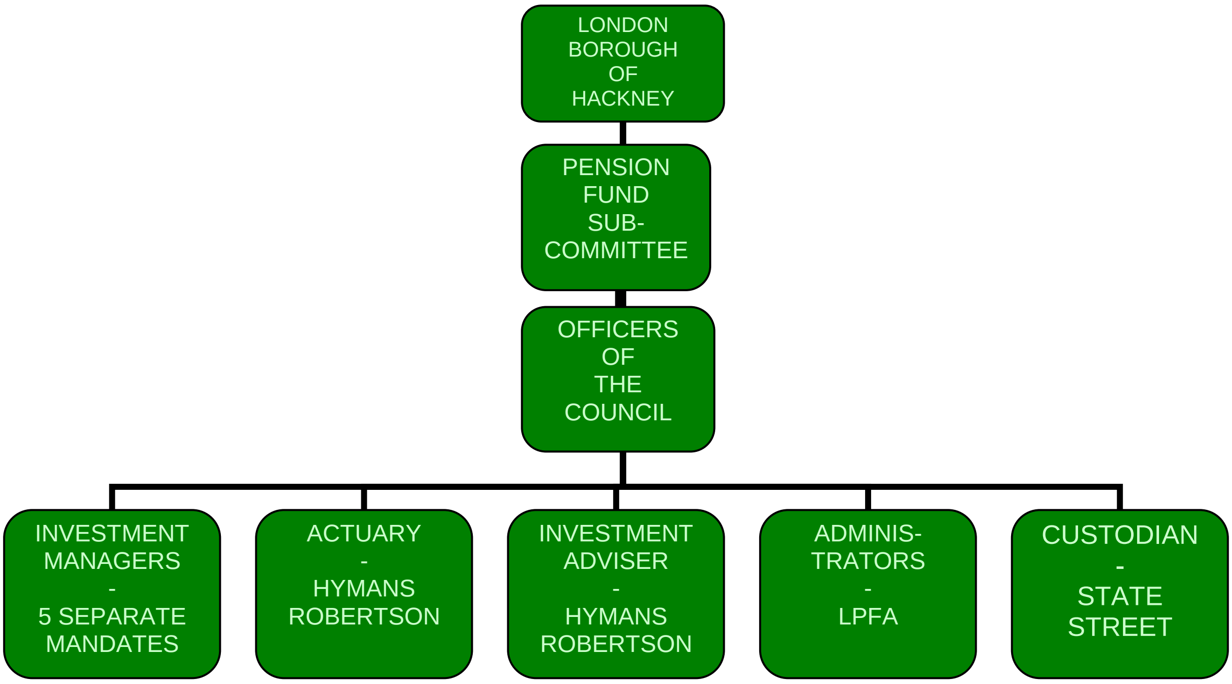
OVERVIEW OF PENSION SCHEME

The London Borough of Hackney (LBH) is responsible for the administration and management of the Pension Fund in accordance with the statutory regulations. As the Administering Authority, LBH acts on behalf of the Council and the other employer bodies who have employees in the Pension Scheme. The Pensions Sub-Committee of the Council is responsible for the effective supervision of the Scheme and monitoring of investment performance. The Director of Finance and Resources has delegated authority for the day to day running of the Scheme.

The Pension Scheme for the London Borough of Hackney is a final salary defined benefit scheme. Benefits are determined by a range of statutory provisions. The main regulations governing the operation of the Scheme are the LGPS Regulations 1997 (as amended). The regulations set out in detail the establishment and administration of the Fund, covering such areas as admission to the Scheme, employee contributions, benefits payable to employees, discretions available, actuarial valuations and employer obligations. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended) cover the management of pension funds and the investment powers available to authorities.

MANAGEMENT OF THE FUND

The chart below sets out the management of the Fund, whereby the Council has delegated responsibility for the operation and management of the Scheme to the Pensions Sub-Committee. Officers of the Council report to the Committee, and manage the day to day operations of the Fund. In addition, external organisations provide administrative, advisory and investment management services relating to the operation of the Pension Fund during the year.



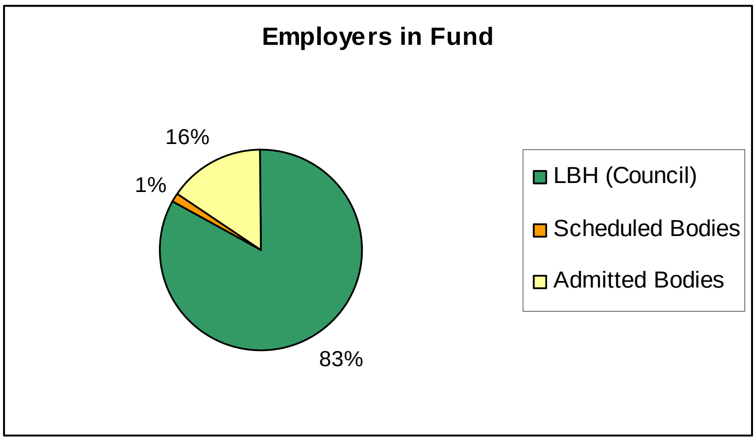
EMPLOYERS IN THE PENSION FUND

The Pension Fund had 17 employers in the Fund during the financial year 2005/06, which includes the London Borough of Hackney itself. Other employers in the Fund fall into either scheduled body status or admitted body status. Scheduled bodies are those which have automatic membership of the Pension Fund under the Regulations. Scheduled bodies during 2005/06, other than the Council, were Brooke House Sixth Form College and Mossbourne Community Academy. After the end of the financial year, a new scheduled body was admitted to the Pension Fund. The Council had established an Arms Length Management Organisation for its housing function as a separate company. Following the establishment of Hackney Homes Ltd on 1st April 2006, it became a separate scheduled body employer within the Pension Fund.

The current regulations provide for employees of private sector bodies who are employed in the provision of services transferred from a local authority to be admitted to the Scheme as separate admitted bodies, if approved for admission status by the Pensions Sub-Committee. Each application for admission as an admitted body is reviewed by the Committee after seeking actuarial advice. Admission to the Pension Scheme by these bodies can be on an open basis, i.e. allowing new employees to be admitted to the Scheme, or a closed basis whereby only members who have transferred to the new employer are allowed membership of the LGPS. Admitted bodies to the Pension Scheme during the financial year were Renaisi Ltd, Kingsmead Homes Ltd, Northgate Information Solutions (UK) Ltd, Hoxton Bibliotech, Clapton Community Housing, The Learning Trust, Hanover Housing Association, Wetton Cleaning Kingsmead Estate, Wetton Cleaning Clapton Estate, Dolce Ltd, Shoreditch Trust, Greenwich Leisure Ltd, KGB Cleaning Services Ltd Council Contract and KGB Cleaning Services Ltd Schools Contract. During the year one employer, Hoxton Bibliotech, ceased to be an admitted body in the Scheme, and three new bodies, GLL and both KGB Contracts joined the Scheme following approval by the Committee.

The breakdown of the active membership (i.e. those contributing to the Pension Scheme) of the Pension Fund by type of employer as at 31st March 2006 is shown below.

Employer	Active Members
LBH (Council)	3,622
Scheduled Bodies	62
Admitted Bodies	679
Total	4,363



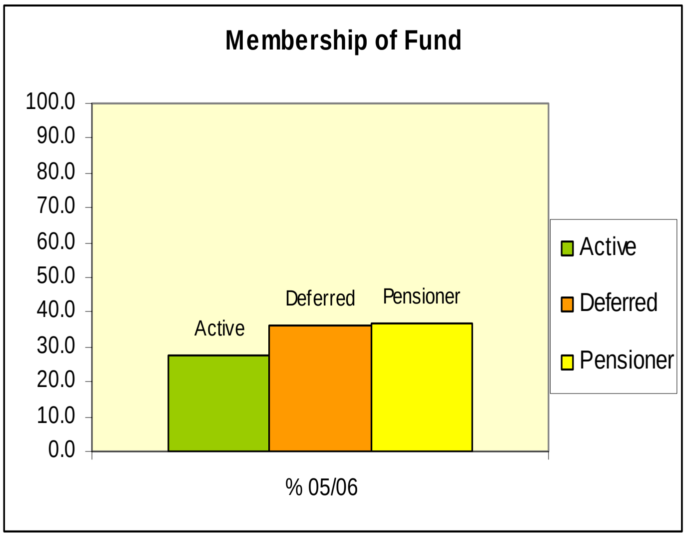
SCHEME MEMBERSHIP

Admission to the LGPS is open to all Council employees, except for teachers who have their own arrangements for pension benefits, payable through the Teachers Pensions Agency. Membership into the Council's Scheme is automatic for full and part-time employees (unless they opt out). Casual employees may opt to join the Scheme, unless their employment lasts for longer than three months, in which case they are automatically brought into the Scheme.

Membership of the Scheme comprises of three main groups, namely:

- Active Members (those currently paying contributions into the Scheme).
- Deferred Members (those who have left the Scheme, but remain entitled to deferred benefits payable at some point in the future).
- Pensioner Members, including widows(ers) or dependants (those who are currently in receipt of pensions).

The membership of the Scheme analysed over the relevant categories is shown below.



CATEGORY	31.03.06
Active Members	4,363
Deferred Members	5,719
Pensioners/Dependants	5,811
Total	15,893

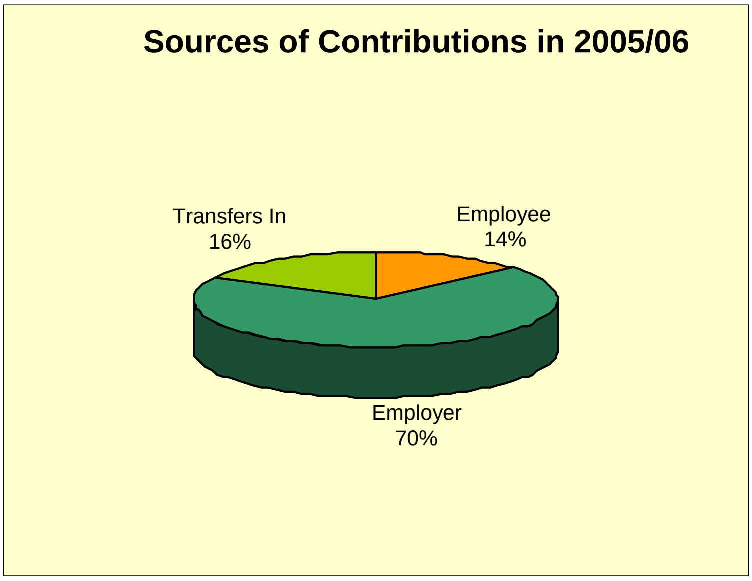
CONTRIBUTIONS AND BENEFITS

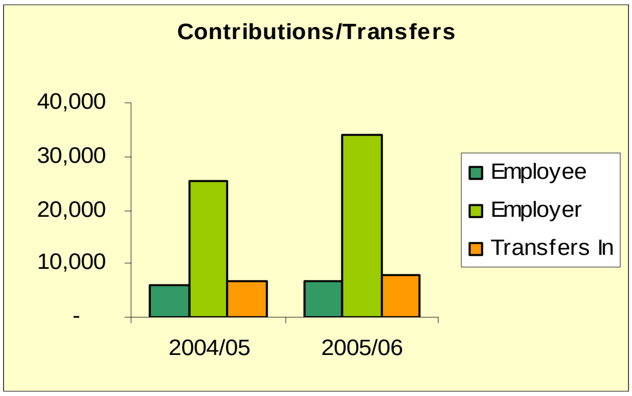
CONTRIBUTIONS into the Fund come from the following sources:

- Employees' contributions which are fixed by statute (6% for all employees, except for those who were employed as manual workers prior to April 1998 who pay 5%).
- Employer's contributions which are set by an actuarial valuation every three years. The rate for the Council for 2005/06 was 11.9% plus an additional monetary contribution of £19.2 million. From 2006/07 the employer's rate for the Council becomes 15.3% plus an additional monetary contribution of £18.1

million. Other employers paying into the Scheme paid different rates according to their membership profile.
- Transfers into the Fund from employees joining the Scheme and transferring membership from other schemes.

Total contributions into the Fund during 2005/06 amounted to £48.3 million compared to £38.4 million for the comparable period for 2004/05.



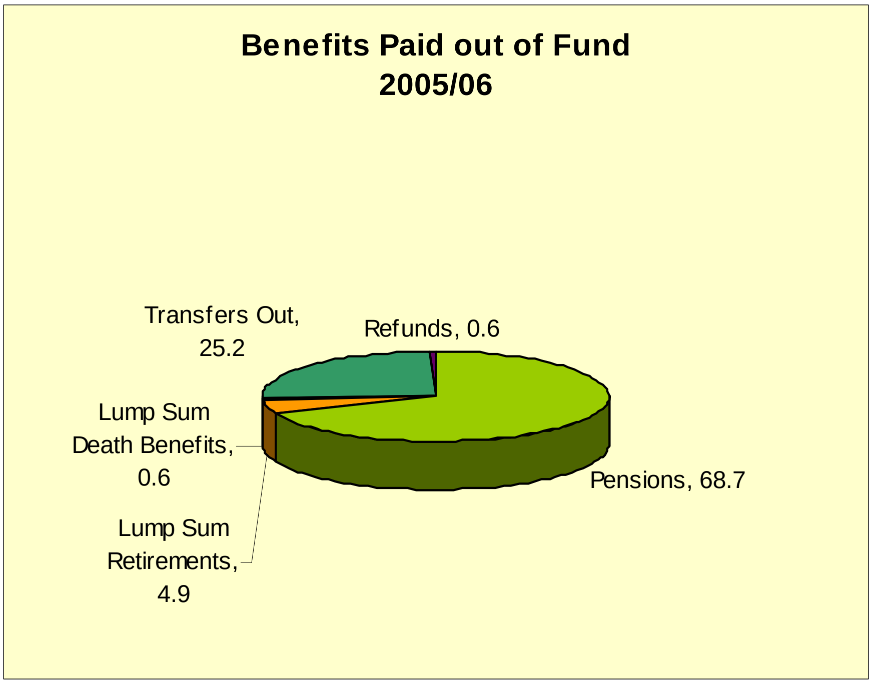


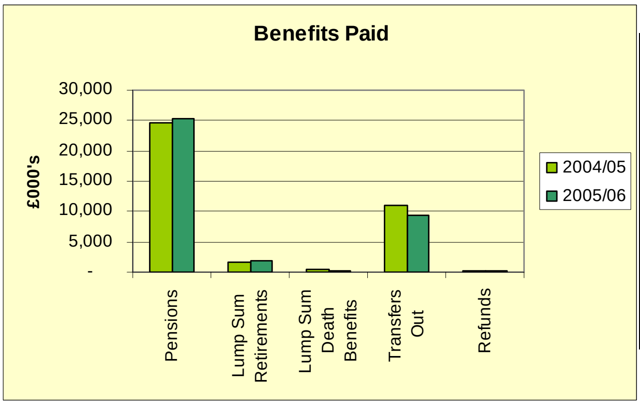
Contributions	2004/05	2005/06
	£000's	£000's
Employee	6,114	6,545
Employer	25,531	33,891
Transfers In	6,759	7,862
Total	38,404	48,298

BENEFITS paid out from the Fund include the following:

- Retirement benefits fixed by statute with some discretions available to authorities to enhance benefits payable.
- Lump sum payments, both retirement and death benefits.
- Transfers out of the Fund by employees leaving the Council and transferring their benefits to new employers.
- Refunds of contributions.

Total benefits paid out during 2005/06 amounted to £36.9 million compared to £37.9 million for the year 2004/05.





Benefits	**2004/05**	**2005/06**
	£000's	**£000's**
Pensions	24,537	25,335
Lump Sum Retirements	1,732	1,793
Lump Sum Death Benefits	500	207
Transfers Out	10,915	9,281
Refund of Contributions	195	234
Total	37,879	36,850

ADMINISTRATION EXPENSES

The costs of administering the Fund over the financial year 2005/06 were £0.783 million compared to £0.725 million for the year ended 31st March 2005. The administration expenses cover the costs involved in administering the Pension Scheme, with both external and internal costs being charged to the Pension Fund. The contract for administration is managed externally by the London Pensions Fund Authority (LPFA), overseen by the Treasury and Pensions Section based at London Borough of Hackney.

INVESTMENT MANAGEMENT EXPENSES

The investment management expenses for the year were £1.857 million compared to £1.995 million for the year 2004/05. Investment management expenses cover the fees charged by the Fund's individual investment managers, and fees paid to the actuarial advisor and investment advisor.

FINANCIAL REVIEW

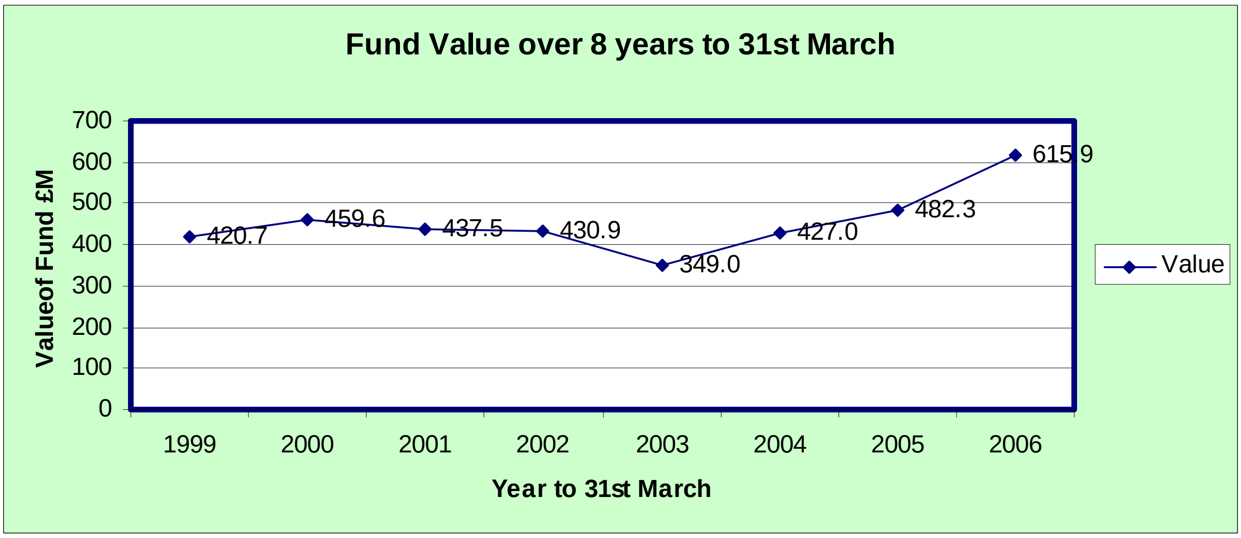
The primary objective of the Pension Fund is to provide for members' pensions and lump sum benefits on their retirement or for their dependants' benefits on death before or after retirement, on a defined benefit basis. The Fund has to ensure that any surplus contributions and investment income are invested to provide returns to help meet future liabilities, i.e. future pension payments. An actuarial valuation of the Fund is carried out every 3 years taking into account the amount of current and future pension liabilities of the Fund, the expected contributions into the Fund, and the expected investment returns on assets held by the Fund. Other factors taken into account include pay inflation and mortality rates.

The actuarial review carried out as at 31st March 2004 showed a funding level of 64%, and set the employer contribution rate at 11.9% for the year from 1st April 2005, with an additional cash lump sum payment for the year ended 31st March 2006 of £19.2 million. Following an interim valuation undertaken by the actuary on behalf of the Fund during the course of 2005, the employer contribution rate was amended for the two years 2006/07 and 2007/08 to 15.3%. The interim valuation was undertaken to assess the impact to the Fund of the revocation of the 'Rule of 85'. Whilst the Fund had not taken any credit for the abolition of the 85 Year Rule in its valuation for the year ended 31st March 2004, the Fund had used potential savings to offset expected increases in longevity. The interim valuation revealed an unchanged funding level of 64%, despite improvements in investment markets, which gave rise to increased value of assets held in the Fund. However, these were offset by increased liabilities in the Fund as a result of movements in the bond markets. The interim valuation also showed that the costs of revocation, combined with increases in longevity, and movements in the assets and liabilities of the Fund, had given rise to a future service cost for the employees of the Council itself of 15.3%. Following discussions with the actuary, the Pensions Sub-Committee agreed to increase the employer contribution rate to the 15.3% future service cost, whilst decreasing the additional lump sums being paid into the Fund to better reflect both the ongoing costs of current employees, and covering the historical deficit of the Fund. As a consequence, the lump sum payments into the Fund by the Council will be £18.1 million for 2006/07 and £18.8 million for 2007/08. None of the other employers in the Fund were affected by this change. The next formal valuation is due to be carried out in 2007, and will reflect the position of the Fund as at 31st March 2007.

During 2005/06 there was a surplus of the income over the expenditure of the Fund of £22.2 million (taking account of a lump sum contribution of £19.2 million to cover the deficit identified in the actuarial report) which was available for new investment. This compares with a surplus of £9.9 million in 2004/05.

The Pension Fund Revenue Account shows that as a consequence of investment markets continuing to improve during the year, the underlying value of investments rose by £111.3 million during the year. This compares to the gains on investments, both realised and unrealised, of £45.3 million that occurred during the financial year 2004/05.

At the end of March 2006, the market value of the Pension Fund's total assets was £615.8 million compared to £482.3 million at 31st March 2005, an increase over the year of 27.7%, which reflects both the investment gains made by the Fund, and the greater level of contributions paid into the Fund than in previous years. The graph below shows the progress of the Fund's assets over the last 8 years as at the 31st March in each year.



INVESTMENT REVIEW

INVESTMENT POWERS

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 set out the main powers to invest pension fund monies. They permit a wide range of investments, subject to not more than 10% of the fund being invested in a single holding or in unlisted securities, and not more than 10% being deposited with a local authority or with any single bank, institution or person. They also restrict investment in unit trust schemes and open ended collective investment schemes managed by any one body to not more than 25%.

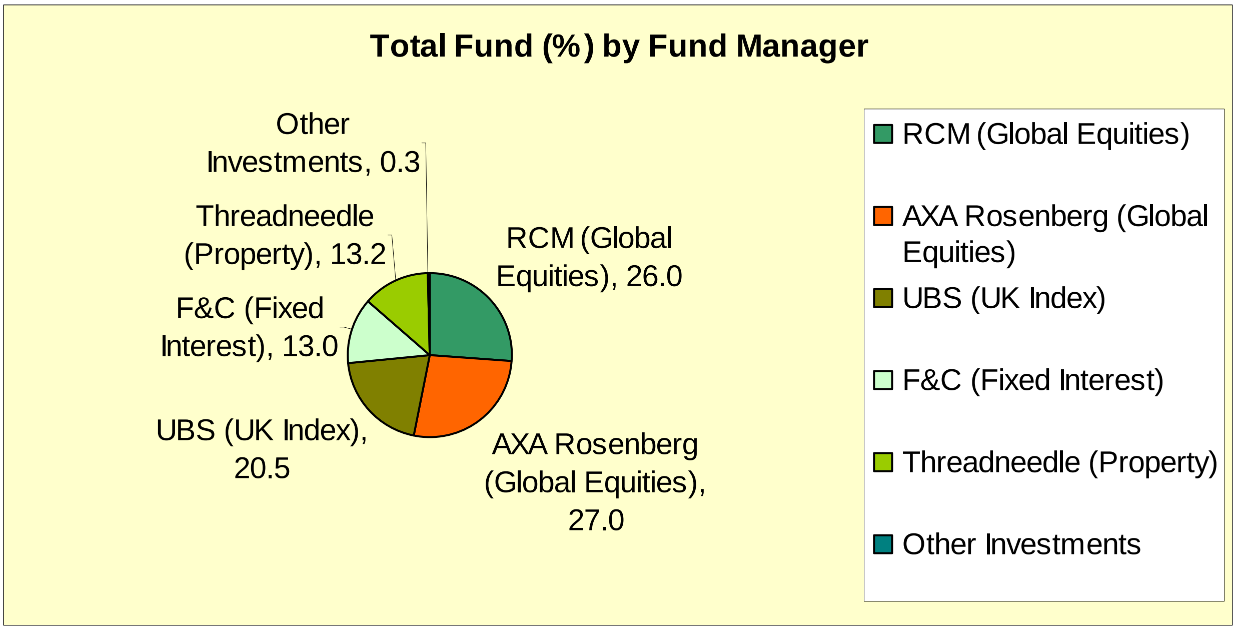
The regulations enable authorities to appoint investment managers to manage and invest Pension Fund monies on their behalf, subject to being satisfied with their experience, competence and risk control, with appropriate arrangements for monitoring performance.

Following the actuarial review as at 31st March 2004, the Fund published a Funding Strategy Statement (FSS) which outlines the Fund's approach to funding its liabilities, and how the deficit will be recovered to meet regulatory requirements. The FSS was approved by the Pensions Sub-Committee at the Committee meeting held on 22nd March 2005, and became effective from 31st March 2005. Copies of the FSS can be obtained from the Treasury and Pensions Section, Finance and Resources Directorate, Keltan House, 89-115 Mare Street, London, E8 4RU, or accessed on the Pension Fund website www.yourpension.org.uk/hackney.

Under the regulations, the Pension Fund is required to publish a Statement of Investment Principles (SIP) setting out the main parameters and responsibilities for the management of the Fund. The SIP covers the investment style for fund managers e.g. balanced active/passive, types of investment to be permitted and the relative proportions between them, performance objectives for fund managers, socially responsible investment standards to be applied, and corporate governance matters to be exercised relating to the Fund's shareholding interests. Following a review of the SIP, and consultation on a revised Statement, an amended SIP was agreed by the Pensions Sub-Committee in September 2005, and is included as part of this Annual Report to Stakeholders.

INVESTMENT STRUCTURE

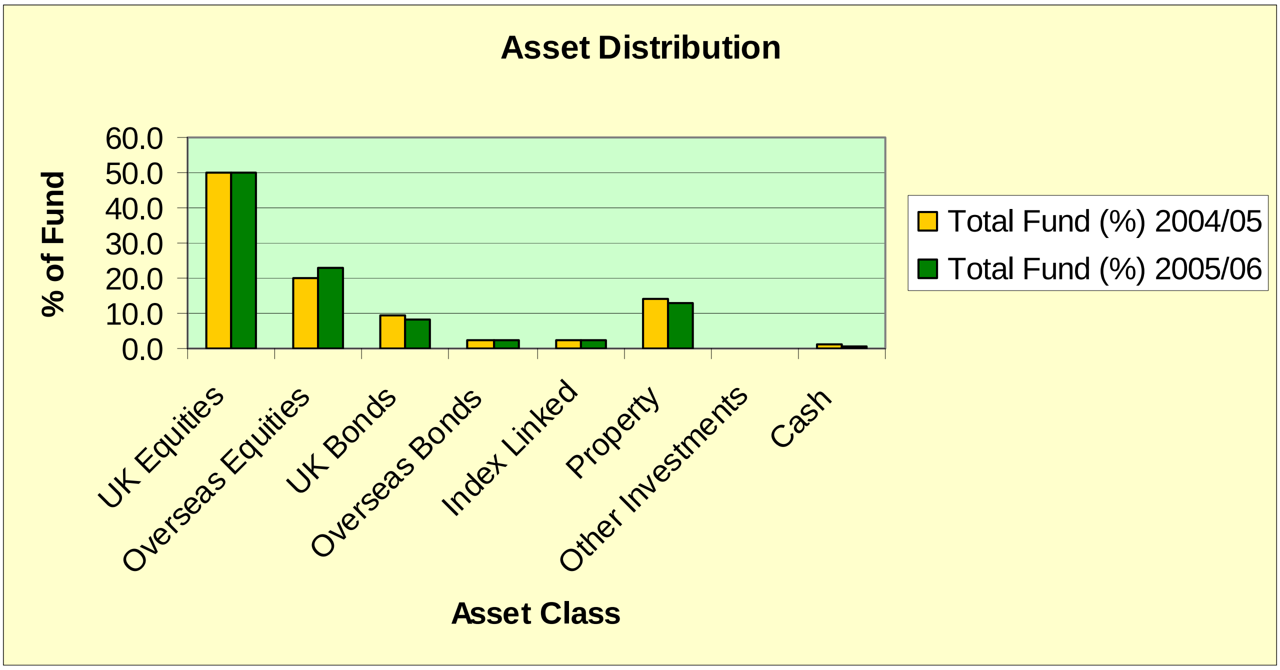
During the year 2005/06, the investments of the Fund were managed by five external Fund Managers. The Fund employed three equity managers - one passive UK fund manager, UBS with 20.5% of the Fund under management, and two active global equity managers, AXA Rosenberg with 27% and RCM with 26% of the Fund as at 31st March 2006. Fixed interest investments were managed by Foreign & Colonial (F&C) with 13% of the Fund and property via a Unit Trust with Threadneedle amounting to 13% of the Fund. There remained a small proportion of investments in the shape of other direct investments. The list of Fund Managers and the proportions of assets under management are shown below.



Manager	**2004/05 £000's**	**2004/05 %**	**2005/06 £000's**	**2005/06 %**
UBS	95,482	20.3	123,463	20.5
AXA	121,413	25.8	162,141	27.0
RCM	115,778	24.6	156,403	26.0
F&C	70,310	14.9	78,188	13.0
Threadneedle	66,266	14.1	79,514	13.2
Other	1,492	0.3	1,600	0.3
Total	470,741	100.0	601,309	100.0

The asset distribution of the Fund changed over the year with a larger proportion of the Fund invested in equities by the end of the year than at the start of the year; this reflects market movements over the year with equities generally performing much better than other asset classes over the year. The last remaining directly held property was disposed of during the year, meaning that the Fund's interest in property is now solely in a property unit trust. The tables below reflect the asset distribution of the Fund at 31st March 2006 compared to the position at 31st March 2005.

Asset Category	Value £000's 2004/05	Total Fund (%) 2004/05	Value £000's 2005/06	Total Fund (%) 2005/06
UK Equities	235,876	50.1	300,454	50.0
Overseas Equities	95,196	20.2	139,050	23.1
UK Bonds	45,075	9.6	49,784	8.3
Overseas Bonds	11,584	2.5	13,489	2.2
Index Linked	12,407	2.6	13,681	2.3
Property	66,266	14.1	79,514	13.2
Other Investments	118	0.0	51	0.0
Cash	4,219	0.9	5,286	0.9
Total	470,741	100.0	601,309	100.0



Investment Background

The year to end March 2006 was another year which saw equity markets worldwide posting strong gains in response to a reasonable economic backdrop, good corporate earnings growth, and high levels of corporate merger and acquisition activity. This added to the gains seen in the previous financial year. All Equity markets were strong over the year with Japan and the Far East showing particularly strong performance. Returns from fixed interest markets were positive, but were considerably below those of equity markets. Property was again a strong performing asset class, but returns were below those of equities.

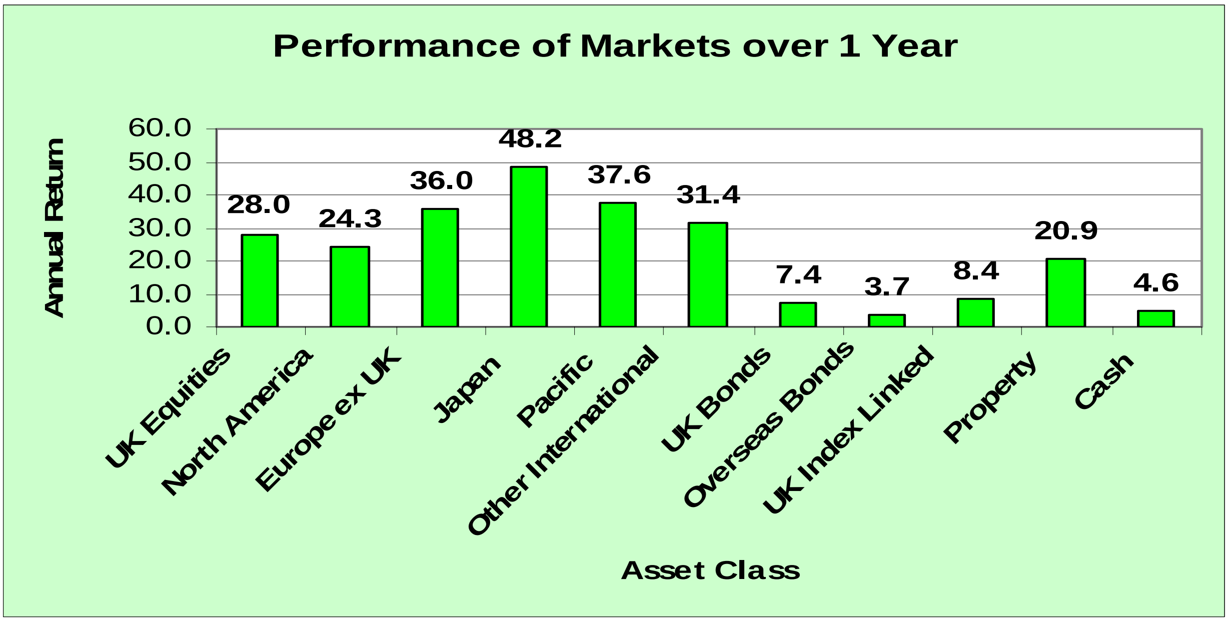
The UK market saw returns of 28% over the year on the back of increased corporate profitability, positive earnings outlook and high levels of takeover/merger activity. Over the last 3 years the UK has been showing very positive returns of 24.6% p.a., and even on a five year period, performance has now returned to positive territory following a number of years when longer term annualised returns were negative. Over 5 years, the UK equity market is the third best performing global equity market with annualised returns of 5.7% over the period, with only Europe and the Pacific Basin showing higher returns.

Overseas markets all saw very strong performance over the year. The North American markets posted a positive gain of 24.3% during the year, again due to good corporate results and continuing strength in the economy. The North American market has now managed to achieve a positive annualised return over 5 years, albeit very small at 0.7%. Continental Europe was particularly strong over the year with a return of 36%, again due to the strong corporate backdrop, but recorded against relatively weak economic activity. Like the UK and North America, Europe is now showing positive returns over a 5 year period, and is the second best performing region, with annualised returns of 6.2%. The Japanese equity market saw an exceptionally strong rebound over the year, following a negative performance the previous year. The return on the Japanese market for the year was 48.2%, the best performing region over the period. However, despite this very strong performance, the annualised returns over 5 years have been a more modest 4.2% p.a., reflecting the more volatile performance that the Japanese market has had over the period. The Pacific Basin, excluding Japan, again witnessed a strong performance of 37.6% over the year, making it the second best performing market over the year. On a 5 year view the Pacific Basin has been the best performing equity market with a positive return over the period of 12.7% p.a. It was also the second best in terms of all asset classes over 5 years, just behind property.

Investment gains from the fixed interest markets were positive, although low compared to those of the equity markets. UK Bonds and Index Linked were strong compared to overseas bonds, partly due to continuing high demand from pension funds, most notably in the private sector, to match assets and liabilities. Conventional UK gilts and UK corporate bonds improved by 7.4% over the year, and Index Linked Gilts saw gains of 8.4% over the year. On a longer term view the performance annualised over 5 years was 5.4% UK bonds and 6.7% for Index Linked, again partly a reflection of the demand that there has been for these assets by pension funds. Overseas bonds were relatively disappointing over the year returning just 3.7%, with relatively muted longer term returns of 3.1% annualised over 5 years.

Property again put in a good performance over the year, with the benchmark IPD index showing a total return of 20.9% to the end of March 2006, which was still an extremely strong move although below that of most of the equity markets. Property is still the best performing asset class over the last 5 years with an average of 13.8% p.a. return, considerably in excess of most equity and bond markets over the same period.

The chart below shows the performance of the respective asset classes over the last 12 months to 31st March 2006.



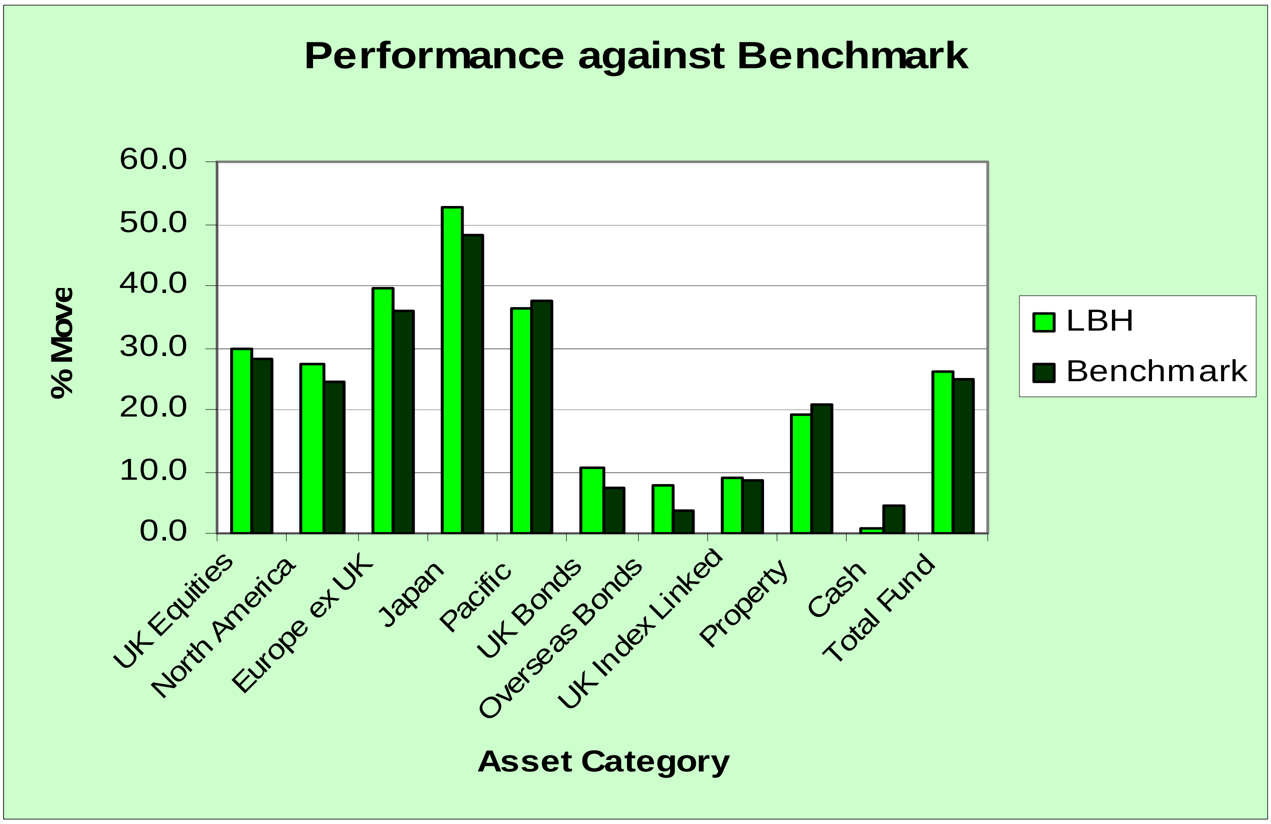
Performance of Fund

The investment performance of the Fund is measured by the WM Company against a customised benchmark. The combined Fund and each manager's performance are compared with an index or customised benchmark. At a secondary level, performance is compared against the WM Local Authority Universe average, to provide rankings against the peer group. Performance of the Fund is reviewed on a quarterly basis by the Pension Fund Sub-Committee, both for the overall Fund, and for individual Fund Managers against their individual benchmarks.

The overall investment performance of the Fund for 2005/06 was 26.2%, outperforming the benchmark, which saw a return of 24.7%. All the outperformance was attributed to stock selection, with asset allocation over the year being marginally negative.

Performance within individual asset classes over the year showed returns were ahead of benchmark in nearly all categories, with only the Pacific Basin and property marginally underperforming against benchmark. See table below for performance of different asset classes within the Fund and the respective benchmarks.

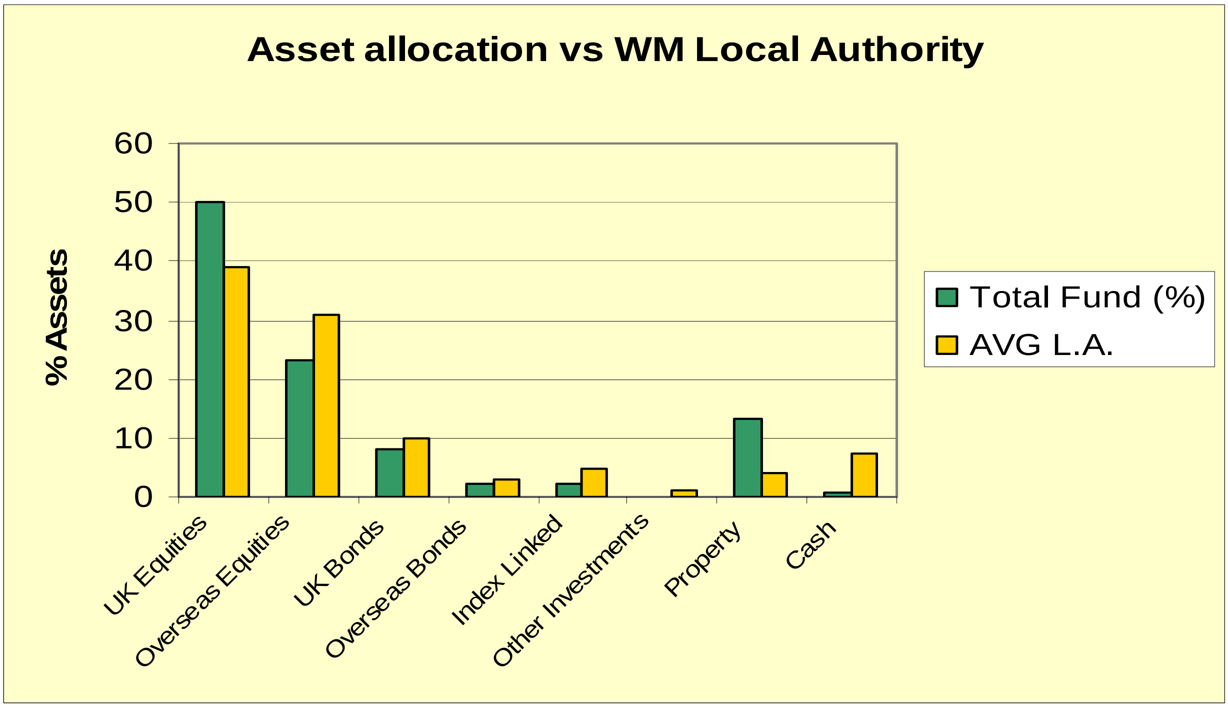
Asset Class	LBH	Benchmark
UK Equities	29.7	28.0
North America	27.3	24.3
Europe ex UK	39.7	36.0
Japan	52.8	48.2
Pacific	36.4	37.6
UK Bonds	10.7	7.4
Overseas Bonds	7.7	3.7
UK Index Linked	9.0	8.4
Property	19.2	20.9
Cash	0.9	4.6
Total Fund	26.2	24.7



Over the longer term, the Fund has performed basically in line with its benchmark over a 3 year period, with a marginal underperformance of 0.1%, with the Fund achieving 20.6% p.a. against benchmark of 20.7% p.a. Over a 5 year period, the Fund is showing a 0.3% outperformance, with the Fund up 7.5% p.a. versus benchmark of 7.2% p.a.

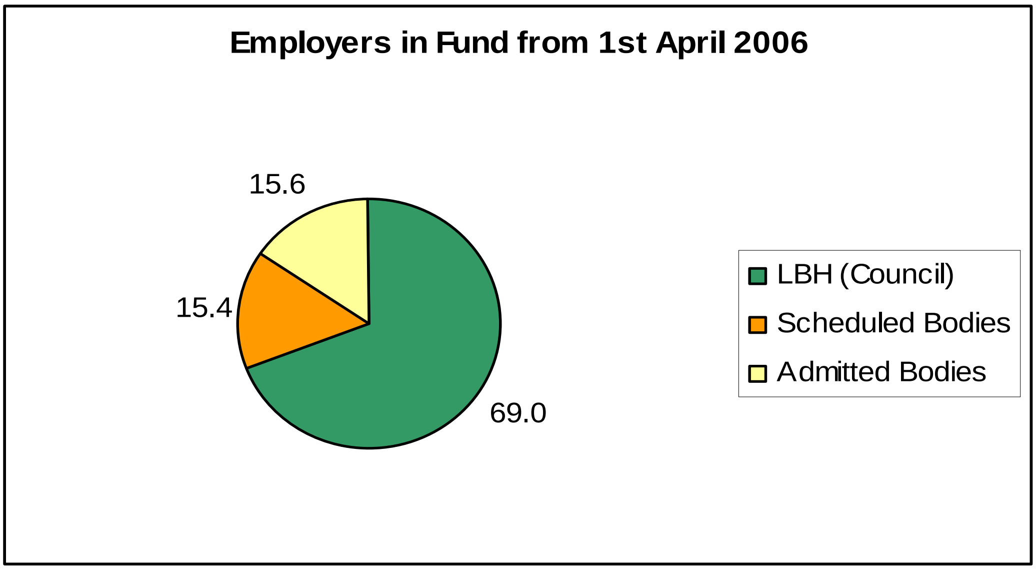
Performance against the WM Local Authority universe comprising 88 funds shows the Hackney Fund outperformed the average Local Authority Fund over the year to 31st March 2006, with the Hackney Fund up by 26.2% over the year compared to 24.9% for the average fund. This places the Fund in the 23rd percentile versus the local authority universe. Over the longer term, the performance relative to WM universe continues to show returns above average, with the percentile ranking 31st over 3 years and 11th over 5 years.

The asset allocation versus the WM Local Authority Universe is shown below.



Post Balance Sheet Events

Since the 31st March 2006, the Council has established an Arms Length Management Organisation, Hackney Homes Ltd, with a number of staff being transferred under TUPE arrangements. Hackney Homes Ltd has been set up as a separate scheduled body within the Pension Fund from 1st April 2006, with its own contribution rate based on Hackney Homes Ltd employee participation in the Fund. Given the numbers of staff transferred to the new scheduled body, Hackney Homes Ltd now represents a significant proportion of the active membership of the Pension Fund, with the new split in terms of employer types shown below. The Council membership moves from 83% of the Fund to 69%, scheduled bodies membership now represents just over 15%, up from 1%, and admitted bodies remain at just under 16%.



STATEMENT OF INVESTMENT PRINCIPLES

(Approved by the Pensions Sub-Committee Meeting 5th September 2005)

1 BACKGROUND TO THE FUND

1.1 The Legal Requirements

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1998 require pension fund administering authorities to prepare, maintain and publish a statement of the principles governing their decisions on the investment of the pension fund.

The Local Government Pensions Scheme (Management and Investment of Funds) (Amendment) Regulations 2002 require pension fund administering authorities to state the extent to which they comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom.

1.2 The Scheme

The Pension Scheme for the London Borough of Hackney is a final salary defined benefit scheme. Benefits are determined by a range of statutory provisions. The main regulations governing the operation of the scheme are the LGPS Regulations 1997.

Within the statutory provisions there are matters over which the Council has discretion. Policy on these matters is determined by Cabinet following recommendations from the Pensions Sub-Committee (see below).

Pension benefits for individuals are increased each year in line with movements in the Retail Prices Index.

The primary investment objective of the Scheme is to ensure that due regard is paid to the best financial interest of the members and accordingly to ensure that the assets are invested to secure the benefits under the Scheme. Against this background, the Fund's approach to investing is to:

- optimise the return on investment consistent with a prudent level of risk;
- ensure that there are sufficient assets to meet the liabilities; and
- ensure the suitability of assets in relation to the needs of the Fund.

1.3 The Pensions Sub-Committee

The Council has delegated responsibility for the operation and management of the scheme to the Pensions Sub-Committee (a Sub-Committee of the Regulatory Committee).

The Sub-Committee's terms of reference require them to act as Trustees of the Council's Pension Fund within the terms of the Superannuation Act 1972.

1.4 Advice

Advice to the Trustees of the Fund is given by the executive officers of the Council (including, but not limited to, the Director of Finance and the Director of Law and Democratic Services). The Council also employs an Actuary (Hymans Robertson) to carry out a valuation of the Fund every three years (the triennial valuation).

Following a procurement exercise in 2005, Hymans Robertson were appointed as investment advisers to the Fund for an initial two year period.

The Pensions Sub-Committee monitors the level of fees that are paid to the advisers in order to ensure that the advice is charged at an appropriate level, and represents value for money.

1.5 Investment Management

The Council has decided to employ five fund managers to handle the investment of the Fund's assets. They have responsibility for making day to day decisions on investments within the constraints of agreements made with the Council and the terms of this Statement of Investment Principles. The specific mandates given to each manager are summarised below: -

- two active global equity managers (AXA Rosenberg and Allianz Dresdner), each managing 25% of the Fund.
- a passive UK equity manager (UBS) for 20% of the Fund

  These have the following benchmarks: -

Asset Class	Benchmark Allocation	Index
UK Equities	49%	FTSE All Share
Overseas Equities	21%	Composite
North America	7%	FTSE Developed North America
Europe ex. UK	7%	FTSE Developed Europe (ex. UK)
Japan	3%	FTSE Developed Japan
Pacific ex. Japan	3%	FTSE Developed Pacific (ex. Japan)
Emerging Markets	1%	FTSE Advanced Emerging Markets
Total	**70%**	**Composite**

- an active bond manager (F&C, formerly ISIS) for 17% of the Fund with the following benchmarks: -

Asset Class	Benchmark Allocation	Index

UK Fixed Interest (Gilts)	6%	FT Over 15 Years Gilt Index
Corporate Bonds	5%	Merrill Lynch Over 15 Years Credit Index
UK index linked bonds	3%	FT Over 5 Years Index-Linked
Overseas Bonds	3%	J.P. Morgan Global (ex UK and ex Japan) Government Index
Total	**17%**	**Composite**

- ➢ an active property manager (Threadneedle) for 13% of the Fund.

Asset Class	Benchmark Allocation	Index
Property	13%	HSBC APUT All Balanced Funds Index
Total	**13%**	

In relation to property, Threadneedle were appointed following a manager selection exercise conducted by Psolve and completed in 2004. The Fund's property assets will be invested via the Threadneedle Pensions Pooled Property Fund. Threadneedle will also manage the sale of the remaining portfolio of directly owned properties previously managed by Credit Suisse. The Council is of the view that the Fund's property portfolio was too small to justify continuing with direct property and that a pooled arrangement was more appropriate.

The appointed investment consultant and Officers of the Council regularly monitor the investment managers. Quarterly reports on performance of investment managers are presented to the Pensions Sub Committee using performance analysis provided by WM. A small amount of cash and investments are retained by Hackeny, however they will not exceed the amounts necessary to achieve good management of the Fund's resources.

2 RESPONSIBILITIES

2.1 The Pensions Sub-Committee has terms of reference which include the following responsibilities: -

(a) Setting the overall strategic objectives of the Fund and determining strategic asset allocation policies.
(b) Determining the mandates to be given to the investment managers and the performance measures to be set for them
(c) Formulating and publishing the Statement of Investment Principles
(d) Monitoring the performance and effectiveness of investment managers
(e) Setting an annual budget for the operation of the Pension Fund and monitoring expenditure against budget.
(f) Receiving and approving the Annual Report
(g) Keeping members of the Pension Fund informed of performance and developments on an annual basis

(h) Making recommendations to Cabinet in respect of employer discretions admitted body issues and other matters relating to the administration of the Pension Fund.

2.2 The Sub-Committee is also responsible for reviewing performance of the investment managers (including the AVC manager), the expertise and sustainability of the investment process, procedures, risk management, internal controls, transaction costs and key personnel. It is also responsible for reviewing social, environmental and ethical matters and the exercise of rights including voting rights.

2.3 Members of the Sub-Committee receive training in their responsibilities as trustees to the Pension Fund and in the operation of the pension scheme prior to taking up their responsibilities. Hymans Robertson provide the training courses supplemented by in house staff and other external providers.

2.4 The Council's Director of Finance is responsible for the operational issues including: -

(a) Budget setting and monitoring
(b) Preparation of Statement of Investment Principles
(c) Annual Report and Accounts
(d) Scheme Communications

2.5 The responsibilities of the following are set out below

(a) Investment Manager – Day-to-day decisions on investment of the Fund's assets within the mandates given by the Council as set out in paragraph 1.5 above. Exercise of corporate actions within the policy set by this Statement of Investment Principles. Reporting to the Executive Officers and Pensions Sub-Committee on performance against established benchmarks.
(b) Custodian – Providing safe keeping for the share certificates and other documents of title to Fund investments. Receiving and accounting for dividends. Taking corporate actions if required to do so. Investing surplus cash. State Street operate as the Fund's custodian.
(c) Actuary – Carrying out the actuarial valuation of the Fund's assets every three years. The valuation report specifies the level of funding to cover accrued liabilities and the consequent changes (if any) in the employer's contribution rate. The Fund's Actuary is Hymans Robertson.
(d) Investment Consultant – The Council has recently appointed Hymans Robertson as the Investment Consultant to the Fund for an initial two year period. This is a separate contract to the one provided by the Actuary.
(e) Administrators – The Council employs an external Pension Fund administrator to fulfil the administrative functions of the Pension Fund, such as the collection of contributions and payment of pension. The London Pensions Fund Authority carries out this role on behalf of the Pension Fund.

3 LIABILITIES

3.1 The Council's actuaries are Hymans Robertson who provide advice on the scheme's funding level in order to assist the Pension Sub Committee in balancing the short and long term interests of the Fund. They carry out a valuation of the fund every three years (the triennial valuation).

3.2 The last actuarial valuation carried out as at 31st March 2004 gave the following results: -

Liabilities	**£m**
Pensioners, spouses and other beneficiaries	315
Deferred pensioners	176
Active members (Fund membership to 31st March 2004)	177
Total past service liabilities	668
Market value placed on the assets	427
Past service shortfall	**(241)**
Funding Level	**64%**

3.3 The valuation therefore shows a past service deficiency of £241 million and a funding level of 64%.

3.4 At present about 87% of the Fund is invested in securities (equities 70% and bonds 17%) while the remaining 13% is in property. Hymans Robertson conducted an asset-liability study in 2002. In their view there is no pressing need to commission a further study following the 2004 Actuarial Valuation.

3.5 Pensions granted within the scheme are calculated according to specific formulae determined mainly under legislation. This means that the level of pensions is not affected by the return on the Fund.

3.6 Notwithstanding this, pensions do have to be funded and the main sources of funding are: -

(a) Employee contributions (generally based on 6% of salaries for existing and all new members although a reducing number of staff can retain their former rate of 5%)
(b) Income from investment of funds not needed to meet day to day liabilities
(c) Employer contributions to meet future liabilities not met by other means plus any deficiency identified in the actuarial review

3.7 This means that the Council has a direct interest in the investment returns achieved for the Fund to the extent that any funding shortfall is met from employer's contributions.

4 INVESTMENT POLICY

4.1 The investment objectives are to maximise income while managing risk so that the Pension Fund can meet its' liabilities with the minimum employers' contributions and give the greatest stability of contributions over the long term. The weighting of the Fund's investments as between equities, fixed interest and property investments was selected by the Regulatory Committee following the asset-liability study and manager structure reviews carried out by Hymans Robertson and Watson Wyatt respectively.

4.2 The predominance of equities is based on the evidence that over the long term they have outperformed other asset classes. The central investment scenario is that, after allowing for the higher expenses involved in investing in equities, returns will on average exceed gilt returns by 2.0% p.a. Exposure to equities was, however, reduced by comparison with the previous arrangements to reduce volatility in performance without locking in the present level of deficit.

4.3 The use of fixed interest investments (a combination of conventional, index-linked and corporate bonds) is to hedge liability risks and reduce volatility in the Fund. Similarly the property investments are used as a diversifier from equities having both quasi bond and quasi equity characteristics.

4.4 The structure of five managers was selected because it represents a good balance between the benefits of manager diversification and the disadvantage of reduced economies of scale on the investment fees charged.

4.5 Within this structure the Trustees have sought to balance risk with return by having 80% of the Fund managed actively (50% by two active equity managers, 17% by an active bond manager and 13% by an active property manager) and 20% passively (by one passive equity manager).

4.6 The strategic benchmarks of the managers are set out in paragraph 1.5. The performance targets and targeted tracking errors are given below: -

	Reporting Frequency	Performance Target	Tracking Error
Global Equities manager A – Allianz Dresdner	Monthly	+2%	5-6%
Global Equities manager B – AXA Rosenberg	Monthly	+2%	5-6%
Passive Equity manager - UBS	Monthly	+/-0.25%	Not Applicable
Fixed Interest manager – F&C	Monthly	+1%	1-3%
Property Manager – Threadneedle	Quarterly	+1%	n/a

4.7 The minutes of each meeting of the Pensions Sub-Committee are published after they have been approved by the following meeting of the Sub-Committee.

4.8 The Council intends to publish this Statement of Investment Principles on its website. Any subsequent amendments following reviews will be incorporated into the website as soon as possible. Hard copies of the document will be available from the Treasury and Pensions Section, Finance Directorate at Keltan House, 89 – 115 Mare Street, London E8 4RU.

4.9 The Statement of Investment Principles will be reviewed every three years following the triennial valuation or if there is a significant change in the liabilities, the return expectations or the level of risk the Pensions Sub-Committee is prepared to adopt relative to the liabilities.

5 INVESTMENTS

5.1 The general powers and duties of local authorities regarding the investment of Pension Fund monies is contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 and any subsequent amending regulations. The main provisions are that an administering authority: -

(a) Must invest any fund money that is not needed immediately to make payments from the fund.
(b) Must obtain proper advice at reasonable intervals about their investments.
(c) Must consider such advice in taking any steps about their investments.
(d) May appoint one or more investment managers to manage and invest fund money instead of managing and investing it themselves
(e) Must keep the performance of an appointed investment manager under review.
(f) May invest in any investment made in accordance with a Section 11 scheme under the Trustee Investments Act 1961 without any restriction as to quantity.

5.2 The Sub-Committee decided that the fund managers will only be allowed to use derivatives for hedging purposes and not for gearing or speculative purposes, although some hedging may be used to be able to maintain market exposure in anticipation of receipt of dividends. The use of index futures must be relevant to the Benchmark.

5.3 Existing arrangements also permit fund managers to make use of corporate bonds. Having considered the issue of balancing risk with return the Pensions Sub-Committee decided that the minimum credit rating for direct investments in corporate bonds (or Preference Shares) should be BBB- with an average of A-.

5.4 Where pooled vehicles are used for corporate bonds this must be consistent with the above criteria unless specific approval is given to deviate from this. The weighted average credit rating must not be lower than A- with the total value of all bonds below this level not exceeding 10% of the pooled fund. No single holding should exceed 10% of the total pooled fund market value.

5.5 These arrangements followed an extensive review process conducted by the Fund's trustees with the advice of expert specialists as described earlier. This has created a structure which is intended to balance risk with return. At this stage no provision has been made for investing in hedge funds or private equity. Previous investments in private equity have not proved successful and the Pensions Sub-Committee feel that, in view of the overall funding position identified at the last triennial review, the risks associated with these types of investment are not acceptable

5.6 The Pension Sub-Committee accepts, however, that circumstances can change and therefore intends to keep the inclusion of private equity and hedge funds under review.

5.7 Information on the Investment Managers selected by the Pensions Sub-Committee to manage the investment of the fund is given below: -

(a) AXA Rosenberg has a quantitative value approach to investing and Allianz Dresdner operates a more qualitative approach with a bias toward growth style companies. Using two managers with diametrically opposed investment styles reduces the risk of volatility in fund performance. When one style of investment is not performing well, the other should compensate and vice versa.
(b) UBS has been appointed to invest 20% of the Fund's assets in UK equities on a passive basis. This means they will not attempt to outperform the index but will invest in the same proportions as the stocks in the index with the aim of keeping a low tracking error.
(c) F&C will manage a bond portfolio on an active basis, including corporate and overseas bonds.
(d) Threadneedle will manage the Fund's property exposure on an active basis through a pooled fund arrangement.

5.8 To mitigate against the risk from adverse effects of exchange rate fluctuations up to 50% of overseas currency exposure will be hedged back to sterling.

5.9 The Council has employed State Street to provide the custodian service and an investment accounting service on behalf of the Pension Fund.

6 SOCIALLY RESPONSIBLE INVESTMENTS

6.1 The Pensions Sub-Committee as Trustees have considered socially responsible investment in the context of their legal and fiduciary duties and obligations.

6.2 In view of the Trustees principal objectives described earlier in this statement, they take the view that non-financial factors should not drive the investment process at the cost of financial return on the Fund. They will not actively disinvest in companies for ethical, social or environmental reasons as this may impact on fund returns and would not accord with their principal objectives.

6.3 The Trustees also believe that they do not have the relevant expertise to make frequent assessment of the financial impact of companies' activities. To that extent, they hold a policy of non-interference with the day-to-day decision making of the investment managers.

6.4 The Pensions Sub-Committee takes the view that companies that operate socially responsible policies and attempt to find environmentally sustainable ways of meeting customers' needs, will tend to have a more secure future than those that do not. The Committee therefore encourages its active equity investment managers to take a positive view of such companies where their performance on other criteria is similar to that of other comparable companies.

7 VOTING RIGHTS

7.1 The Pensions Sub-Committee's policy on corporate governance and proxy voting policy is set out in Appendix 1 to this Statement. Individual investment managers will comply as far as possible with the fund's voting policies.

8 COMPLIANCE

8.1 In accordance with regulation 9A(3A) of the LGPS (Management and Investment of Funds) Regulations 1998, as amended by S.I. 2002/1852, the Council is required to state the extent to which it complies with the ten principles of investment practice issued by the Government in October 2001 in response to the recommendations of the Review of Institutional Investment in the UK undertaken by Paul Myners. This statement is attached as Appendix 2 to this Statement.

8.2 A glossary of technical terms used by investment professionals is attached as Appendix 3.

APPENDIX 1

Corporate Governance and Proxy Voting Policy

IMPLEMENTATION AND BENEFITS

Introduction

This document is designed to set out the policy, which directs our proxy voting; to deal with the implementation of the policy; and to outline the benefits that accrue to the Fund by the policy's application.

Principle

The right of shareholders to vote at company meetings is a fundamental link in the chain that binds the owners of the company to those who make the investment decision. The exercise of that vote in an informed way lies at the heart of the regulation and promotion of good corporate governance.

To this end, our Fund managers will be instructed to vote shares in UK companies in accordance with this policy. We retain a commitment to pragmatic and flexible voting and we would instruct our fund managers to contact us on any matters of corporate governance, which might be considered contentious.

Policy

Our policy is based on the principles of best practice of corporate governance as laid out in the Combined Code. As such, we will tend to vote in favour of company management except in cases judged to be in breach of the code or when we believe that companies are not acting in the best interests of shareholders. In these cases we will either abstain or vote against resolutions.

In order to avoid the simple box ticking which robs the proxy vote of much of its strength, we assess each resolution on a case-by-case basis and implement our policy in a flexible manner. We consider this especially important in the arena of smaller company voting where standards of proxy voting may be less developed than in larger UK companies. This practical and pragmatic approach allows us to use our voting power to maximum effect.

We will normally vote against:

- Combined roles of chairman and chief executive where not publicly justified; and
- The election of executive directors with positions on either remuneration or audit committees.

We will normally abstain on:

- The election of an executive director over the age of 70 where the appointment is not justified in the report and accounts.

We are supportive of initiatives to ensure that all non-executive and executive directors stand for re-election at least once every three years.

Appointment of non executive directors

The election of a powerful constituency of non-executive directors as a counter-balance to executive management is one of the most effective ways of ensuring that the wider interests of shareholders are heard in the boardroom.

Directors

Directors are the stewards of shareholders' capital and should be properly accountable for their actions. Sufficient information should be disclosed in the report and accounts to allow shareholders to judge the success of boards in leading and controlling their company.

We will normally vote in favour of:

- A sufficiency of non executive directors on a board (the code recommends one third as a minimum); and
- A majority within the non-executives of those the Fund Manager considers being independent of the company.

We will normally abstain on:

- The election of non-executive directors over the age of 70 where the remuneration committee does not justify the appointment.

Executive remuneration

One of the most contentious and closely examined areas of corporate governance is that of executive remuneration, comprising directors' service contracts and long-term incentive plans.

Whilst we do not consider it appropriate to comment on the quantum of a director's pay, we believe it is important to ensure that remuneration is linked to results.

Service contracts

The length of directors' service contracts forms a central part of the Combined Code. The code recommends that existing contracts or notice periods be reduced to terms of 12 months rolling or less, and that new contracts should either be established on the same terms or fixed for an initial period and subsequently reduced.

The basic principle of the code is to contain the length of directors' service contracts whilst tying directors into the long-term future of the company by offering incentives for good performance. From the shareholders' point of view, 'reward for results' clearly remunerates directors who enhance the value of their company. At the opposite end of the scale, the reduction in the rolling elements of the contract ensures that shareholders in a company whose management is under performing do not have to suffer the double penalty to having to overpay for the management's removal.

We will normally vote in favour of:

- Rolling contracts of one year's term;
- Two year rolling contracts where justified by the remuneration committee; and
- Fixed contracts up to two years in length with subsequent reductions to 12 month rolling periods.

We will normally vote against:

- Contracts whose terms lie outside any of the above.

Long- term incentive plans
We realise that the corollary of shorter service contracts is that directors be rewarded for exceptional company performance via long-term incentive plans.

We will support long-term incentive plans which;

- Directly align the interests of directors with those of shareholders;
- Establish challenging performance criteria for the plans to vest - performance at or below the median should not be rewarded;
- Measure performance by total shareholder return in relation to the market or a range of comparable companies rather than growth in earnings per share;
- Are long-term in nature (the code recommends a minimum of three years); and
- Encourage long-term ownership of the shares once awarded.

We would ask our Fund Managers to enter into dialogue with companies to try to amend the terms of an incentive plan rather than simply to cast a vote against.

Political donations
We normally consider any political donations to be a misuse of shareholders' funds and we will ***vote against resolutions proposing them***.

Take over bids
The main issue is whether any bid is in the Pension Fund Members' best long-term interests. We would wish to be convinced that this is the case before accepting any bid, whether or not it is contested.

Implementation
We intend our voting policy to be implemented across the FTSE All Share Index. Voting custom and practice and levels of disclosure among overseas companies are not the same as for the UK and it is not possible to vote in accordance with
this policy for non-UK equities at the current time. We would, however, look towards implementing our policy overseas when circumstances permit.

Shareholder Resolutions will be considered on their merits and we will ask our Fund managers to contact the company secretary for further information on resolutions deemed to be contentious, if necessary.

The Director of Finance gives instructions to the Fund managers to vote our shares in accordance with this policy. In addition to our own records, we ask our Fund managers to keep a record of all votes cast so that we may, if required, inspect them for compliance purposes.

The exercise of a proxy vote is a somewhat blunt tool with which to improve standards of corporate governance, but it is not the only way in which we can influence corporate behaviour. Most investment managers meet, on a one to one basis, the senior management of many UK Plc's each year. Although the primary purpose of such meetings is to give management the opportunity to discuss matters of strategic importance, the highly interactive nature of these meetings means that this is a natural forum in which to raise matters such as corporate governance.

Benefits

We believe that the use of these meetings, in conjunction with the disciplined and consistent voting policy detailed above, contributes to higher standards of corporate governance in the UK. Linking the remuneration of directors to the fortunes of their company whilst reducing the rolling elements of contracts is a clear way of aligning the interest of directors with those of shareholders. The establishment of challenging performance criteria, which must be met for incentive plans to vest, reinforces this objective. Importantly, these performance targets can often give an insight into companies' aims and ambitions which can otherwise remain obscure, and it is in this way that the right to vote on resolutions becomes supplementary to the investment process; not just a duty but a benefit.

APPENDIX 2

Compliance Checklist

The LGPS (Management and Investment of Funds) (Amendment) Regulations 2002 require authorities to state the extent to which they comply with the ten principles of investment practice set out in the publication "CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the UK" and give reasons for not complying where they do not do so.

The London Borough of Hackney complies as follows:

Compliance Requirement	***Compliant Yes/No***	***Notes***
Effective Decision Making		
Are decision makers defined?	Yes	
Are Members sufficiently skilled?	Yes	Members have completed trustee training
Is appropriate training being provided?	Yes	Education and training is provided at the point of need.
Is in-house staffing support sufficient?	Yes	A new post was established in 2003 to provide support.
Is there an established investment committee with appropriate terms of reference?	Yes	
Is there a business plan?	Yes	Business plan is set out for the Sub – Committee

Compliance Requirement	***Compliant Yes/No***	***Notes***
Clear Objectives		
Are overall investment objectives specific only to the Fund's liabilities?	Yes	They also take into account the requirement to maintain a low cost over the long term.
Are parameters determined for employer contributions?	Yes	
Are attitudes to risk and limits specified?	Yes	
Are performance expectations and timing of evaluation specified?	Yes	
Has a liability related benchmark been set?	Yes	A specific benchmark relating to the liabilities of the fund is in use. A peer group benchmark is used for comparison purposes only

Asset Allocation		
Is priority given to strategic asset allocation decisions?	Yes	
Have all asset classes permitted within investment regulations been considered?	Yes	Private equity and hedge funds may be revisited as part of the business plan.
Is asset allocation compatible with liabilities and diversification requirements?	Yes	
Expert Advice		
Are separate contracts in place for actuarial services and investment advice?	Yes	Hymans Robertson fulfils both roles. Separate contracts are in place for each service.
Are the terms of reference specified?	Yes	
Is the role of the S.151 Officer specified in relation to advisers?	Yes	
Are tender procedures followed without cost constraint factors?	Yes	

Compliance Requirement	***Compliant Yes/No***	***Notes***
Explicit Mandates		
Is a written mandate included in the management contract containing elements specified?	Yes	
Are constraints on the types of investments in line with regulations?	Yes	
Is soft commission discontinued?	Yes	
Activism		
Have the US Principles on Activism been incorporated in mandates?	Yes	The Fund has developed a proxy voting policy and instructs its managers to comply with it.
Have external voting agencies been engaged.	No	The Council's policy is stated in the SIP and communicated to its external investment managers who vote on behalf of the Council on its investments, with voting policies monitored by the Pensions Sub-Committee.

Have manager strategies on shareholder activism been reviewed?	Yes	Manager strategies on shareholder activism were assessed at the time of appointment and are kept under review.
Have means been established to measure effectiveness.	No	The Pensions Sub-Committee believes that shareholder participation has a positive impact on the management of companies. However measuring effectiveness is a developing area and there is insufficient information to compare the effect of policies currently.
Appropriate Benchmarks		
Have benchmarks been considered?	Yes	New benchmarks are in place.
Are the limits on divergence from the index relevant?	Yes	New mandates were awarded in 2003. Limits on divergence from the respective indices were reviewed at the time of the appointments
Was active or passive management considered/	Yes	Both methods are employed in the management of the Fund.
Do targets and risk controls reflect performance expectations?	Yes	

Compliance Requirement	***Compliant Yes/No***	***Notes***
Performance Measurement		
Is a structure for regular monitoring in operation?	Yes	Independent performance measurement of the investment managers by the WM company is in place and reported quarterly to the Sub-Committee. The Sub-Committee is to review as part of its business plan, whether it wishes the independent investment consultant to provide monitoring of the five investment managers.
Are arrangements in place to assess procedures and decisions of members?	Yes	The Pension Sub Committee reports its decisions and actions, where relevant, to the Cabinet and thereafter to Council and is therefore subject to Scrutiny by all Council Members.
Are similar arrangements in place for advisers and managers?	No	Performance of the investment managers in monitored as outlined above. It is proposed to send an annual report to the Pensions Sub-Committee for monitoring the performance and advice of the external advisors by the end of the Financial Year (31/03/06).
Transparency		
Is the SIP updated as specified?	Yes	Date of last revision September 2005

Was consultation taken on amendments?	Yes	Consultation with Investment Committee, investment consultant and actuary as appropriate.
Have changes been notified to Stakeholders?	Yes	Consultation with Stakeholders including the Scheduled and Admitted Body employers and the Fund Investment Managers.
Regular Reporting		
Are changes to the SIP published and its availability made known?	Yes	Through the Pension Fund Report and Accounts and through the Annual Report to Scheme Members.
Is monitoring information identified and reported.	Yes	Monitoring information is included in the Annual Report to Scheme Members and is available on the website in the form of published minutes from the Pension Sub-Committee meetings.
Are scheme members informed of key monitoring data and compliance with principles?	Yes	Monitoring data through the Pension Sub-Committee minutes on the website and compliance through the SIP itself.

APPENDIX 3

Glossary of Technical Terms

Unregistered stock
Unregistered stock describes the common practice of allowing professional investors to trade newly issued shares or bonds before they are registered with the SEC or other national regulatory body. The purpose of this is to speed the issuance of new bonds or shares to professional investors without burdening the issuer with rules that are designed to protect amateur investors. Registration is usually completed a few months after the stock is first issued.

Short sales of stock
Selling a share that the vendor has borrowed and is committed to buy at a future date on the expectation of making a profit as the share price declines.

Margin purchases.
Buying shares with borrowed money, usually from a brokerage. 'Margin' refers to the collateral that needs to be posted to support the borrowing. This collateral requirement is less than the cost of buying shares. The effect of buying 'on margin' is that the investor has greater exposure to the share price rising or falling than the amount of money invested.

Stocklending
The practice of lending stock to other investors. Investors may wish to borrow stock in order to enter into a short sale (see above) or to avoid a settlement failure.

Venture capital
Early stage financing for smaller companies.

Direct venture capital.
Investing directly in an early stage company as opposed to investing in a venture capital fund.

Index futures contracts
An exchange-traded contract that requires delivery of a stock index on terms agreed today but where settlement occurs some months later rather than the following day. Index futures are used to reflect views on the future value of an index, to reduce exposure to index movements, and to effect asset allocation moves. Unlike options (see below), futures oblige both parties to transact. Distinguished from forwards (see below) in that futures are standardised, exchange-traded contracts.

Purchased stock put/call options
Right (but no obligation) to sell (put) or buy (call) an underlying stock at an agreed price. Other party to the contract will have *written* stock put/call options and has sold the option to sell or buy the underlying stock. The writer of the stock put/call option faces the obligation to buy or sell, respectively, at the agreed price. The purchase of a put or call option is often motivated by the desire to decrease or increase the exposure to changes in the value of a holding in the underlying stock.

Purchased index put/call options
Right (but no obligation) to buy or sell the value of an index. See purchased stock put/call options above.

Forward currency trades
A currency forward contract is, in effect, an agreement to exchange currencies on terms agreed today but where settlement occurs some months later rather than the following day. Currency forwards can be used either to take a position on future changes in exchange rates or to reduce the exposure to particular currencies. The forward currency market is large and liquid but transactions are not made on an exchange.

Purchased currency options
Right (but no obligation) to buy or sell an amount of foreign currency at an agreed price before a specific date. The use of currency options may be motivated by the desire to increase or decrease the exposure to changes in particular currency exchange rates.

Bond futures
A bond future is an exchange traded derivative contract. As such the terms of the contract are standardised and trading in the contracts is supervised by the exchange. The purchase of a bond future is perhaps best regarded as the purchase of a basket of bonds with delayed settlement. One common use of bond futures is to effect portfolio positions that reflect duration or yield curve views. Bond futures permit more precise management of bond portfolios and are often a quicker and cheaper way of delivering a devised asset allocation strategy.

Purchased bond put/call options
As purchased stock put/call options above.

Deposit futures
A standardized, transferable, exchange-traded contract that requires delivery of a Certificate of Deposit (CD). CD's are typically short- to medium-term, interest-bearing, insured debt instruments offered by banks. See index futures above.

Purchased deposit put/call options
As purchased stock put/call options above. Certificates of Deposit are the underlying commodity.

Derivatives
A financial instrument whose value is derived from an underlying security or benchmark. (Examples are the options referred to above).

Currency spot and forward contracts
A spot contract is a trade carried out for normal settlement, which is usually the next business day. For currency forward contracts see forward currency trades above.

Options, futures and options on futures.
Options on futures are exchange-traded and can be based on any futures contract. Most often used by investment banks to manage exposure arising from their normal trading activities and by specialist investors wishing to express views on narrow areas of the financial markets.

Investor puts
Investor holds the right to sell a specified stock, index or commodity at an agreed price. (See purchased stock put/calls above)

Traditional equity convertible bonds
A convertible bond is one that can be exchanged for a specified amount of stock at the option of the holder and in some cases the issuer. Today these are traded in the same way as any other bond. Traditional equity convertible bonds are now rare and are no longer being issued but are traded like equities on exchanges.

Callable fixed interest investments
Bonds where the issuer has the option to repay the bond on terms that are set out in the original issue documentation. These terms will specify when the issuer can exercise the option and at what price. Some callable bonds include changes to the bond coupon that are penal to the issuer if they do not exercise their option.

Protective covenants
Requirements placed upon the borrower in the lending agreement, which restrict the ability of the borrower to act against the interests of the lender. Usually require the borrower to maintain agreed levels of solvency and liquidity.

FUNDING STRATEGY STATEMENT

(Approved by the Pensions Sub-Committee Meeting 22nd March 2005)

1. Introduction

This is the Funding Strategy Statement (FSS) of the London Borough of Hackney Pension Fund “the Fund”), which is administered by the London Borough of Hackney (“the Administering Authority”).

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Douglas Anderson of Hymans Robertson and after consultation with the Fund’s employers and investment adviser and is effective from 31 March 2005.

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 1997 (regulations 76A and 77 are particularly relevant);
- 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 cost 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, 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 ahead of triennial valuations being carried out, with the next full review due to be completed by 31 March 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 Jill Davys in the first instance at jill.davys@hackney.co.uk or on 0208 356 2646.

2. Purpose

2.1 Purpose of FSS

The Office of the Deputy Prime Minister (ODPM) has stated that 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 rates 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;

- 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;

- 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, "*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*[1], for all employers collectively at each triennial valuation. It combines items (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 14 years.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[2]. It is the adjusted contribution rate which employers are actually required to pay. The sorts of peculiar factors which are considered are discussed in Section 3.5.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific spreading and phasing periods.

Annex A contains a breakdown of each employer's contributions following the 2004 valuation for the financial years 2005/06, 2006/07 and 2007/08. It includes a reconciliation of each employer's rate with the *Common Contribution Rate*. It also identifies which employers' contributions have been pooled with others.

Any costs of non ill-health early retirements must be paid as lump sum payments at the time of the employer's decision in addition to the contributions described above (or by instalments shortly after the decision).

Employers' contributions are expressed as minima, with employers able to pay regular contributions at a higher rate. Employers should discuss with the Administering Authority before making one-off capital payments.

[1] See Regulation 77(4)
[2] See Regulation 77(6)

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 such 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 3.8 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. They vary by type of member reflecting the different profile of employers.

The key financial assumption is the anticipated return on the Fund’s investments. The investment return assumption makes allowance for anticipated returns from equities in excess of bonds. There is, however, no guarantee that equities will out-perform bonds. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.
It is therefore normally appropriate to restrict the degree of change to employers’ contributions at triennial valuation dates.
Given the long-term nature of the liabilities, a long term view of prospective returns from equities is taken. For the 2004 valuation, it is assumed that the Fund’s equity investments will deliver an average additional return of 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. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise.

3.4.2 Employers that do not admit new entrants

Certain Admission Bodies have closed the scheme to new entrants. This is expected to lead to the average age of employee members increasing over time and hence, all other things being equal, the future service rate is expected to increase as the membership ages.
To give more long term stability to such employers' contributions, the *Attained Age* funding method is adopted. This will limit the degree of future contribution rises by paying higher rates at the outset.
Both funding methods are described in the Actuary's report on the valuation.
Both 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 Adjustments for Individual Employers

Adjustments to individual employer contribution rates are applied both through the calculation of employer-specific future service contribution rates and the calculation of the employer's asset share.
The combined effect of these adjustments for individual employers applied by the Fund actuary relate to:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, manual/non manual);
- the effect of any differences in the valuation bases that that used last time on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements as no contributions towards these have been made.

over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events occurring in the period since the last formal valuation [where Hymans Robertson calculates asset shares – see section 3.6 below], including, but not limited to:

- the actual timing of employer contributions within any financial year;

- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

3.6 Asset Share Calculations for Individual Employers

The Fund's actuary is required to apportion the assets of the whole fund between the employers at each triennial valuation using the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus". The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund. The asset apportionment is capable of verification but not to audit standard.

The Administering Authority recognises the limitations in the process, but having regard to the extra administration cost of building in new protections, it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

3.7 Stability of Employer Contributions

3.7.1 Deficit Recovery Periods

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

The Administering Authority normally targets the recovery of any deficit over a period not exceeding 14 years. However, these are subject to the maximum lengths set out in the table below.

Type of Employer	***Maximum* Length of Deficit Recovery Period**
Statutory bodies with tax raising powers	a period to be agreed with each employer not exceeding 14 years
Community Admission Bodies with funding guarantees	a period to be agreed with each employer not exceeding 14 years

Best Value Admission Bodies	the period from the start of the revised contributions to the end of the employer's contract
Community Admission Bodies that are closed to new entrants e.g. Bus Companies, whose admission agreements continue after last active member retires	a period equivalent to the expected future working lifetime of the remaining scheme members.
All other types of employer	a period equivalent to the expected future working lifetime of the remaining scheme members

This *maximum* period is used in calculating each employer's *minimum* contributions. Employers may opt to pay higher regular contributions than these minimum rates.

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2005 for 2004 valuation). The Administering Authority would normally expect the same 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.

3.7.2 Surplus Spreading Periods

Any employers deemed to be in surplus may be permitted to reduce their contributions below the cost of accruing benefits, by spreading the surplus element over the maximum periods shown above for deficits in calculating their **minimum** contributions.

However, to help meet the stability requirement, employers may prefer not to take such reductions.

3.7.3 Phasing in of Contribution Rises

Best Value Admission Bodies are not eligible for phasing in of contribution rises. Other employers may opt to phase in contribution rises as follows:

- for employers contributing at or above its future service rate in 2004/05, phasing in the rise in employer contributions over a period of three years;

- for employers contributing at less than its future service rate in 2004/05, phasing in the rise in contribution rises over a period of three years.

3.7.4 Phasing in of Contribution Reductions

Any contribution reductions will be phased in over six years for all employers except Best Value Admission Bodies who can take the reduction with immediate effect.

3.7.5 The Effect of Opting for Longer Spreading or Phasing-In

Employers which are permitted and elect to use a longer deficit spreading period than was used at the 2001 valuation or to phase-in contribution changes will be assumed to incur a greater loss of investment returns on the deficit by opting to defer repayment. Thus, deferring paying contributions will lead to higher contributions in the long-term.

However any adjustment is expressed for different employers the overriding principle is that the discounted value of the contribution adjustment adopted for each employer will be equivalent to the employer's deficit.

3.8 Admission Bodies ceasing

Admission Agreements for Best Value contractors are assumed to expire at the end of the contract.

Admission Agreements for other employers 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 employees 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 Best Value Admission Bodies, the assumptions would be those used for an ongoing valuation to be consistent with those used to calculate the initial transfer of assets to accompany the active member liabilities transferred.

(b) For non Best Value 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 future. This could give rise to significant payments being required.

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

3.9 Early Retirement Costs

3.9.1 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. The current costs of these are specified in early retirement factors supplied by the actuary to The London Borough of Hackney.

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.

4. Links to Investment Strategy

Funding and investment strategy are inextricably linked. Investment strategy is set by the administering authority, after consultation with the 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 investment strategy is set for the long-term, but is reviewed from time to time, normally every three years, to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. As at 31 March 2004, the proportion held in equities and property was 80% of the total Fund assets.

The investment strategy of lowest risk – 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. The Administering Authority's strategy recognises that pension scheme liabilities are, for the majority of employers, long term in nature and the Administering Authority also recognises the strength 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 adviser'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% a year, 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), which is currently assumed to be around 75% of all the Fund's assets.

Non equity assets invested in bonds and cash are assumed to deliver long-term returns of 0.25%pa 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 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.

Enabling different investment strategies for individual will require investment in new systems and higher ongoing costs which would have to be borne by the employers. The potential benefits of multiple investment strategies need to be assessed against the costs.

4.4 Intervaluation Monitoring of Funding Position

The Administering Authority intends to monitor investment performance relative to the growth in the liabilities by means of methods such as annual interim valuations designed to indicate if current investment strategy remains optimal given the liability profile. It intends to report back to employers via regular meetings with employers in order to keep them updated as to the estimated movement in funding levels since the formal valuation.

5. Key Risks & Controls

5.1 Types of Risk

The Administering Authority's has an active risk management programme in place. The measures 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.* *Inter-valuation roll-forward of liabilities between formal valuations at an individual employer level, provided on an annual basis*
Inappropriate long-term investment strategy	*Set Fund-specific benchmark, informed by any Asset-Liability modelling of liabilities undertaken.* *Consider measuring performance and setting managers' targets relative to bond based target or absolute returns and not relative to indices.*
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities	*Inter-valuation 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.* *Inter-valuation monitoring, as above, gives early warning.* *Some investment in bonds also helps to mitigate this risk.* *Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.*
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	*Seek feedback from employers on scope to absorb short-term contribution rises.* *Mitigate impact through deficit spreading and phasing in of contribution rises.* *Consult employers on possibility of paying more (extra administration and higher regular contributions) to enable employer-specific investment strategies to give greater certainty of cost.*

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.* *Administering Authority encourage any employers concerned at costs to promote later retirement culture. Each 1 year rise in the average age at retirement would save roughly 5% of pension costs.*
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

<table>
<tr><th>Risk</th><th>Summary of Control Mechanisms</th></tr>
<tr><td>Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees</td><td rowspan="2">The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.
It considers all consultation papers issued by the ODPM and comments where appropriate.
The Administering Authority will consult employers where it considers that it is appropriate.
Copies of all submissions are available for employers to see at www.inlandrevenue.gov.uk.</td></tr>
<tr><td>Changes to national pension requirements and/or Inland Revenue rules e.g. effect of abolition of earnings cap for post 1989 entrants from April 2006</td></tr>
</table>

5.5 Governance

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements).	*The Administering Authority monitors membership movements on a quarterly basis, via a report from the administrator at quarterly meetings.* *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* *Deficit contributions are expressed as monetary amounts (see Annex A).*
Administering Authority not advised of an employer closing to new entrants.	
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.	*In addition to the Administering Authority monitoring membership movements on a quarterly basis, it requires employers with Best Value contractors to inform it of forthcoming changes.* *It also operates a diary system to alert it to the forthcoming termination of Best Value Admission Agreements.*
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: • *Seeking a funding guarantee from another scheme employer, or external body, where-ever possible.* • *Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.* • *Vetting prospective employers before admission.* • *Setting a minimum limit of 5 employees for prospective employers.* • *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.* • *Offering lower risk investment strategies – with higher employer contributions - for Best Value Admission Bodies to reduce the risk*

	of volatile contributions and a significant debt crystallising on termination.

Annex A – Employers' Contributions, Spreading and Phasing Periods

Following the 2004 valuation, the minimum employer contributions shown in the Rates and Adjustment certificate attached to the 2004 valuation report are based on the deficit recovery periods and phasing periods shown in the table below. The table also shows the individual adjustments under Regulation 77(6) to each employer's contributions from the 'Common Contribution Rate'.

	Employer	Minimum Contribution for the Year ending 31 March 2006	31 March 2007	31 March 2008	Additional monetary payments	Spreading Period (years)
350	London Borough of Hackney	11.9% plus £19.2m	11.9% plus £20.0m	11.9% plus £21.8m		14.00
351	Renaisi	9.8%	9.8%	9.8%		9.00
353	Kingsmead Homes Ltd	14.9%	19.2%	23.5%		13.00
354	Northgate Information Solutions UK Ltd	16.5%	-	-	£27.8k per month until December 2005	0.73
357	Hoxton Biblio-tech	12.7%	16.4%	20.0%		0.92
358	Clapton Community Housing Trust	17.6%	22.2%	26.7%		5.00
359	The Learning Trust	12.4%	12.4%	12.3%		7.33
360	The 6th Form College Brooke House	11.2%	11.4%	11.6%		14.00
361	Hanover Housing Association	14.8%	14.5%	14.3%		8.00
362	Wetton Cleaning Services Limited LBH Kingsland Estate Cleaners	14.2%	15.6%	17.1%		3.46
363	Wetton Cleaning Services Limited LBH Clapton Estate Cleaners	18.2%	16.8%	15.5%		4.56
365	Dolce Limited	18.6%	16.5%	14.3%		7.00
366	Shoreditch Trust	9.7%	9.7%	9.7%		9.00

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 and FSS and a SIP, both after proper consultation with interested parties; and
- monitor all aspects of the fund's performance 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 authorities 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.

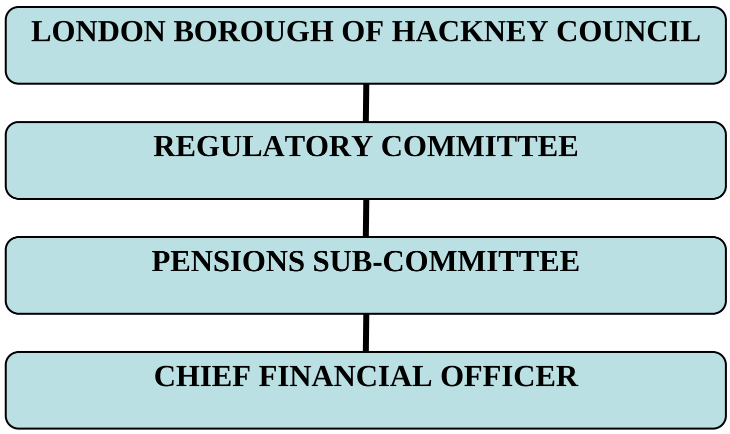
GOVERNANCE POLICY STATEMENT

(Approved by the Pensions Sub-Committee Meeting 6th March 2006)

This document sets out the Governance Policy of the Administering Authority of the London Borough of Hackney Pension Fund as required under the Local Government Pension Scheme Regulations 1997 as amended 14th December 2005 under Statutory Instrument number 3199.

Constitution

The Constitution of the Council published on 27th September 2004 sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and that those who made the decisions are accountable to local people. The Constitution sets out the framework under which the Pension Fund is to be administered as shown in the diagram below.



The Constitution allows for the appointment of a Regulatory Committee which has responsibility for the discharge of all non-executive functions assigned to it. The Regulatory Committee may appoint other Sub-Committees as it considers appropriate to discharge any of its functions. The terms of reference for the Regulatory Committee delegated to the Committee in relation to the Pension Fund are set out below:

> *Responsibility for the appointment of a Pensions Sub-Committee, including approval of its terms of reference and membership*
>
> *To receive performance monitoring information on matters within the remit of the Pensions Sub-Committee*
>
> *To develop, review, monitor and maintain a strategic overview of the Council's regulatory function*

Terms of Reference for the Pensions Sub-Committee

The following are the terms of reference for the Pensions Sub-Committee, last reviewed and updated in November 2005:

1. To act as Trustees of the Council's Pension Fund within the terms of the Superannuation Act 1972, the Local Government Pension Scheme Regulations 1997 (as amended) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended).
2. To make arrangements for the appointment of suitably qualified pension fund administrators, advisers, investment managers and custodians and to periodically review those arrangements.
3. To formulate and publish a Statement of Investment Principles.
4. To set the overall strategic objectives for the Pension Fund, having taken appropriate expert advice, and develop a medium term plan to deliver the objectives.
5. To determine the strategic asset allocation policy, the mandates to be given to the investment managers and the performance measures to be set for them.
6. To monitor the performance and effectiveness of the investment managers and their compliance with the Statement of Investment Principles.
7. To set an annual budget for the operation of the Pension Fund and to monitor income and expenditure against budget.
8. To receive and approve an Annual Report on the activities of the Fund prior to publication.
9. To make arrangements to keep members of the Pension Fund informed of performance and developments relating to the Pension Fund on an annual basis.
10. To keep the terms of reference under review.
11. To make recommendations to Cabinet in respect of employer discretions, admitted body issues and other matters relating to the administration of the Pension Fund.

Membership of the Pensions Sub-Committee

The first meeting of the Regulatory Committee after the Annual Meeting of the Council shall appoint the Pension Sub-Committee for the remainder of the municipal year. The membership of the Pensions Sub-Committee is currently comprised of Councillor members only who all have voting rights. At the first meeting of the Pensions Sub-Committee after its establishment a Chair and Vice-Chair shall be appointed for the municipal year.

There are currently no representative arrangements for employers or scheme members of the Fund. However, meetings are open to the public and therefore employers and scheme members are entitled to attend meetings. There may be occasions when members of the public are excluded from meetings when it is likely in view of the nature of the business to be transacted or the nature of the proceedings that confidential information would be disclosed.

Dates and Place of Meetings

The Regulatory Committee shall fix the day of the meetings of the Pensions Sub-Committee and in so doing shall endeavour as far as possible to suit the convenience of Members. The ordinary meetings for the Pensions Sub-Committee shall be held at Hackney Town Hall, but the Committee may arrange to meet elsewhere when they think fit. The Chair may cancel meetings. Six meetings per annum will be held in the ordinary course of business for the Pensions Sub-Committee. In addition further meetings may be arranged as necessary.

Access to Agenda, Reports and Minutes of Meetings

The Council will give at least five clear working days notice of any meeting by posting details of the meeting at the Hackney Town Hall and on the Council's website. The Council will make copies of the agenda and reports open to the public available for inspection at least five clear working days before the meeting. If an item is added to the agenda later, the revised agenda will be open to inspection from the time the item was added to the agenda. The reason for lateness will be specified in the report.

There may on occasions be items which may be exempt from the agenda, reports and minutes of the meetings when it is likely in view of the nature of the business to be transacted or the nature of the proceedings that confidential information would be disclosed. Items which are most likely to be excluded are issues where to disclose information would contravene an individual's privacy or where there are financial interests which may be compromised as a result of disclosure for example discussions surrounding contracts.

The Council will make available copies of the minutes of the meeting and records of decisions taken for six years after a meeting. Minutes of meetings and records of decisions are available for inspection on the Council's website.

Funding Strategy Statement

The Funding Strategy Statement forms part of the framework for the funding and management of the Pension Fund. It sets out how the Fund will approach its liabilities and contains a schedule of the minimum contribution rates that are required of individual employers within the Fund. The Funding Strategy Statement was formally approved by the Pensions Sub-Committee in March 2005. The FSS is published and has been issued to interested parties.

The Funding Strategy Statement (FSS) is drawn up by the Administering Authority in collaboration with the Fund's actuary and after consultation with the Fund's employers. The FSS forms part of a broader framework which covers the Pension Fund and applies to all employers participating in the Fund. The FSS represents a summary of the Fund's approach to funding liabilities of the Pension Fund and copies are available for the Treasury and Pensions Department, Finance Directorate or on the Council's website. The background to the FSS is set out below:
The Office of the Deputy Prime Minister (ODPM) has stated that 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 rates as possible; and
- To take a prudent longer-term view of funding those liabilities.

It is in this context that the FSS has been compiled and sets out in detail the Fund's approach to meeting its individual funding requirements. The FSS is reviewed in detail at least every three years, with the next full review due to be completed by 31st March 2008.

Statement of Investment Principles

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1998 require pension fund administering authorities to prepare, maintain and publish a statement of the principles governing their decisions on the investment of the pension fund.

The Local Government Pensions Scheme (Management and Investment of Funds) (Amendment) Regulations 2002 require pension fund administering authorities to state the extent to which they comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom. Under Regulation 9A (3A) of the LGPS (Management and Investment of Funds) Regulations 1998 the Council is required to state the extent to which it complies with the ten principles of investment practice issued by the Government in October 2001 in response to the recommendations of the Review of Institutional Investment in the UK undertaken by Paul Myners. Compliance with these principles is set out in detail in the Appendix to the Statement of Investment Principles (SIP) and the Fund is fully compliant with 8 out of the 10 principles and broadly compliant with the remaining 2 and the reasons for not being fully compliant are set out in the SIP.

The SIP was formally reviewed by the Pensions Sub-Committee following a consultation period with interested parties. The SIP was formally approved for publication in September 2005 and will be reviewed at least every three years following an actuarial valuation or when significant changes occur that need incorporation in to the document.

Scheme of Delegation

Where Council functions are not specifically reserved to the Pensions Sub-Committee in relation to the Pension Fund, the functions are deemed to be delegated to the relevant Chief Officers, or the Finance Director in the case of the Pension Fund. The Finance Director is responsible for the establishment of a scheme of delegation for their department which includes the Pension Fund function. The scheme of delegation specifies the function, names the post which may carry out that delegated decision and the limits if any on the delegation. The limits on delegation will include the obligation to consult, record and/or refer back to the Chief Executive or Director in certain circumstances. The Finance Directorate has a scheme of delegation which sets out the delegated powers to individual officers within the directorate. In relation to the Pension Fund the management is delegated to Director of Finance and Resources, Deputy Director of Finance and Resources and the Head of Treasury and Pensions. The scheme of delegation is reviewed annually by the Council.

Financial Standing Orders

Section 151 of the Local Government Act 1972 requires every local authority to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for this. In Hackney the responsible officer is the Director of Finance and Resources. These standing orders set out the regulatory framework for financial administration within the Council setting out the duties of the Director of Finance and Resources and chief officers and identifying the financial decisions which require executive or Council approval. The Director of Finance and Resources is responsible for ensuring that the Council's financial affairs are administered in a proper manner, in accordance with all statutory obligations, and in compliance with all professional codes of practice.

There are a number of standing orders in relation to the Pension Fund which cover the triennial actuarial valuation and the annual production of accounts. These are reviewed annually by the Council.

Annual Report and Accounts

As part of the financial standing orders it is the duty of the Finance Director to ensure that record keeping and accounts are maintained by the Pension Fund. The Pension Fund accounts are produced in accordance with the accounting recommendations of the Financial Reports of Pension Schemes - Statement of Recommended Practice. The financial statements summarise the transactions of the Scheme and deal with the net assets of the Scheme. The statement of accounts is reviewed by both the Pensions Sub-Committee and the Regulatory Committee and incorporated in the Statement of Accounts for the Council. In addition a separate annual report on the activities of the Pension Fund is reviewed and approved by the Pensions Sub-Committee for distribution to interested parties and included on the London Borough of Hackney website. A briefing note prepared from the annual report and accounts of the pension fund is also distributed to scheme members annually.

Discretions Policies

Under the Local Government Pension Scheme regulations, the Administering Authority has a level of discretion in relation to a number of areas. The discretions policies of the Council including those which relate to the Administering Authority were reviewed and approved in September 2005 following a period of consultation with interested parties. Discretions policies relating to the Employing Authority were also reviewed and approved in September 2005. The policies are set out within a Discretions Policy Statement which is available on the website or from the Treasury and Pensions Department within the Finance Directorate. These will be reviewed on a triennial basis or as appropriate to incorporate any changes required either due to regulatory or operational changes.

Employer Guide

In order to assist with the management and efficient running of the Pension Fund, an Employer Guide encompassing both administrative procedures and documents required under statute, for example the Funding Strategy Statement has been distributed to employers within the Fund. This represents part of the process for ensuring the ongoing management of the Fund and forms part of the overall governance procedures for the Fund.

AUDIT OPINION

The Pension Fund accounts have been audited in accordance with the Audit Commission Act 1998. The formal audit opinion of the Pension Fund audit is included within the London Borough of Hackney's formal Statement of Accounts.

RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The London Borough of Hackney as Administering Authority of the London Borough of Hackney Pension Fund 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 Authority, that Officer is the Director of Finance and Resources;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

Chief Officer(s) Responsibilities:

Each Chief Officer is responsible for:

- maintaining effective financial controls and for securing the accuracy and integrity of financial information and systems operating within their department;
- complying with any procedural instructions issued by the Director of Finance and Resources; and
- preparing a statement of internal control.

Responsibilities of the Director of Finance and Resources:

The Director of Finance and Resources is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom ("the Code of Practice").

In preparing this Statement of Accounts, the Director of Finance and Resources has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the Code of Practice, except where otherwise stated.

The Director of Finance and Resources has:

- kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Responsible Financial Officer's Certificate:

I certify that the Accounts present fairly the Net Assets of the London Borough of Hackney's Pension Fund as at 31st March 2006 and its Income and Expenditure for the year then ended.

Tim Shields CPFA
Director of Finance and Resources

29th September 2006

Chair of Approving Committee's Certificate:

I certify that the accounts set out in this document have been considered by the Council's Audit Sub-Committee held on 29th June 2006 and have been approved by a resolution of the Committee.

Councillor James Carswell
Chair of Audit Sub-Committee

29th June 2006

STATEMENT OF ACCOUNTS

2004/05 £000's		Fund Account for the Year Ended 31st March	Note	2005/06 £000's
		Contributions receivable and transfers in		
(6,114)		Employees' and members' contributions	3	(6,545)
	*	Employers' contributions	3	
(13,531)	*	Normal		(14,691)
(12,000)	*	Additional		(19,200)
(6,759)		Individual transfers in from other schemes		(7,862)
(38,404)		**Total contributions and transfers in**		(48,298)
		Benefits payable		
24,537		Pensions	4	25,335
1,732		Lump sum retirement benefits	4	1,793
500		Lump sum death benefits	4	207
26,769		**Total benefits payable**		27,335
		Payments to and on account of leavers		
88	*	Refund of contributions to members		44
107	*	State scheme premiums		190
10,915		Individual transfers out to other schemes	5	9,281
11,110		**Total payments to and on account of leavers**		9,515
725		Administration expenses	6	783
200		**Net (additions)/withdrawals from Fund**		(10,665)
		Return on investments		
	*	Investment income from:		
(1,718)	*	Fixed interest bonds		(1,666)
(291)	*	Fixed linked bonds		(341)
(9,295)	*	Equities		(10,858)
(162)	*	Property		(19)
(9)	*	Other investments		0
(660)	*	Interest on cash deposits		(523)
(45,303)		Change in market value of investments	7	(111,294)
1,995		Investment management expenses		1,857
(55,443)		**Net return on investments**		(122,844)
(55,243)		Total net (additions)/withdrawals from Fund		(133,509)
(427,011)		Opening assets of Fund at 1st April		(482,254)
(482,254)		**Closing assets of Fund at 31st March**		(615,763)

***The 2004/05 comparators for these items have changed in line with the increased analysis of these on the face of the primary statement. This enables direct comparison with the 2005/06 figures.

2004/05 £000's	Net Assets Statement as at 31st March	Note	2005/06 £000's
	Investment Assets		
	Fixed Interest Securities (UK)		
24,361	Government Bonds		26,786
20,714	Corporate Bonds		22,998
	Fixed Interest Securities (overseas)		
11,584	Government Bonds		13,489
	Index Linked Securities (UK)		
11,894	Government Bonds		13,248
513	Corporate Bonds		373
	Index Linked Securities (overseas)		
0	Government Bonds		60
	Equities		
235,876	United Kingdom		300,454
95,196	Overseas		139,050
	Property (all UK)		
760	Freehold		0
65,506	Unit Trusts		79,514
118	Unquoted Management Funds		51
3,848	Fund Manager Cash		14,800
427	Fund Manager Debtors		2,044
(56)	Fund Manager Creditors		(11,558)
470,741	**Total investment assets**	8	601,309
	Net Current Assets and Liabilities		
2,251 *	Contributions due from employer		1,196
(425) *	Unpaid benefits		(433)
7,088	Cash balances		9,265
2,599 *	Other current assets & liabilities		4,426
11,513	**Total current assets**		14,454
482,254	**Total net assets**		615,763

* The 2004/05 comparators for these items have changed in line with the increased analysis of these on the face of the primary statement. This enables direct comparison with the 2005/06 figures.

1. Basis of preparation

The financial statements have been prepared in accordance with the accounting recommendations of the Financial Reports of Pension Schemes – a Statement of Recommended Practice. The financial statements summarise the transactions of the Scheme, and deal with net assets at the disposal of the Pensions Sub-Committee. They do not take account of the obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in note 9 of this report, and these financial statements should be read in conjunction with it.

2. Accounting Policies

The London Borough of Hackney Pension Fund is operated under regulations made by the Office of the Deputy Prime Minister under Section 7 of the Superannuation Act 1972. The Pension Fund Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (ACOP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Pension Fund statements have been prepared in accordance with the provisions of chapter 2 of the Pensions SORP. The Pension Fund Accounts are not consolidated in the accounts of the Authority. The Pension Fund Accounts have been prepared on an accruals basis, except for transfer values which are accounted for on a cash basis in accordance with ACOP. The Accounts do not take account of pensions liabilities, or other liabilities, relating to periods after 31st March 2006.

Investments are shown in the accounts at market values (at the close of business on 31st March 2006) which have been determined as follows.

a) Listed Securities are valued at mid market prices.
b) Unlisted Securities are valued by the respective Fund Managers using the most appropriate financial information.
c) Unit Trusts are valued at the mid point price quoted by their respective Managers, or at the global closing price where there is a single price point.
d) Overseas Investments are valued at their sterling equivalent value at the Balance Sheet date.
e) Property Holdings are valued on the basis of open market valued by CB Richard Ellis Ltd.

3. Contributions Receivable and Transfers In

Employee contributions are prescribed in the Local Government Pension Scheme Regulations 1997. For most employees, the rate is 6% of pensionable pay, although some employees have a lower rate of 5%, if employed before April 1998 in certain occupations.

Employer contributions are determined by the Fund's Actuary on the basis of triennial actuarial valuations of the Fund to take account of the current service cost of future pension liabilities and any deficits in the valuation of the Fund at the valuation date. The employer contribution rate in 2005/06 was 11.9% of pensionable pay plus a lump sum cash payment of £19.2 million.

The number of employees contributing towards the Fund in 2005/06 was 4,363 (4,821 in 2004/05) including employees of external organisations undertaking works or services transferred from the Council, and who were treated as "Admitted Bodies" within the Pension Scheme Regulations. In addition there were two scheduled bodies. Active members employed by external organisations during 2005/06 were 741 (727 in 2004/05). The employer contribution rate for admitted bodies and scheduled bodies is set by the Actuary taking into account their respective employee profiles, and the assets and liabilities of those employers.

Contributions for all employers and employees in the Scheme amounted to £40.4 million for 2005/06 (£31.6 million in 2004/05). The contributions received from the respective employers within the Fund and benefits paid are set out below.

2004/05 £000's		2005/06 £000's
	Contributions received	
28,470	LB Hackney	37,419
2,960	Admitted Bodies	2,815
215	Scheduled Bodies	202
31,645		40,436

Admitted Bodies during 2005/06 were Renaisi Ltd, Kingsmead Homes Ltd, Northgate Information Solutions (UK) Ltd, Hoxton Bibliotech, Clapton Community Housing, The Learning Trust, Hanover Housing Association, Wetton Cleaning Ltd, Dolce Ltd, Shoreditch Trust, KGB Cleaning Services Ltd and Greenwich Leisure Ltd. Separate scheduled bodies during the year were Brooke House Sixth Form College and Mossbourne Community Academy.

In addition to the employer contributions paid as a percentage of annual pensionable pay to the Pension Fund, additional monetary contributions have been paid to reduce the historic service deficit and these amounted to £19.2 million during 2005/06 (£12.0 million in 2004/05).

There were no group transfers into the Hackney Pension Scheme during 2005/06 (2004/05 – nil).

ACOP requires the analysis of employer and employee contributions to be shown between normal, additional and special contributions. There were no special contributions from either employers or employees during 2005/06 (2004/05 – nil). The analysis of employee contributions between normal and additional is not available.

4. Benefits

Pensions paid out during the year amounted to £25.3 million (£24.5 million in 2004/05). At the end of 2005/06, there were 5,811 persons in receipt of pensions from the Fund (5,800 in 2004/05) including 1,135 (1,119 in 2004/05) who were widow(ers) or dependants of former employees. The respective benefit payments by employer are set out below.

2004/05 £000's		2005/06 £000's
	Benefits paid	
26,450	LB Hackney	26,999
315	Admitted Bodies	336
4	Scheduled Bodies	0
26,769		27,335

5. Payments To and On Account of Leavers

Deferred members of the Pension Fund transferring membership to new employers gave rise to transfer payments out of the Scheme during 2005/06 of £9.3 million (£10.9 million in 2004/05). There were no group transfers out to other schemes during the 2005/06 (2004/05 – nil).

6. Administration Expenses

The costs of investment management and pension administration are charged to the Pension Fund. Investment Management Expenses in 2005/06 were £1.857 million compared to £1.995 million in 2004/05. Administration expenses in 2005/06 were £0.783 million (£0.725 million in 2004/05). An analysis of the breakdown of administrative expenses is shown below.

2004/05 £000's		2005/06 £000's
	Administration Expenses	
239	Finance Department Recharge	250
483	Pension Administration	480
3	Miscellaneous	53
725		783

7. Change in Market Value of Investments

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year including profits and losses on sales of investments during the year.

2004/05 £000's		2005/06 £000's
	Unrealised profits	
(15,408)	Opening balance as at 1st April unrealised (profit)/loss	(51,322)
(51,322)	Closing balance as at 31st March unrealised (profit)/loss	(133,197)
(35,914)	Movement during the year unrealised (profit)/loss	(81,875)
(9,389)	(Profit)/Loss realised during the year	(29,419)
(45,303)	Net change in market value of investments	(111,294)

The rate of return on the Fund (capital appreciation/depreciation and investment income) was 26.2% over the financial year ended 31st March 2006.

8. Investments

The Fund's investments are held in a wide range of assets to ensure diversification, and to optimise returns whilst having regard to the management of risk. The movement in asset classes over the year is largely a reflection of the relative performance of those assets; there have been no major asset allocation decisions taken over the year. The breakdown of investments across the various asset classes is shown in the table below.

2004/05 £000's	2004/05 %		2005/06 £000's	2005/06 %
		Investment Asset		
		Fixed Interest Securities (UK)		
24,361	5.18	Government Bonds	26,786	4.46
20,714	4.40	Corporate Bonds	22,998	3.83
		Fixed Interest Securities (Overseas)		
11,584	2.46	Government Bonds	13,489	2.24
		Index Linked Securities (UK)		
11,894	2.53	Government Bonds	13,248	2.20
513	0.11	Corporate Bonds	373	0.06
		Index Linked Securities (Overseas)		
-	0.00	Government Bonds	60	0.01
		Equities		
235,876	50.11	United Kingdom	300,454	49.97
95,196	20.22	Overseas	139,050	23.12
		Property		
760	0.16	Freehold	-	0.00
65,506	13.91	Unit Trust	79,514	13.22
118	0.02	Unquoted Managed Funds	51	0.01
4,219	0.90	Fund Manager Cash Deposits	5,286	0.88
470,741	100.00		601,309	100.00

The Fund's investments are managed by five principal Investment Managers according to defined benchmarks which are set out in the Statement of Investment Principles. See below for breakdown of the investments between the Investment Managers.

2004/05 £000's	2004/05 %		2005/06 £000's	2005/06 %
		Investment Manager		
115,778	24.59	RCM (Global Equities)	156,403	26.01
121,413	25.79	AXA Rosenberg (Global Equities)	162,141	26.97
95,482	20.28	UBS (Indexed UK Equities)	123,463	20.53
70,310	14.94	ISIS (Fixed Interest)	78,188	13.00
66,266	14.08	Threadneedle Property Unit Trust	79,514	13.22
1,360	0.29	Other Direct Investments	579	0.10
85	0.02	Credit Suisse (Direct Property)	95	0.02
47	0.01	London Borough of Hackney	926	0.15
470,741	100.00		601,309	100.00

The value of purchases at cost in 2005/06 was £314.4 million (£271.5 million in 2004/05) and the value of disposals for 2005/06 was £296.2 million (£257.9 million in 2004/05).

9. Actuarial Valuation

The actuarial valuation of the Pension Fund is carried out every three years by an independent actuary appointed by the Fund; the current actuary Hymans Robertson last carried out a full valuation of the Pension Fund as at 31st March 2004. The valuation takes account of the amount of current and future pension liabilities of the Fund, the expected contributions received by the Fund, and the expected rate of investment returns held by the Fund. Other factors which influence the valuation, and are taken into account by the actuary, include anticipated pay and pension inflation, and mortality rates.

The Fund’s actuary Hymans Robertson used the projected unit method of valuation for the fund as a whole, and for employers who continue to admit new members. For employers who no longer admit new entrants, the attained age method was used. The key financial assumptions adopted by the actuary were as follows:

- Discount Rate – before retirement 6.3% nominal, 3.4% real.
- Discount Rate – after retirement 6.3% nominal, 3.4% real.
- Pay Increases – 4.4% nominal, 1.5% real.
- Price Inflation/Pension Increases – 2.9% nominal, 0% real.

The primary purpose of the valuation is to establish appropriate rates for each employer participating in the Fund, and the rates applied will reflect the experience of each employer during the 3 year intervening period between valuations. The contribution rates for employers paying into the Fund in 2005/06 were determined by the actuary following the valuation carried out as at 31st March 2004. The valuation at that date indicated that the Fund held assets of £427 million but that the anticipated liabilities of the Fund were £668 million, giving rise to a valuation deficit of £241 million, or a funding level equivalent to 64%. Following consultation with the actuary, and targeting a recovery period of 14 years for the Council, an employer contribution rate of 11.9% of pensionable pay was set commencing on 1st April 2005 plus cash lump sum payments of £19.2 million for the financial year to 31st March 2006, £20.9 million for the year ended 31st March 2007, and £21.8 million for the year ended 31st March 2008.

During the year, the actuary undertook an interim valuation of the Fund following the revocation of the ’85 year rule’ to determine the costs to the Fund of the revocation, and to assess the funding level. Following that valuation and subsequent discussions with the actuary, it was agreed by the Pensions Sub-Committee of the Council to increase the contribution rate to 15.3% to better reflect the future service costs of paying for future pensions of current employees. The new rate of 15.3% would apply for the financial year 2006/07 and 2007/08, but effective only for the Council itself. However, to offset this increase, the additional cash lump sum payments would be reduced for the financial year 2006/07 and 2007/08; these will now be £18.1 million and £18.8 million respectively. None of the other employers in the Fund were affected by this change.

10. Additional Voluntary Contributions (AVCs)

The Fund provides an AVC scheme for its contributors, the assets of which are invested separately from the Fund. The scheme provider is Prudential, where the sums saved are used to secure additional benefits on a money purchase basis for those contributors electing to pay additional voluntary contributions. Funds are invested across a range of Funds with the majority of investments being made into a With Profits Cash Accumulation

Fund. The total value of sums invested in the AVC funds as at 31st March 2006 was £6.39 million. Contributions received into the AVC facility during the year amounted to £0.32 million. The efficiency and effectiveness of the provider is monitored on a periodic basis to assess performance.

11. Related Party Transactions

The Pension Fund is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Pension Fund, or to be controlled or influenced by the Pension Fund. Details of the Pension Fund's related party transactions for 2005/06 are as follows:

- Hackney Council Recharge to the Pension Fund included in the Administration costs for £0.25 million (£0.24 million in 2004/05).
- Council Members of the Pensions Sub-Committee - The following Councillors were also members of the Local Government Pension Scheme (LGPS) during the year – Cllr James Cannon, Cllr Daniel Kemp, Cllr Samantha Lloyd, Cllr Christopher Sills, Cllr Geoff Taylor and Cllr Faizullah Khan.
- Cllr James Cannon is a Council appointed representative on Hoxton Bibliotech which was an admitted body to the pension fund during the financial year 2005/06.
- Cllr Samantha Lloyd is a board member of Hackney Homes Ltd, and during the financial year 2005/06 was a board member of the Arms Length Management Organisation, the precursor to Hackney Homes Ltd, which became a scheduled body within the Pension Fund from 1st April 2006.

12. Pension Fund Compliance

The Pension Fund has a Statement of Investment Principles (SIP) which was reviewed and consulted upon during the year, and was approved by the Pensions Fund Sub-Committee in September 2005. A copy of the SIP is included in the full Pension Fund Report and Accounts; alternatively a copy can be found on the pension website www.yourpension.org.uk/hackney or obtained from Treasury and Pensions, Finance and Resources Directorate, Keltan House, 89-115 Mare Street, London, E8 4RU.

The Pension Fund is broadly compliant with the principles laid down by the Myners Report, and is compliant with the ten principles of investment practice set out in the CIPFA pension panel, with the exception of two minor points under Activism: the Fund does not employ an external voting agency and does not believe that there are sufficient means to currently measure the effectiveness of voting activism; also the Fund has yet to comply with the performance measurement for external advisors, other than fund managers, although it is proposed that this will be put in place during the next financial year, 2006/07.

13. Post Balance Sheet Events

Since the year end, the Council has established an Arms Length Management Organisation, Hackney Homes Ltd, with a number of staff being transferred under TUPE arrangements. Hackney Homes Ltd has been set up as a separate scheduled body within the Pension Fund from 1st April 2006, with its own contribution rate based on Hackney Homes Ltd employee participation in the Fund.