



Annual Report
for the City of London Corporation
Pension Fund

year ended 31 March 2010

Scheme Registration No. PSTR00329946RE

City of London Corporation Annual Report for the Pension Fund

year ended 31 March 2010

	Page
Management and Financial Performance Report	3
Scheme Administration Report	9
Statement of Responsibilities for the Statement of Accounts	14
Adoption of the Pension Fund Accounts	15
Independent Auditor's Report to the City of London	16
Actuarial Valuation Report on Fund	18
Policy and Governance Compliance Statement	21
Fund Account and Net Assets Statement	27
Benchmarking Report	37
Funding Strategy Statement	39
Statement of Investment Principles	48
Communications Policy Statement	59
Glossary of Terms	61

For further copies or for more information please contact:

The Chamberlain
City of London Corporation
Guildhall
London EC2P 2EJ

**City of London Corporation
Pension Fund**

**Management and Financial Performance Report
for the year ended 31 March 2010**

Governance

Scheme Registration Number: PSTR00329946RE

Administering Authority: City of London Corporation
Guildhall
P.O. Box 270
London
EC2P 2EJ

Investment Sub-Committee Members: (Responsible for investment matters)

Philip John Willoughby, JP Deputy, Chairman
Jeremy Paul Mayhew, MA MBA , Deputy Chairman
Kenneth Edwin Ayers, Deputy
Raymond Michael Catt
Roger Arthur Holden Chadwick
Simon D'Olier Duckworth
Anthony Noel Eskenzi, CBE, D.Sc, Deputy
Stuart John Fraser (Representative of Policy and Resources Committee)
Alison Jane Gowman, Alderman
Brian Nicholas Harris
Tom Hoffman, LLB
Robert Hughes-Penney
Charles Edward Lord, JP, BA(Hons)
James Henry George Pollard
John George Stewart Scott
David James Thompson

Secretary to the Committee: Stuart Pick, B.Sc(Econ)

**Management and Financial Performance Report
for the year ended 31 March 2010**

Establishment Committee:
(Responsible for personnel and establishment matters)

Dr Peter Bernard Hardwick, QHP, Chairman
John Alfred Barker, OBE, Deputy , Deputy Chairman
Barbara Patricia Newman, CBE
Christine Mackenzie Cohen, OBE, Deputy
Robin Anthony Eve, Deputy
Kevin Malcolm Everett, D.Sc (Representative of the Finance Committee)
The Revd Stephen Decatur Haines, MA, Deputy
Benjamin Robert Hadley Hall (Alderman)
Charles Edward Lord, JP. BA(Hons)
Sylvia Doreen Moys
Joyce Carruthers Nash, OBE, Deputy
Sir Michael Oliver, DL (Alderman)
Janet Owen, MBE, Deputy
Philip John Willoughby, JP, Deputy

Secretary to the Committee: Gemma Goulding, BA(Hons)

Scheme Administrator: Chris Bilsland, CPFA
Chamberlain of London
Guildhall
P.O. Box 270
London
EC2P 2EJ

Actuary: Barnett Waddingham LLP
163 West George Street
Glasgow
G2 2JJ

**Management and Financial Performance Report
for the year ended 31 March 2010**

Investment Managers:

Artemis Investment Management Ltd
Cassini House, 57 St James's Street, London SW1A 1LD

LSV Asset Management
One North Wacker Drive, 40th Floor, Chicago, Illinois 60606, USA

Pyrford International Plc
79 Grosvenor Street, London W1K 3JU

Southeastern Asset Management
6410 Poplar Avenue, Suite 906, Memphis, TN 38119, USA

Wellington Management International
80 Victoria Street, London SW1

NCM Management (UK) Ltd
Schomberg House, 80-82 Pall Mall, London SW1Y 5HF

Standard Life Investments Private Equity Ltd
1 George Street, Edinburgh EH2 2LL

Yorkshire Fund Managers Venture Finance Ltd
Brookmount House, 62-65 Chandos Place, Covent Garden, London WC2N
4LP

Environmental Technologies Fund Manager LLP (Private Equity)
20 Berkeley Square, London W1J 6EQ

Custodian:

Bank of New York Mellon
The Bank of New York Mellon Centre
160 Queen Victoria Street
London
EC4V 4LA

**Management and Financial Performance Report
for the year ended 31 March 2010**

Investment Consultant:

John Woods and Associates Ltd
15 Ballantyne Drive, Kingswood, Tadworth KT20 6EA
(Contract ended 31 March 2010; Hewitt Associates Ltd. appointed with effect from 1 April 2010.)

Performance Measurement:

State Street Investment Analytics (formerly WM Performance Services)
525 Ferry Road, Edinburgh EHS 2AW

Bankers:

Lloyds TSB Bank
City Office, P.O. Box 72, Bailey Drive, Gillingham Business Park,
Kent ME8 0LS

Legal Advisor:

Comptroller and City Solicitor
City of London Corporation, Guildhall, P.O. Box 270, London EC2P 2EJ

AVC Providers:

Prudential
Laurence Pountney Hill, London, EC4R 0HH

Standard Life
Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH

Independent Auditor:

Deloitte LLP
St. Albans, United Kingdom

Management and Financial Performance Report for the year ended 31 March 2010

Financial Performance - Introduction

The Fund account includes details of the contributions receivable by the Scheme and benefits payable. During 2009/10 there was a net inflow from Members of £1.8m (2009: £0.7m). Net returns on investments amounted to an increase of £152.5m (2009: decrease of £64.2m) due mainly to a positive change in the market value of investments, both realised and unrealised.

The net assets of the Fund as at 31 March 2010 amounted to £566.5m (2009: £412.2m). Further details are shown in the Fund Account and Net Assets Statement on page 29.

The City of London Corporation invests the Fund in compliance with the Local Government Pension Scheme (Management and Investment of Funds (Amended) Regulations 1999). The Fund's Investment Consultant is John Woods and Associates Ltd, although the contract ceased on 31 March 2010.

During 2009/10, nine external Managers managed the Fund's investments:

- Artemis Investment Management Ltd (UK and EEUK Equities and Bonds)
- Environmental Technologies Fund Manager LLP (Private Equity)
- LSV Asset Management (Non-USA Equity)
- NCM Management (UK) Ltd (Private Equity)
- Pyrford International Plc (Discretionary)
- Southeastern Asset Management (Global Equity)
- Standard Life Investments Private Equity Ltd (Private Equity)
- Wellington Management International (USA Equity)
- Yorkshire Fund Managers Venture Finance Ltd (Private Equity).

Any surplus cash holding within the Pension Fund is managed internally.

Tax Status

The Scheme is a 'registered pension scheme' for tax purposes.

Financial Performance - 2009/10 Investment Results

Over the twelve month period to 31 March 2010, the Fund's total return (as measured by WM Performance Services) was +37.2%. The Fund's performance is analysed relative to the WM All Funds benchmark on an

ex-Property basis. This Universe is the largest available universe of UK Pension Funds and remains the most comprehensive representation of the UK Pension Fund industry, accounting for over 80% of all UK Pension Fund assets. In the year ended 31 March 2010 the benchmark return was +31.0%, therefore, the City's Pension Fund outperformed the benchmark by +4.8%, a very satisfactory comparative performance. The outperformance was attributable to 'asset allocation' +7.2%, partially offset by 'stock selection' -2.3%. Over the last three financial years the Fund's total return was +5.2% per annum which compared with the benchmark return of +2.5% per annum, an outperformance of +2.6%.

All of the securities Fund Managers exceeded their individual performance targets, which exclude the effects of variations in market values of the investments.

Local Authority Universe

The City's Pension Fund performance is also compared against the Local Authority Universe which comprised 99 member funds at 31 March 2010. The City's return of +37.2% for 2009/10 compared with the local authority weighted average return of +35.2%, a performance ranking of 41 out of 99 funds. The Funds that make up the Local Authority Universe will have varying asset allocation policies, which would impact on performance. The City's approach to mitigate this risk is to employ a wide range of Fund Managers with various investment mandates and restrictions.

Membership of Outside Bodies

The City is a member of the National Association of Pension Funds, the Local Authority Pension Fund Forum and the Pension Fund Investment Forum, meetings and conferences of which are usually attended by Members and/or Officers.

Risk Management

Risks to the Pension Fund are included within the Chamberlain's Department and Corporate Risk Registers. The main risk applicable to the Pension Fund relates to potential reductions in investment income and investment valuations which could impact on funding levels and on employers' contributions to the Fund, which could affect the City Corporation's ability to set balanced budgets. The Risk Registers are endorsed by the Audit and Risk Management Sub (Finance) Committee on a six-monthly basis.

Scheme Administration Report

The City of London Pension Fund is part of the national Local Government Pension Scheme. The Fund is administered in-house by the City of London Corporation on behalf of the participating employers.

As at the end of March 2010 the City of London Pension Fund had:

- 5 active employers
- 3,161 pensioner members
- 3,848 active members
- 3,104 deferred members

The five active employees are the City of London, the Museum of London, the Irish Society, the Guildhall Club and the City Academy.

Teachers, Judges and Police Officers have their own pension schemes and are not included in the Fund.

The Pensions Team

All aspects of the pensions administration service is contained within one team entirely focused on pensions matters. The team structure delivers benefits as experience and skills are widely shared within the team, extending resilience and breadth of knowledge.

During 2009/10, investment in the team has occurred in a variety of ways, including internal and external courses and qualifications, formal training, mentoring and support.

A standard appraisal process is operated across the team, linked into the Chamberlain's Department Business Plan.

The team produces its own regular newsletter.

Pensions Administration Manager: Charlie Partridge, Tel: 020 7332 1133

Pensions email: pensions@cityoflondon.gov.uk

Pensions Payroll email: pensionspayroll@cityoflondon.gov.uk

Administration Key Performance Indicators - 2009/10

Task	Target	City of London Result 2009/10	City of London Result 2008/09
Payment of actual retirement benefit	5 days	100.00%	100.00%
Process refund and make payment	5 days	81.80%	100.00%
Statement notifying estimate of retirement benefit	10 days	87.76%	90.63%
Letter detailing transfer-in credit	20 days	92.54%	70.00%
Transfer-out payment	20 days	95.92%	100.00%
Answer general correspondence	10 days	98.20%	97.03%
Payment of Death Grant	5 days	100.00%	98.95%
Letter notifying amount of dependant's benefits	5 days	96.20%	92.38%

The performance indicators are derived from the in-house pensions system software, which has a work flow measurement facility included.

The Local Government Pension Scheme

The Local Government Pension Scheme (or the LGPS) is a statutory pension scheme. This means that it is very secure as its benefits are defined and set out in law. The LGPS in brief:

- provides salary related defined benefits not dependent upon investment performance – ultimately the local authority, and local tax payers, are the final guarantors;
- is regulated by Parliament;
- is administered through 89 regional pension funds in England & Wales; and
- covers 3.5 million members nationally.

Scheme Benefits

With effect from 1 April 2008, the ‘new-look’ LGPS came into effect in England & Wales.

The main provisions of the new scheme are as follows:

- All active members, as at 31 March 2008, moved to the new scheme from 1 April 2008.
- The new scheme provides a pension of 1/60th of final pay for each year of membership in the scheme after 31 March 2008 (membership to 31 March 2008 will still be calculated as 1/80th pension plus 3/80ths lump sum).
- Up to 25% of the capital value of benefits can be taken as a lump sum by commutation using the 12:1 commutation rate, i.e. for every £1 of pension given up the member gets £12 lump sum on retirement.
- Benefits are calculated on final pay, being the best one of the last three years’ pay.
- Normal retirement age is age 65, but with the right to take pension from age 60 or, with employer consent, from age 55 (50 for existing scheme members to 2010).
- Flexible retirement with employer consent is permitted from age 55 (50 for existing scheme members to 2010).
- Immediate payment of pension benefits following redundancy / efficiency retirement on or after age 55 (50 for existing scheme members to 2010).
- A three-tier ill health benefits system.
- A death grant of three times pay for death in service; five times pension if a deferred beneficiary dies; and 10 times pension less pension already paid if a pensioner dies before age 75.
- Spouses’ pensions are based on a 1/160th accrual rate, civil partners and nominated co-habiting partners pension will also be based on a 1/160th accrual rate but on post 5 April 1988 membership only.
- Members can buy extra scheme pension in multiples of £250 up to a maximum of £5,000 or they can pay Additional Voluntary Contributions (AVC’s).
- Employers can augment membership by up to 10 years; or grant extra pension of up to £5,000.
- Trivial pensions may be commuted into a single lump sum payment in accordance with HMRC rules.

Indexation of Benefits

In his budget of 22 June 2010, the Chancellor of the Exchequer announced that the up-rating of the majority of state benefits and the State Second Pension will be changed from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI) with effect from April 2011. This change is expected to apply to both accrued and future service public service pensions through statutory link to the indexation of the State Second Pension. The impact of CPI up-rating in respect of public sector transfers is under active consideration. Effective from Tuesday 6 July 2010, the current basis for setting the

discount rate for calculating cash equivalent transfer values will not be used until the CPI issues have been worked through and their new basis is agreed.

Membership

Membership of the Scheme is voluntary and eligible employees are free to choose whether to join the Scheme, remain in the Scheme or make their own personal pension arrangements outside the Scheme. Employees must have a contract of employment for three months or more in order to be eligible for membership.

Contributions

Employees and employers contribute to the scheme.

Employees:

Prior to 1 April 1998: - Officers contributed 6% of pensionable pay.
Manual and Craft Workers contributed 5% of pensionable pay.

From 1 April 1998: - A common employees' contribution rate of 6% of Pensionable Pay for all classes of future employee was introduced. Manual and craft workers employed on 31 March 1998 continued to pay 5% as long as they remained in continuous employment.

From 1 April 2008: - All existing and new members of the LGPS pay new banded contribution rates. All employees earning less than a full-time equivalent of £18,000 per year pay less than 6%. To maintain stability and affordability, those earning more than £18,000 pay more.

The new contribution rates are based on a system of bands. The contribution rate employees pay depends on their salary. (Part time employees pay contributions based on the full-time equivalent of their salary). The bands and contribution rates for 2008/09 are set out in the table below.

Band Range Contribution Rates:

Band	Range	Contribution Rate
1	£0 - £12,600	5.5%
2	£12,601 - £14,700	5.8%
3	£14,701 - £18,900	5.9%
4	£18,901 - £31,500	6.5%
5	£31,501 - £42,000	6.8%
6	£42,001 - £78,700	7.2%
7	£78,701+	7.5%

Employers:

The contribution rates paid by employers are variable and are determined by the Pension Fund's Actuary.

Communications During the Year

- Annual Benefits Statements were issued to all active and deferred members.
- Pre-retirement seminars were presented to all scheme members approaching retirement.
- Induction sessions were attended with the aim of providing new entrants with information about the LGPS.
- Insight lunches were run covering the LGPS and the "top-up" options available.
- Information, forms and useful links to websites providing further information on the LGPS were maintained on the City of London intranet.

Appeals

A problem or question about LGPS membership or benefits should initially be addressed to the Pensions Administration Manager at the address stated on page 4. The Pensions Administration team then seeks to clarify or put right any misunderstandings or inaccuracies as quickly and efficiently as possible.

If an employee or ex-employee is still dissatisfied with any decision made in relation to the Scheme they have the right to have their complaint independently reviewed under the Internal Disputes Resolution Procedure.

Internal Dispute Resolution Procedure

The dispute procedure is in two stages. Each stage must be completed before moving on to the next:

First Stage

This involves referring the case to the specified person within six months of a decision. This is a person appointed by the employer - but he will have had no previous involvement in the case. If he feels the complaint is justified, he will issue a new decision, which will be binding on the scheme administrators. However, he can only overturn the original decision if in his opinion it was legally incorrect.

Second Stage

If the individual is not satisfied with the specified person's decision, the second stage is to make a written appeal, within six months, to the administering authority. The address for the administering authority is Exchequer & Business Support Director, City of London, Guildhall, PO Box 270, London EC2P 2EJ. Like the specified person, the administering authority can only correct legal errors. The decision would normally be made within two months and once again it would be binding on the scheme.

In 2009/10 there were three cases where members appealed against the City of London's decision not to award ill-health retirement benefits. One case was not allowed at Stage 1 or 2 of the IDR, one case upon review was awarded ill-health benefits and a third case is still under review.

If an appellant remains dissatisfied, they can refer their case to the Pensions Ombudsman, whose address is 11 Belgrave Road, London SW1V 1RB. The Ombudsman is less restricted in his powers and can consider wider issues than the strictly legal ones, such as whether a case has been handled fairly or reasonably. However, all stages of the IDR must be dealt with before he would consider a case.

Further Assistance

The Pensions Advisory Service (TPAS) is a free and independent advisory service specifically designed to help people with their pension problems. TPAS may be contacted directly at 11 Belgrave Road, London SW1V 1RB, telephone 0845 601 2923. In cases where a complaint or dispute cannot be resolved after the intervention of TPAS, an application can be made, within three years of the event, to the Pensions Ombudsman for adjudication. The Ombudsman can investigate and determine any complaint or dispute involving maladministration of the Scheme or matters of fact or law and his or her decision is final and binding. Matters where legal proceedings have already started cannot be investigated. The Pensions Ombudsman can be contacted at the address above or telephone 0207 834 9144.

The Pensions Regulator is the regulator of work-based pension schemes. The Pensions Regulator has powers to protect members of work-based pension schemes and a wide range of powers to help put matters right, where needed. In extreme cases, the regulator is able to fine trustees or employers, and remove trustees from a scheme. The Pensions Regulator can be contacted at Napier House, Trafalgar Place, Brighton BN1 4DW, telephone 0870 6063636.

The Pension Tracing Service holds details of pension schemes, including the LGPS, together with relevant contact addresses. It provides a tracing service for ex-members of schemes with pension entitlements (and their dependants), who have lost touch with previous employers. All occupational and personal pension schemes have to register if the pension scheme has current members contributing into their scheme or people expecting benefits from the scheme. This tracing service can be contacted at: The Pension Tracing Service, The Pension Service, Tyneview Park, Whitley Road, Newcastle upon Tyne NE98 1BA, telephone 0845 6002 537.

Statement of Responsibilities for the Statement of Accounts

The City of London's Responsibilities

The City of London 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. This officer is the Chamberlain.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts

The Chamberlain of London's Responsibilities

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

In preparing this Statement of Accounts, the Chamberlain has:

- selected suitable accounting policies and then applied them consistently;
- made judgments and estimates that were reasonable and prudent;
- complied with the local authority SORP.

The Chamberlain has also:

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

Chamberlain's Certificate

I certify that the Statement of Accounts present fairly the financial position of the Pension Fund of the City of London at 31 March 2010 and its income and expenditure for the year then ended.

Chris Bilsland
Chamberlain of London

Date:

Adoption of the Pension Fund Accounts

The Pension Fund Accounts were approved by the Finance Committee on 30 June 2010 and signed on its behalf by:



.....
.....

Philip Willoughby
Chairman of the Finance Committee



Jeremy Mayhew
Deputy Chairman of the
Finance Committee

Date: 30 June 2010

Date: 30 June 2010

Independent auditor's report to the Members of City of London Corporation Pension Fund

We have audited the pension fund accounting statements for the year ended 31 March 2010. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 15. The pension fund accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Corporation of London Pension Fund in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chamberlain & Resources and auditor

The Chamberlain is responsible for preparing the pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice. In preparing this pension fund accounting statements, the Chamberlain is responsible for:

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

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

We report to you our opinion as to whether the pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year. We also report to you whether, in our opinion, the information which comprises the commentary on the financial performance included within the Pension Fund Annual Report, is consistent with the pension fund accounting statements. That information comprises the Management Financial Performance Report for the year ended 31 March 2010.

We review whether the governance compliance statement published in the Pension Fund Annual Report reflects compliance with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. We report if it

does not meet the requirements specified by the Department of Communities and Local Government or if the statement is misleading or inconsistent with other information we are aware of from our audit of the accounting statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read other information published with the accounting statements and related notes as described in the contents section and consider whether it is consistent with the audited accounting statements.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- the information given in the commentary on financial performance included within the Pension Fund Annual Report is consistent with the pension fund accounting statements.

Nigel Johnson (Engagement Lead)

For and on behalf of Deloitte LLP

Appointed Auditor

St Albans, UK

Date

City of London Corporation Pension Fund

**Actuary's Statement
as at 31 March 2010**

Barnett Waddingham
Public Sector Consulting

Introduction

The last full triennial valuation of the City of London Corporation Pension Fund was carried out by ourselves as at 31 March 2007. The results were published in our report dated March 2008.

2007 Valuation

The 2007 valuation certified a common contribution rate of 13.1% of pensionable pay to be paid by each employing body participating in the Fund. In addition to this each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

Contribution Rates

The contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet

- The annual accrual of benefits allowing for future expected pay increases and increases to pension in payment when these fall due
- plus an amount to reflect each participating employer's notional share of value of the Fund's assets compared with 100% of their liabilities in the Fund in respect of service to the valuation date.

Assets and Liability Assumptions


The market value of the Fund's assets as at 31 March 2007 was £489m. The actuarial value of these assets used in the valuation represented 87% of the Fund's accrued liabilities at that date allowing for future increases in pay and pensions in payment.

The liabilities were valued allowing for expected future investment returns consistent with the underlying investment strategy and increases to benefits as determined by market levels at the valuation date and were as follows;

- | | |
|--|----------------|
| • Rate of increases to pensions in payment | 3.4% per annum |
| • Real rate of return on investments | 4.2% per annum |
| • Real rate of increases in pay | 1.5% per annum |

Post Valuation Events

Since March 2007 the financial position of the Fund is likely to have deteriorated. We will be assessing the financial position of the Fund and levels of employer contribution rates at the next actuarial valuation which is due as at 31 March 2010.



Graeme D Muir FFA

Partner

28 May 2010

Rates and Adjustments Certificate

In accordance with Regulation 77 of the Local Government Pension Scheme Regulations, the Actuaries have made an assessment of the contributions which should be paid to the Pension Fund by the employing authorities as from 1 April 2008 in order to maintain the solvency of the Fund. The required contributions are set out in the statement below.

Statement to the Rates and Adjustments Certificate

Employer	Minimum Contribution for the Year Beginning		
	1 April 2008	1 April 2009	1 April 2010
The City of London Corporation	18.5%	18.5%	18.5%
Museum of London	12.0%	12.0%	12.0%
MOLAS	14.0%	14.0%	14.0%
Irish Society	18.5%	18.5%	18.5%
Guildhall Club	18.5%	18.5%	18.5%
City Academy	10.2%	10.2%	10.2%

Policy and Governance Compliance Statement

The Scheme

The Local Government Pension Scheme (LGPS) was established in accordance with statute to provide death and retirement benefits for all eligible employees. The LGPS is a funded final-salary scheme, with employee contribution rates ranging from 5.5% to 7.5% and employer rates variable depending on the funding level assessed every three years by the fund actuary. Benefits are defined in law and inflation-protected in line with increases in the Retail Price Index for September. The scheme is operated by designated administering authorities - each maintains a fund and invests monies not needed immediately. The Court of Common Council is a designated administering authority.

The Investment Sub Finance Committee

The Court of Common Council and the Finance Committee have delegated the investment management of the scheme to the Investment Sub Finance Committee which decides on the investment policy most suitable to meet the liabilities of the scheme and has ultimate responsibility for investment strategy. The Court of Common Council is responsible for appointing Members to serve on the Finance Committee, which in April of each year makes appointments to its Investment Sub Finance Committee. The Investment Sub Finance Committee comprises sixteen Members of the Finance Committee, including the Chairmen of the Policy and Resources and Finance Committees.

The Investment Sub Finance Committee operates under a framework of corporate governance and undertakes its responsibilities with reference to the Standing Orders and Financial Regulations adopted by the Court of Common Council which prescribe all activities relating to the conduct of its business.

The Committee's responsibilities with regard to the Pension Fund are:

- to recommend the appointment of and to monitor the performance of Investment Managers;
- to authorise investments and approve the overall parameters within which the Investment Fund Managers will be authorised to operate;
- to invest all new monies;
- to invest such other sums as are from time to time allocated for this purpose; and
- to monitor the activities of the Chamberlain in connection with his treasury management role.

All meetings of the Committee are open to the public, although they are excluded when confidential matters on the agenda are discussed. Currently, the Committee meets four times a year: two meetings when routine business is considered and two 'Awaydays' when Fund Managers and Performance Measurement Analysts are invited to discuss investment policy, practice and performance. Additional special meetings of the Committee can be held if the need arises. The minutes of the Investment Sub Finance Committee are presented to the following meeting of the Finance Committee, and are posted on the City of London Corporation's website.

The principal officers of the City of London Corporation have certain statutory and formal responsibilities. The Investment Sub Finance Committee obtains and considers advice from the Chamberlain and other Corporation Officers, and as necessary from the Fund actuary, the independent investment adviser and its Investment Managers. The Committee has delegated the management of the Pension Fund's investments to professional investment managers, appointed in accordance with the LGPS regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

Following a review, the composition of the Investment Sub Finance Committee does not include representatives of Scheduled bodies, Admitted Body employers, Unions or Employees, or Pensioners. Also, in view of the experience and expertise across the Committee, its Members do not at present generally undertake 'Trustee Training'.

The Committee reviews this policy statement annually, with a revised document being re-published following any material change in the above arrangements.

An assessment of the City of London Corporation's Compliance with best practice principles as set out by the Department for Communities and Local Government follows; this assessment was reported to and received by the Committee on 29 July 2008.

CITY OF LONDON CORPORATION PENSION FUND
ASSESSMENT OF COMPLIANCE WITH CLG BEST PRACTICE PRINCIPLES

	Principle	Narrative from Guidance Note	Full Compliance?
A	Structure	<i>(a) the Management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council.</i>	Yes, although there is a split committee responsibility. Management and administration of benefits rests with Establishment Committee. Investment management is responsibility of Investment Sub (Finance) Committee.
		<i>(b) that representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.</i>	No. Representatives of scheduled bodies, admitted body employers, unions, employees or pensioners are not included on either Establishment or Investment Sub Committee.
		<i>(c) that where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</i>	Reports and decisions are communicated between Committees as appropriate.
		<i>(d) that where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.</i>	Not applicable as no secondary committee or panel exists.

	Principle	Narrative from Guidance Note	Full Compliance?
B	Representation	<p><i>(a) that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure.</i></p> <p><i>These include:</i></p> <p><i>(i) employing authorities (including non-scheme employers, e.g. admitted bodies)</i></p> <p><i>(ii) scheme members (including deferred and pensioner scheme members)</i></p> <p><i>(iii) where appropriate, independent professional observers</i></p> <p><i>(iv) expert advisers</i></p>	<p>) Representatives of scheduled or admitted bodies, scheme members or pensioners</p> <p>No) are not included in committee structure.</p> <p>) Fund does not have independent professional observer.</p> <p>Yes - the Fund has appointed independent Investment Advisers, John Woods & Associates Ltd, who attend all meetings of the Investment Sub-Committee as well as conducting individual training sessions.</p>
C	Selection and Role of Lay Members	<p><i>(a) that committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.</i></p> <p><i>(It is the role of the administering authority to make places available for lay members (i.e. non-elected members representing other employers or stakeholders) and for the groups to nominate the representatives. The lay members are not there to represent their own local, political, or private interest but owe a duty of care to their beneficiaries and are required to act in their best interests at all times.)</i></p> <p><i>(b) that at the start of any meeting, Committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.</i></p>	<p>No - not applicable as lay members are not currently included in the composition of either the Establishment or Investment Sub Committees.</p> <p>Yes - this is standard practice at all Committee meetings.</p>

	Principle	Narrative from Guidance Note	Full Compliance?
D	Voting	<i>(a) the policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.</i>	Yes - Each member holds one vote on the respective committee. No other bodies or groups are represented.
E	Training / Facility Time / Expenses	<p><i>(a) that in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.</i></p> <p><i>(b) that where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.</i></p> <p><i>(c) that the administering authority considers the adoption of annual training plans for Committee members and maintains a log of all such training undertaken.</i></p>	Yes - Members are generally well versed in investment matters and there is no formal training policy, although individual sessions are conducted on request.
F	Meetings - Frequency	<i>(a) that an administering authority's main committee or committees meet at least quarterly.</i>	Yes
		<i>(b) that an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.</i>	Yes - We have two Committees responsible for Pensions Administration and Investments, not a single main Committee.
		<i>(c) that an administering authority who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.</i>	Not applicable as no outside forum exists.

	Principle	Narrative from Guidance Note	Full Compliance?
G	Access	<i>(a) that subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main Committee.</i>	Yes - Agenda papers, etc, provided to the Establishment and Investment Sub Committees are available to all Members.
H	Scope	<i>(a) that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.</i>	No - The Fund does not currently use an independent professional observer, although officers monitor and advise on governance issues as appropriate.
I	Publicity	<i>(a) that administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements.</i>	Partial - Governance Statements and Annual Accounts are posted on the City of London website and policy documents and information is circulated to scheme members on a regular basis.

Fund Account and Net Assets Statement for the year ended 31 March 2010

This is an extract from a more detailed published statement, a copy of which is available on request from the Chamberlain of London.

The City of London Pension Fund is a funded defined benefits scheme. With the exception of serving police officers, teachers and judges who have their own schemes, all City of London staff are eligible for membership of the pension scheme.

The Fund is administered internally by the City of London. The Fund's investments are managed externally by several fund managers with differing mandates determined by the City of London.

Accounting Policies

- i. The pension fund statements have been prepared in accordance with the Local Government Pension Scheme Regulations 2007 (as amended) and with the guidelines set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2009, having regard to the Statement of Recommended Practice, Financial Reports of Pension Schemes (revised May 2007).
- ii. The pension fund accounts are accounted for on an accruals basis for income and expenditure, with the exception of transfer values in and out, which are accounted for on a cash basis.
- iii. The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end.
- iv. Equities traded through the Stock Exchange Electronic Trading Service (SETS), are valued on the basis of the latest bid-market price. Other quoted investments are also valued on the basis of the bid-market value quoted on the relevant stock market.
- v. Unquoted securities in the form of private equity holdings are valued by the individual investment managers on an estimated basis at the year end in accordance with generally accepted guidelines. The ability to realise these private equity holdings is limited until they reach maturity and thus their values are difficult to establish as they are not readily traded.
- vi. The value of fixed interest investments in the Scheme's investment portfolio excludes interest earned but not paid over at the Scheme year end. This interest is included separately within accrued investment income.
- vii. Acquisition costs are included in the purchase costs of investments.
- viii. Assets and liabilities in overseas currencies are translated into sterling at the exchange rates ruling at the balance sheet date. Transactions during the year are translated at rates applying at the transaction dates.
- ix. The cost of administration is charged directly to the fund.
- x. Income due from equities is accounted for on the date stocks are quoted ex-dividend.
- xi. Income from overseas investments is recorded net of any withholding tax where this cannot be recovered.

- xii. Income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis.
- xiii. Income from other investments is accounted for on an accruals basis.
- xiv. 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 profit and losses realised on sales of investments and unrealised changes in market value.
- xv. When foreign exchange contracts are in place in respect of assets and liabilities in foreign currencies, the contract rate is used. Other assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at year end. Income from overseas investments is translated into sterling at an average rate for the period.
- xvi. Surpluses and deficits arising on conversion are dealt with as part of the change in market values of the investments.
- xvii. Normal contributions, both from members and employers, are accounted for in the payroll month to which they relate at rates as specified in the rates and adjustments certificate. Additional contributions from employers are accounted for in accordance with the agreement under which they are paid, or in the absence of such agreement, when received.
- xviii. Under the rules of the Scheme, members receive a lump sum retirement grant in addition to their annual pension. Lump sum retirement grants are accounted for from the date of retirement. Where a member can choose to take a greater retirement grant in return for a reduced pension these lump sums are accounted for on an accruals basis from the date the option is exercised.
- xix. Transfer values represent the capital sums either receivable in respect of members from other pension schemes of previous employers or payable to the pension schemes of new employers for members who have left the scheme. They take account of transfers where the trustees of the receiving scheme have agreed to accept the liabilities in respect of the transferring members before year end, and where the amount of the transfer can be determined with reasonable certainty. A group transfer in respect of Transport for London staff has been included in the 2009/10 accounts.
- xx. Administration and investment management expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT.
- xxi. Receipts to meet the augmentation costs of early retirements are included as other income.

Fund Account and Net Assets Statement
for the year ended 31 March 2010

	Notes	2009/10 £M	2008/09 £M
Contributions and benefits			
Contributions	2	(29.1)	(28.6)
Transfers in		(5.5)	(1.9)
Other Income		(0.5)	(1.5)
		(35.1)	(32.0)
Benefits	3	28.1	27.1
Leavers	4	4.5	3.5
Administrative Expenses	5	0.6	0.6
Other Expenses		0.1	0.1
		33.3	31.3
Net additions from dealing with members		(1.8)	(0.7)
Returns on investments			
Income from Investments	7	(17.7)	(19.1)
Change in market value of investment (realised and unrealised)		(137.7)	80.5
Investment Management Expenses	8	2.9	2.8
Net Returns on Investment		(152.5)	64.2
Net (increase)/decrease in the fund during the year		(154.3)	63.5
Opening net assets of the scheme		(412.2)	(475.7)
Closing net assets of the scheme		(566.5)	(412.2)

Net Assets Statement as at 31 March 2010

	Notes	2009/10 £M	2008/09 £M
Investment assets	9/10	(570.7)	(414.9)
Current liabilities	12	4.2	2.7
Net assets		(566.5)	(412.2)

.....
Chris Bilsland, Chamberlain of London

Date:

The financial statements summarise the transactions and net assets of the Scheme. They do not take account of liabilities to pay pensions and other benefits in the future which are dealt with in the periodic actuarial valuation. The last actuarial valuation was carried out as at 31 March 2007 and should be read in conjunction with these financial statements. Statements arising from the valuation can be found on pages 18 to 20.

Notes to the Pension Fund Account and Net Assets Statement

1. Membership of the Fund

	Current Contributors	Beneficiaries In Receipt of Pension	Deferred Benefits	2009/10 Total	2008/09 Total
CITY OF LONDON	3,430	2,965	2,703	9,098	8,894
SCHEDULED BODIES:					
Museum of London	342	158	314	814	720
Magistrates Court	-	22	20	42	44
Probation Committee	-	3	-	3	3
ADMITTED BODIES:					
Irish Society	7	7	3	17	15
City Arts Trust	-	1	-	1	1
Transport Committee for London	-	3	10	13	32
Guildhall Club	7	2	3	12	11
City Academy	62	-	51	113	75
TOTALS	3,848	3,161	3,104	10,113	9,795

2. Contributions Receivable

		Normal £M	A.V.C.s £M	2009/10 £M	2008/09 £M
Employers:					
Scheduled bodies	City of London	(19.30)	-	(19.30)	(19.06)
	Museum of London	(1.15)	-	(1.15)	(1.19)
Admitted bodies	Irish Society	(0.04)	-	(0.04)	(0.04)
	Guildhall Club	(0.03)	-	(0.03)	(0.02)
	City Academy	(0.17)	-	(0.17)	(0.17)
		(20.69)	-	(20.69)	(20.48)
Employees of:					
Scheduled bodies	City of London	(7.56)	(0.59)	(8.15)	(7.64)
	Museum of London	(0.73)	-	(0.73)	(0.56)
Admitted bodies	Irish Society	(0.02)	-	(0.02)	(0.02)
	Guildhall Club	(0.01)	-	(0.01)	(0.01)
	City Academy	(0.09)	-	(0.09)	(0.07)
		(8.41)	(0.59)	(9.00)	(8.30)
Total Contributions		(29.10)	(0.59)	(29.69)	(28.78)

A.V.C.s are Additional Voluntary Contributions and are managed externally and independently from the rest of the Pension Fund. They are paid by members to the Corporation and then get paid directly to the fund managers – Prudential and Standard Life Investments.

In accordance with regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998, these AVCs are not included in the statements of the Pension Fund Accounts.

3. Benefits Payable

		2009/10 £M	2008/09 £M
Employers:			
Scheduled bodies	<u>City of London</u>		
	Retired Employees		
	- pensions	19.56	17.39
	- lump sums	4.83	5.15
	Lump sum on death	0.72	0.84
	Widows' or Widowers' pensions	2.50	2.27
	Children's pensions	0.05	-
		27.66	25.65
	<u>Museum of London</u>		
	Retired Employees		
	- pensions	-	0.89
	- lump sums	0.22	0.18
	Lump sum on death	-	0.01
	Widows' or Widowers' pensions	-	0.07
		0.22	1.15
	<u>Magistrates</u>		
	Retired Employees		
	- pensions	0.08	0.08
	Widows' or Widowers' pensions	0.04	0.04
		0.12	0.12
	<u>Probation</u>		
	Retired Employees		
	- pensions	0.04	0.04
Admitted bodies	<u>Irish Society</u>		
	Retired Employees		
	- pensions	0.05	0.05
	- lump sums	0.01	-
		0.06	0.05
	<u>City Arts Trust</u>		
	Retired Employees		
	- pensions	0.01	0.01
	<u>Transport Committee for London</u>		
	Retired Employees		
	- pensions	0.02	0.02
	<u>Guildhall Club</u>		
	Retired Employees		
	- pensions	0.01	0.01
	Total Benefits Payable	28.14	27.05

4. **Leavers**

	2009/10 £M	2008/09 £M
Refunds of contributions	0.1	0.1
Transfers out:		
Transfer for London Group Transfer	2.1	-
Magistrates Court Group Transfer	-	2.4
Individual Transfers Out	2.3	1.0
	4.5	3.5

5. **Administrative expenses**

	2009/10 £M	2008/09 £M
Central administration	0.5	0.5
Computer costs	0.1	0.1
	0.6	0.6

6. **Audit Fees**

Audit fees of £76,500 have been charged to the Pension Fund, of which £38,500 relates to 2009/10, (2008/09 £38,000).

7. **Income from investments**

	2009/10 £M	2008/09 £M
Fixed Interest :		
UK Government	(2.9)	(3.1)
UK Other	(0.7)	(0.6)
Overseas Government	(0.6)	(1.2)
Overseas Other	(0.1)	(0.1)
UK pooled units	-	(0.2)
UK equities	(5.7)	(4.7)
Overseas equities	(7.6)	(8.1)
Cash	(0.1)	(1.1)
	(17.7)	(19.1)

8. **Investment Management Expenses**

Included in these expenses are Actuary fees of £9,791.

9. **Investment assets**

	2009/10 £M	2008/09 £M
Managed Investments		
Fixed interest securities:		
- UK public sector	(58.6)	(52.8)
- UK other	(7.0)	(6.0)
- Overseas	(29.3)	(16.4)
Pooled Units		
- UK	(0.4)	(1.4)
Listed Equities:		
- UK	(119.3)	(84.2)
- Overseas	(323.9)	(226.9)
Private Equity	(6.0)	(4.5)
Managed Funds (other)	(24.3)	(21.1)
Total Managed investments	(568.8)	(413.3)
Cash deposits	-	-
Total Investment assets	(568.8)	(413.3)

10. **Movements in Investment Assets 2009/10**

	Value at 01/04/2009	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31/03/2010
	£M	£M	£M	£M	£M
Fund Manager					
Artemis	72.1	72.5	(68.0)	21.5	98.1
LSV	46.3	26.2	(24.1)	23.8	72.2
Pyrford	133.0	98.4	(92.2)	18.1	157.3
Southeastern	97.1	65.3	(63.3)	52.4	151.5
Wellington	60.2	32.1	(29.8)	21.0	83.5
ABN (Temporary)	0.1	0.0	0.0	0.1	0.2
Barings English Growth Fund	0.3	0.0	(0.1)	0.0	0.2
Standard Life	3.5	0.5	(0.2)	0.3	4.1
Yorkshire Fund Managers	0.4	0.3	0.0	0.6	1.3
Environmental Technologies	0.3	0.2	0.0	(0.1)	0.4
Total Investments	413.3	295.5	(277.7)	137.7	568.8
Accrued Income	2.2				2.6
Cash Deposits	0.0				0.0
Investment Fees Creditors	(0.6)				(0.7)
Closing Balance	414.9				570.7

Both direct and indirect transaction costs have been included in the bid-offer spread and are not separately identifiable.

The above Fund Managers are all registered in the United Kingdom.

11. Independent Custodian

The independent custodian, Bank of New York Mellon, is responsible for its own compliance with prevailing legislation, providing monthly accounting data summarising details of all investment transactions during the period, settlement of all investment transactions, collection of income and tax reclaims.

12. Current Liabilities

Current liabilities relate to an overdrawn cash balance of the Chamberlain.

13. Statement of Investment Principles

The City of London Corporation has prepared a Statement of Investment Principles, which govern decisions relating to investments. A copy of this Statement can be obtained from the Chamberlain at the address given on page 3.

14. Related Party Transactions

Any transactions between the Fund and the participating employers are disclosed in the financial statements. The Committees are not aware of any additional material related third party transactions that require disclosure in the financial statements.

15. Employer-related Investment

During the period there were no employer-related investments within the meaning of Section 40(2) of the Pensions Act 1995 (2008: Nil).

Benchmarking Report

Pension Fund Investment Performance

The investment performance of the Pension Fund is subject to regular monitoring by City Officers, the independent investment adviser and the Investment Sub Finance Committee. In addition, an independent financial monitoring service is provided by WM Performance Services, a State Street business. The Pension Fund investment performance is benchmarked against the WM All Funds Universe on an ex-property basis. This universe is the largest available Universe of UK Pension Funds and is the most comprehensive representation of the UK Pension Fund industry. The WM All Funds Universe currently accounts for over 80% of all UK Pension Fund assets.

Similarly, individual Fund Manager performance is monitored in the same way with financial returns being analysed against the nearest comparable benchmark.

	2009/10 %	Last 3 Years % p.a.
Pension Fund Returns		
Fund Return	+37.2	+5.2
Benchmark	+31.0	+2.5
Relative Return	+4.8	+2.6
Percentile Ranking in WM Universe	29	13
Outperformance attributable to:		
Asset Allocation	+7.2	+1.2
Stock Selection	-2.3	+1.4

WM Performance Services also publish an annual Local Authority League Table. For 2009/10 the weighted average return for UK local authority pension funds was +35.2%. The City's return of +37.2% ranked number 41 out of the 87 funds included in the WM UK local authority universe.

Note: Relative Return figures are not simply the arithmetic difference between performance and the benchmark.

Individual Fund Manager Performance	2009/10 %	Last 3 Years % p.a.
Artemis		
- Portfolio Return (Multi-Asset)	+35.3	-1.3
- Benchmark (FTSE All Share)	+52.3	-0.2
- Relative Return	-11.1	-1.1
LSV		
- Portfolio Return (Global Equity)	+54.4	-1.8
- Benchmark (MSCI World ex USA)	+48.1	+2.8
- Relative Return	+4.2	-4.4
Pyrford		
- Portfolio Return ((Multi-Asset)	+17.4	+10.0
- Benchmark (WM All Funds ex Property)	+29.9	+1.7
- Relative Return	-9.6	+8.2
Southeastern		
- Portfolio Return (Global Equity)	+54.5	+5.9
- Benchmark (FTSE All World)	+48.4	+5.2
- Relative Return	+4.1	+0.6
Wellington		
- Portfolio Return (US Equity)	+37.4	+7.5
- Benchmark (Russell 1000 Value)	+45.1	+1.0
- Relative Return	-5.3	+6.5
Total Fund		
- Portfolio Return (Multi-Asset)	+37.2	+5.2
- Benchmark (WM All Funds ex Property)	+31.0	+2.5
- Relative Return	+4.8	+2.6

FUNDING STRATEGY STATEMENT

Introduction

This is the Funding Strategy Statement (FSS) of the Corporation of London Pension Fund ("the Pension Fund"), which is administered by the Corporation of London as the Administering Authority. It has been prepared in collaboration with the Fund's actuary and after consultation with the Fund's employers and investment adviser.

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 – see Annex 1);
- the Rates and Adjustments Certificate, which is appended to the Fund'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.

Purpose of the Funding Strategy Statement in policy terms

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, therefore, sets out how the Corporation has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis.

Aims and purpose of the Pension Fund.

The aims of the Fund are to:-

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

The purpose of the fund is to:-

- receive monies in respect of contributions, transfer values and investment income; and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses;

as defined in the Local Government Pension Scheme Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998.

Responsibilities of the key parties

The sound management of the pension fund can only be achieved if all interested parties exercise their statutory duties and responsibilities conscientiously and diligently. Although a number of these parties, including investment fund managers and external auditors, have responsibilities to the fund, the following may be considered to be of particular relevance for inclusion as a specific reference:-

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;
- notify employers of the expected timing of key events and actions related to completion of the valuation process;
- prepare and maintain an 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;
- notify the administering authorities promptly of all changes to membership or, as may be proposed, which affect future funding; and
- comply with the valuation timetable where required and respond to communications as necessary to complete the process.

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;
- agree a timetable for the valuation process with the administering authority to provide timely advice and results; and
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

Solvency issues and key funding levels

The principal issues facing the solvency of the Fund include the ability to finance liabilities as and when they arise, the rate or volatility of variations in employer contribution rates, the pace at which deficits are recovered (or surpluses used up), and the returns on the Fund's investments.

As stated above, the purpose of the funding strategy is to draw these issues together to seek to achieve a funding level close to 100% over a reasonable period of time and within the prudential framework in which the Fund operates.

The Pension Fund, unlike many administering authorities in the LGPS, contains only five employers but nevertheless the Corporation is cognisant of the need to adopt a balanced approach to potential deficit recovery in order to ensure a smoothed and balanced approach. This approach recognises that individual employers need to consider carefully the impact of higher contribution rates against their ability to maintain current service levels and/or raise additional revenue to finance forecast deficits. Previously, a period equal to the remaining working lifetime of active members has been adopted, ie, approximately twelve years. However, in view of the need to ensure a smoothed and stepped plan of recovery whilst providing a minimal impact on Corporation resources and those of the other admitted and scheduled bodies within the Pension Fund, the 2007 valuation has been based on deficit recovery of 17 years.

The balanced approach to recovery referred to above has been formulated after the outcome of the 2007 valuation was established. The underlying funding principles have been based on the following assumptions:-

Financial Assumptions

Financial Assumptions	March 2007 % pa	Real % pa
Discount Rate	7.6	4.2
Pay Increases	4.9	1.5
Price Inflation/Pension Increases	3.4	-

Staff Turnover and Requirements

Allowance has been made for changes in the regulations (e.g. phasing out the 85-year rule) effective from 1 April 2005.

Employers will manage early retirement costs to minimise extra costs falling on the Pension Fund.

The capitalised cost of early retirements, other than on ill-health terms, before age 60 or achievement of the extant *Rule of 85* if later, to be funded by the employer.

Longevity

Life expectancy based upon national tables adjusted to reflect local experience.

Contribution Phasing

The employer's contribution rate is set out at 18.5% for the financial years 2008/09, 2009/10 and 2010/11.

Deficit Recovery Period

With effect from 1 April 2008 the deficit recovery period has been set at 17 years.

Links to investment policy

Funding and investment strategy are inextricably linked. Investment strategy is set after taking investment advice, to reflect the liabilities of the fund and these may be set to achieve the funding strategy. Details of the Corporation's investment strategy are contained its SIP.

The Corporation does not account for each employer's assets separately. The Fund's actuary is required to apportion the assets of each sub-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 resulting apportionment is capable of verification but not to audit standard.

The current investment strategy is set out in the published Statement of Investment Principles.

Key risks and controls

The Corporation has an active risk management programme in place to control key financial, demographic, regulatory, and governance risks. This is summarised in Annex 2.

Consultation and publication

The Corporation has prepared the FSS in collaboration with the Fund's actuary, and has consulted the employers in the Fund.

A copy will be sent to each employer, the Fund's actuary, investment managers and advisers, the ODPM, and other interested parties.

Monitoring and review

The performance of the Fund is monitored regularly.

The key funding principles will be monitored on an annual basis by the Investment Sub Finance Committee and a statement of significant variance will be incorporated into the actuarial report as part of the Corporation's annual report and accounts.

As a policy statement, the FSS is reviewed in detail ahead of triennial valuations being carried out, with the next full review due to be started by 31 March 2010 in order to inform the valuation process due as at that date. A revised statement will be issued in the event of any significant or material change arising.

ANNEX 1
EXTRACT FROM THE LGPS REGULATIONS

76A Funding strategy statement

(1) Each Administering Authority shall, after consultation with such persons as they consider appropriate, prepare, maintain and publish a written statement setting out their funding strategy.

(2) In preparing and maintaining the statement, the Administering Authority shall have regard to:

(a) the guidance set out in the document published in March 2004 by CIPFA, the Chartered Institute of Public Finance and Accountancy and called "CIPFA Pensions Panel Guidance on Preparing and Maintaining a Funding Strategy Statement (Guidance note issue No. 6)"; and

(b) the statement of investment principles published by the Administering Authority under regulation 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998.

(3) The first such statement shall be published on or before 31st March 2005.

(4) The statement shall be revised and published by the Administering Authority following, and in accordance with, any

(a) material change in their policy on the matters set out in the statement; and

(b) material change to the statement of investment principles under regulation 9A(4) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998.

77 Actuarial valuations and certificates

(1) Each Administering Authority must obtain

(a) an actuarial valuation of the assets and liabilities of each of their pension funds as at 31st March in 1998 and in every third year afterwards,

(b) a report by an actuary, and

(c) a rates and adjustments certificate.

(2) Each of those documents must be obtained before the first anniversary of the date ("the valuation date") as at which the valuation is made or such later date as the Secretary of State may agree.

(3) A rates and adjustments certificate is a certificate specifying

(a) the common rate of employer's contribution, and

(b) any individual adjustments, for each year of the period of three years beginning with 1st April in the year following that in which the valuation date falls.

(4) The common rate of employer's contribution is the amount which in the actuary's opinion should be paid to the fund by all bodies whose employees contribute to it so as to secure its solvency, expressed as a percentage of the pay of their employees who are active members.

- (5) The actuary must have regard
- (a) to the existing and prospective liabilities of the fund arising from circumstances common to all those bodies, and
 - (b) to the desirability of maintaining as nearly constant a rate as possible.

(5A) The actuary must have regard to the administering authority's funding strategy statement published under regulation 76A.

(6) An individual adjustment is any percentage or amount by which in the actuary's opinion contributions at the common rate should in the case of a particular body be increased or reduced by reason of any circumstances peculiar to that body.

(7) A rates and adjustments certificate must contain a statement as to the assumptions on which the certificate is given as respects

- (a) the number of members who will become entitled to payment of pensions under provisions of the Scheme, and
- (b) the amount of the liabilities arising in respect of such members, during the period covered by the certificate.

(8) A report under paragraph (1)(b) must contain a statement as to the demographic assumptions used in making the valuation, showing how they relate to the events which have actually occurred in relation to members of the Scheme since the last valuation.

(9) The authority must provide the actuary preparing a valuation or a rates and adjustment certificate with the consolidated revenue account of the fund and such other information as he requests.

(10) The authority must send copies of any valuation, report or certificate under this regulation or revision under regulation 78

- (a) to the Secretary of State,
- (b) to each body with employees who contribute to the fund in question, and
- (c) to any other body which is or may become liable to make payments to that fund.

(11) They must also send the Secretary of State

- (a) a copy of the consolidated revenue account with which the actuary was provided under paragraph (9), and
- (b) a summary of the assets of the fund at the valuation date (unless such a summary is contained in the report)

Financial risks	Probability (H/M/L)	Impact (H/M/L)	Summary of Control Mechanisms
Inappropriate long-term investment strategy	L	H	Regular review of investment manager performance measured against individual mandate requirements.
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	M	H	Anticipate long-term return on a prudent basis to reduce risk of under-performing. Analyse progress at three yearly valuations and the consequent impact on employers. Inter-valuation roll-forward of liabilities between formal valuations, monitored on an annual basis against returns .
Active investment manager under-performance relative to mandate requirement over medium term	M	M	Regular investment monitoring. Supplement with an analysis against assumptions under-pinning the valuation. Give early warning of contribution rate variations indicated ahead.
Pay and price inflation significantly more than anticipated	M	H	Focus actuarial valuation process on real returns on assets, net of price and pay increases. Inter-valuation monitoring.
Effect of possible increase in employer's contribution rate on service delivery and admitted scheduled bodies	H	H	Seek feedback from employers on scope to absorb short-term contribution rises. Mitigate impact through deficit spreading and phasing in of contribution rises.

Demographic risks	Probability (H/M/L)	Impact (H/M/L)	Summary of Control Mechanisms
Pension payment period lengthening.	M	M	Set mortality assumptions with some allowance for future increases in life expectancy based upon local experience.
Deteriorating patterns of early retirements	M	M	Employers are charged the extra capital cost of non ill health retirements on each decision. Employer ill health retirement experience is monitored between valuations.

Regulatory risks	Probability (H/M/L)	Impact (H/M/L)	Summary of Control Mechanisms
Changes to LGPS regulations	H	H	Monitor the potential creation of additional liabilities and administrative difficulties for employers and the Corporation. Consider all consultation papers issued by the ODPM and comment where appropriate. Consult employers under agreed policy. Participate in LGPC/OAG/ODPM development groups.
Changes to national pension requirements and/or Inland Revenue rules	H	M	

Governance risks	Probability (H/M/L)	Impact (H/M/L)	Summary of Control Mechanisms
Corporation unaware of structural changes in an employer's membership.	M	H	Monitor membership movements on a quarterly basis. Review the Rates and Adjustments certificate to increase an employer's contributions (under Regulation 78) between triennial valuations. Deficit contributions are expressed as monetary amounts.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	H	M	The risk is mitigated by a prudent admissions policy which: Sets out the employer obligations clearly. Seeks a funding guarantee from another scheme employer, external body, or government. Encourages the employer to take independent actuarial advice. Requires vetting of financing standing. Sets a minimum limit of employees. Where permitted under the regulations, requires a bond to protect the scheme.

Statement of Investment Principles

SECTION 1

BACKGROUND TO THE OPERATION OF THE PENSION FUND ARRANGEMENTS

Law

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999 require administering authorities to prepare, maintain and publish a written statement of the principles governing their decisions about investments. The purpose of this document is to satisfy the requirements of these regulations.

Scheme

The Local Government Pension Scheme (LGPS) was established in accordance with statute to provide death and retirement benefits for all eligible employees. The LGPS is a funded final-salary scheme, with employee contribution rates set at a range of between 6.0% and 7.5% and employer rates variable depending on the funding level assessed every three years by the Fund actuary. Benefits are defined in law and inflation-protected in line with increases in the Retail Price Index for September. The scheme is operated by designated administering authorities - each maintains a fund and invests monies not needed immediately. The Court of Common Council is a designated administering authority.

The Investment Sub Finance Committee

The Court of Common Council and the Finance Committee have delegated the investment management of the scheme to the Investment Sub Finance Committee who decide on the investment policy most suitable to meet the liabilities of the Scheme and has ultimate responsibility for investment strategy.

Advice

The Investment Sub Finance Committee obtains and considers advice from the Chamberlain and other Corporation Officers, and as necessary from the Fund actuary, the independent investment adviser and its investment managers.

Management

The Investment Sub Finance Committee has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the LGPS regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

SECTION 2

INVESTMENT RESPONSIBILITIES

The Investment Sub Finance Committee is responsible for:

- determining overall investment strategy with regard to the suitability and diversification of investments;
- monitoring compliance with the Statement of Investment Principles and reviewing its contents;
- recommending to the Finance Committee the appointment of investment managers, an independent custodian, the actuary and any external advisers considered necessary;

- reviewing investment manager performance against previously-agreed objectives on a regular basis, and being satisfied as to manager expertise and the quality of their internal systems and controls; and
- reviewing policy on social, environmental and ethical considerations.

The Chamberlain is responsible for:

- ensuring compliance with statutory requirements and the investment principles set out in this document, and reporting any breaches to the Investment Sub Finance Committee;
- ensuring that this document is regularly reviewed and updated in accordance with the LGPS regulations;
- management of cash which is lent through the money market in accordance with an approved Code of Practice; and
- advising the Investment Sub Finance Committee on all aspects affecting the overall strategy, management and monitoring of the Fund.

The Investment Managers are responsible for:

- the investment of pension fund assets in compliance with legislation and the detailed Investment Management Agreements;
- asset allocation and stock selection within parameters set by the Investment Sub Finance Committee;
- preparation of quarterly reporting including a review of investment performance;
- attending meetings of the Investment Sub Finance Committee as required;
- providing investment transaction details in a timely manner to the WM Company for performance measurement purposes; and
- voting shares in accordance with agreed policy.

The Investment Adviser is responsible for:

- providing advice to the Investment Sub Finance Committee and the Chamberlain on investment strategy and appropriate investment management arrangements;
- providing reports and commentaries on external manager activities, performance data and investment transactions at regular intervals;
- contributing to investment meetings and specific reviews; and
- monitoring the compliance of the Investment Managers with the agreed mandates.

The Independent Custodian is responsible for:

- its own compliance with prevailing legislation;
- providing monthly accounting data summarising details of all investment transactions during the period;
- settlement of all investment transactions, collection of income and tax reclaims; and
- stock lending within parameters set by the Investment Sub Finance Committee.

The Actuary is responsible for:

- undertaking a triennial valuation of the Fund's assets and liabilities; and
- providing advice on the maturity of the Fund and funding level in order to assist the Investment Sub Finance Committee in balancing the funding and investment objectives.

**SECTION 3
FUND LIABILITIES****Overview**

The Corporation of London Pension Fund is broadly similar to other local authority funds of comparable size. As a consequence the resulting maturity profile of the Fund is broadly balanced between active members and current or deferred payment of pensions to former employees. Therefore, there is unlikely to be a substantial outflow of monies over the medium to long term.

The Pension Fund's investments are held substantially in equities and match the profile of the medium-to long-term cash outflows. This type of investment bias is intended to produce long-term returns to discharge all forecasts fund liabilities.

Scheme Benefits

The LGPS is a defined benefit scheme which provides benefits related to final salary for members. Each member's pension is specified in terms of a formula based on salary and service, and is unaffected by the investment return achieved on the Fund's assets. Full details of these benefits are set out in the LGPS regulations.

Financing of Benefits

All active members are required to make pension contributions based on a range between 6.0% and 7.5% of their pensionable pay as defined in the LGPS regulations.

The Corporation of London is responsible for meeting the balance of costs necessary to finance the benefits payable from the Fund by applying employer contribution rates, determined from time to time by the Fund's actuary. The Corporation of London (a taxing body through the imposition of the Council Tax) has a direct financial interest in the investment return achieved on the Fund's assets.

Actuarial Valuation

The Fund is valued by the actuary every three years in accordance with the LGPS regulations and monitored each year in consultation with employers and the actuary.

SECTION 4 INVESTMENT APPROACH

Investment Objective

The investment objective of the Fund is to follow an investment strategy which will maintain the solvency of the Fund, while delivering low and stable contribution rates, and which ensures that all statutory payments are met as required.

Investment Style

The investment style is to appoint expert fund managers with clear performance targets aligned to the fund's requirements. In order to achieve this objective and to ensure diversification by asset class and style, the Corporation has a number of investment managers.

Strategic Benchmarks

Although mindful of the liability profile of the Fund, the Corporation does not formally determine a pre-set asset allocation. Rather, asset allocation is a by-product of the overall investment process considered appropriate for the Fund.

Investment Fees

The fees for investment activities are set relative to their time input, experience and perceived intrinsic value of their philosophy. The fees for investment managers are based on fee scale arrangements

Review

The investment strategy is reviewed annually, with a major review taking place following the triennial actuarial valuation. The next such review is scheduled for 2009, in view of recent financial markets turbulence.

Reporting

The investment manager's current investment decisions and actions are reported at each quarterly meeting of the Investment Sub Finance Committee.

Performance

Performance targets are set on a five-year rolling basis in relation to the detailed specification outlined in individual managers' mandates. Performance is reviewed quarterly and at annual intervals both on the aforementioned basis and against conventional benchmarks by the WM Company who provide independent performance statistics.

SECTION 5 INVESTMENTS

The powers and duties of the Corporation to invest Fund monies are set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998. The Corporation is required to invest any monies which are not required immediately to pay pensions and any other benefits and, in so doing, take account of the need for a suitable diversified portfolio of investment and the advice of persons properly qualified on investment matters.

Types of Investments

In broad terms, investment may be made in accordance with the regulations in equities, fixed-interest and other bonds and property, in the UK and overseas markets. The Regulations specify other investment instruments that may be used, e.g, financial futures, traded options, insurance contracts, stock lending, sub-underwriting contracts.

The Regulations also specify certain limitations on investments. Principally, these place a limit of 10% of the total value of the fund in any single holding, or deposits with a single bank or institution, or investments in unlisted securities.

Investment Management

The Corporation has appointed investment managers under the terms of the Regulations to manage the major part of the Fund's investments.

The investment managers are required to select appropriate types of investment, to determine a suitable balance between different kinds of investments (within parameters determined by the Investment Sub Finance Committee) relative to their particular objectives as specified in their individual mandates, and to maintain diversified portfolios.

The five investment managers are responsible for active portfolios as follows:

Manager	Portfolio
LSV Asset Management SouthEastern Asset Management Artemis Investment Management Ltd Pyrford International Wellington	Global Equities - excluding USA Global Equities Multi-Asset Multi-Asset USA Equities

In addition, up to 3% of the fund's assets are invested in private equity both directly and via a fund of funds manager.

The Fund does not hold any direct or indirect property investments.

Limitations on the discretion of individual managers are detailed in the investment management agreements.

Investment Risk

Investment Risk is controlled by employing a number of managers with specifically-tailored mandates covering equities, bonds and cash across global markets.

SECTION 6

SOCIAL, ENVIRONMENTAL AND ETHICAL CONSIDERATIONS

Law

The Corporation is mindful of its fiduciary duty to obtain the best possible financial return on the investments of the Pension Fund against a suitable degree of risk.

Good Practice

The Corporation expects that the board of companies in which the Pension Fund invests should pay due regard to environmental matters and thereby further the long-term financial interests of the shareholders. The Corporation believes that environment concerns as expressed at periodic inter-governmental meetings will begin to shape regulatory frameworks and tax regimes. Corporate activity which is morally unacceptable to large numbers of consumers will be reflected in customers' buying preferences. Where this takes place, it has relevance for a company's franchise and therefore its earnings potential and share price. Ethical and environmental issues arise not only in board policy decisions but in daily operations. The Investment Sub Finance Committee (on behalf of the Corporation) looks to the directors of a company to manage that company's affairs taking proper account of the shareholders' long-term interests.

The Corporation expects its Fund Managers to ensure that shares voted on its behalf accord with these principles.

SECTION 7 EXERCISE OF RIGHTS

The Corporation wishes the Fund wishes to be an active shareholder and exercise its voting rights to promote and support good corporate governance policy as enunciated by the National Association of Pension Funds in guidance issued by them from time to time. In practice, the Corporation policy is to vote with the Board of UK companies in which a direct investment is held unless this is inconsistent with the NAPF template or the investment manger advises otherwise, and not to vote for overseas companies unless specifically asked to do so by an investment manager. The NAPF template is based upon the statutory obligations on boards of directors under the Companies Act and Combined Code appended to the Stock Exchange Listing Rules. All voting action is reported at quarterly meetings of the Investment Sub Finance Committee.

SECTION 8 COMPLIANCE

The Investment Sub Finance Committee is responsible for monitoring the Fund's overall investment performance and the performance of each manager.

The Investment Sub Finance Committee is responsible for monitoring the qualitative performance of the managers and custodian to ensure that they remain suitable for the Fund. These qualitative aspects include changes in ownership, changes in personnel, and investment administration.

The Investment Sub Finance Committee will regularly review the Scheme's compliance with this Statement of Investment Principles. The Statement is reviewed at least annually and a revised version issued by the Chamberlain as soon as any significant change occurs.

In accordance with regulations issued in August 2002, the attached Addendum describes the extent of compliance with the ten principles of investment practice issued to the Government in response to the review of Institutional Investment in the UK undertaken by Paul Myners.

In this connection it should be noted that the Corporation of London Pension Scheme has been created by statute and not by trust deed. Consequently, obligations placed on 'trustees' in the addendum apply equally to Members of the Corporation or its Investment Sub Committee.

Addendum

This addendum is published as a revision to the current Statement of Investment Principles in accordance with regulations 9A (3A) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 as amended by SI 2002/1852 which came into force on 9 August 2002.

Under this regulation, the Corporation 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 Government in the United Kingdom undertaken by Paul Myners.

The principles, together with the Corporation's position on compliance, are set out below:-

Principle 1: Effective Decision-Making

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

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

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

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

Full compliance – the Investment Sub Finance Committee operates within a formal framework of financial controls and decision making.

Principle 2: Clear Objectives

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

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

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

Full compliance – investment objectives re-stated following a major review in 2003.

Principle 3: Focus on Asset Allocation

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

Full compliance – all asset classes, included in the full range of permitted investment vehicles, are regularly reviewed.

Principle 4: Expert Advice

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

Full compliance – an independent adviser provides the Investment Sub Finance Committee with investment advice as required.

Principle 5: Explicit Mandates

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

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

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

Full compliance:

Trustees, or those to whom they have delegated the task, should have a full understanding of the transaction-related costs they incur, including commissions. They should understand all the options open to them in respect of these costs, and should have an active strategy – whether through direct financial incentives or otherwise – for ensuring that these costs are properly controlled without jeopardising the fund's other objectives. Trustees should not without good reason permit soft commissions to be paid in respect of their fund's transactions.

Partial compliance: Although trading costs are reported in accordance with Level 2 Requirements, a training programme for Members explaining their significance has yet to be formalised.

Principle 6: Activism

The mandate and trust deed should incorporate the principle of the US Department of Labour Interpretative Bulletin on activism. Trustees should also ensure that managers have an explicit strategy, elucidating the circumstances in which they will intervene in a company, the approach they will use in doing so, and how they measure the effectiveness of this strategy.

Current policy, including manager strategy, is under review pending outcomes from the DWP consultation.

Principle 7: Appropriate Benchmarks

Trustees should:-

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

Full compliance – Appropriate benchmarks established for managers following 2003 review.

Principle 8: Performance Measurement

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

Partial compliance – monitoring members' performance and advisers to be established.

Principle 9: Transparency

A strengthened Statement of Investment Principles should be set out:-

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

Full compliance - new principles now incorporated following completion of recent review of investment strategy.

Principle 10: Regular Reporting

Trustees should publish their Statement of Investment Principles and the results of their monitoring of advisers and managers. They should send key information from these annually to members of these funds, including an explanation of why the fund has chosen to depart from any of these principles.

Partial compliance – the SIP is published and monitoring results are included in the published Annual Report and Accounts. At present, the Corporation does not issue an annual Fund Members' Report.

Communications Policy Statement

Effective communication between the City of London as the Administering Authority and its stakeholders is essential to the delivery of the pensions service. This statement sets out the aims and the target audiences of the policy and the method of delivery (application) of the policy.

AIMS

Accuracy & Timeliness	Information needs to be compliant with legislation and supplied at an appropriate time.
Effective Information	Messages need to be clear and understood by target audience.
Accessible	Communication should be available to all and should meet the needs of a wide range of recipients.

AUDIENCES

- Scheme Members and Potential Members.
- Pensioners and Deferred Members.
- City of London Departmental Personnel and Administration.
- Other Employers Within the Fund.
- Establishment Committee.
- Staff.

APPLICATION

Scheme Members and Potential Members

Scheme booklets –	Supplied to all new eligible employees via departmental personnel/ administration officers, updated when necessary and redistributed following major changes to the scheme.
Forms and leaflets –	Appropriate forms supplied to all new employees and leavers via personnel/ administration officers.
Newsletters –	Produced as appropriate and in particular as scheme changes occur.
Annual Benefit Statements –	Combined Pension Statements supplied to those scheme members who are active at year-end (31 March) as soon as possible after year end.
Presentations –	One-off seminars, regular pension “top-up” sessions, insight lunches and pre-retirement courses.
Induction –	Supply support to the Employers Induction courses as appropriate.
Intranet & Internet –	Provide news on scheme changes, develop and maintain internet with links to relevant sites.

Pensioners and Deferred Pensioners

Pensioners should be supplied with monthly payslips and annual pensions increase letters. Deferred Pensions will be provided with an annual benefit statement. Both will be supplied with information on scheme changes as they affect the appropriate category of ex-scheme member.

City of London Departmental Personnel and Administration

Guides on general day-to-day administration requirements and responsibilities issued as and when required and as scheme changes affect procedures.

Presentations – Personnel Group meeting updates and individual departmental sessions as appropriate.

Other Employers within the Fund

Guides on general day-to-day administration requirements and responsibilities issued as and when required and as scheme changes affect procedures.

Presentations for appropriate personnel staff, committees and groups of employees.

Establishment Committee

Reports - Update Committee on scheme changes and developments and provide reports in a clear and accurate manner in order that appropriate responses and actions follow.

Presentations - Provide Committee with updates where appropriate.

Staff

Provide updates and information on scheme and legislative changes.

Team Meetings – Maintain staff awareness and knowledge via monthly meetings and one-off sessions as appropriate.

General Communication

Letters, emails and phone calls answered clearly, accurately and timely.

To contact the City of London Pensions Office:
Write: Pensions Manager, City of London, Guildhall, London EC2P 2EJ
Telephone: 020 7332 1133
Email: Pensions@cityoflondon.gov.uk

This Policy Statement Will Be Kept Under Review.

Glossary of Terms

Actuarial Valuation - a review of the Pension Fund by a qualified Actuary, which takes place every three years to ensure that employers' contributions are sufficient to maintain the solvency of the Fund in the long term.

Actuarial gains and losses - for a defined benefit pension, changes in actuarial deficits or surpluses that arise because:

- a. events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
- b. the actuarial assumptions have changed.

Actuary - an independent qualified consultant who carries out the Actuarial Valuation and who assesses risks and costs, in particular those relating to life assurance and investment policies, using a combination of statistical and mathematical techniques.

Administering Authority - a local authority required to maintain a pension fund under LGPS regulations.

Asset allocation - the apportionment of a fund's assets between asset classes and/or markets.

Benchmark - a 'notional' fund or model portfolio which is developed to provide a standard against which a manager's performance is measured.

Bond - a certificate of debt, paying a fixed rate of interest, issued by companies, governments or government agencies.

Current asset - an asset held which will be consumed or cease to have value within the next financial year; examples are stock and debtors.

Current liability - an amount which will become payable or could be called in within the next accounting period; examples are creditors and cash overdrawn.

Current service cost (pensions) - the increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

Curtailement (pensions) - for a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

- a. termination of employees' services earlier than expected, for example as a result of discontinuing an activity; and

- b. termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

Custodian - safekeeping of securities by a financial institution. The custodian will keep a register of holdings and will collect income and distribute monies according to client instructions.

Defined benefit scheme - a pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

Defined contribution scheme - a pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Equities - ownership positions (shares) in companies that can be traded on public markets, often producing income that is paid in the form of dividends.

Expected rate of return on pensions assets - for a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Fund Managers - appointed by the Investment Sub Finance Committee to carry out day-to-day investment decisions for the Fund within the terms of their Investment Management Agreement.

Index - a benchmark for the performance of a group of shares or bonds.

Interest cost (pensions) - for a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Investment adviser - a professionally qualified individual or company whose main livelihood is derived from providing objective, impartial investment advice to companies, pension funds or individuals.

Investment properties - interest in land or buildings that are held for investment potential.

Mandate - a set of instructions given to the Fund Manager by the client as to how a fund is to be managed (e.g. targets for performance or the Manager may be prohibited from investing in certain stocks or sectors).

Outperformance / underperformance - the difference in returns gained by a particular fund against the 'average' fund or an index or benchmark over a specified time period.

Past service cost (pensions) - for a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Performance - a measure, usually expressed in percentage terms, of how well a fund has done over a particular time period - either in absolute terms or as measured against the benchmark.

Portfolio - term used to describe all investments held.

Private equity - investments in new or existing companies and enterprises which are not publicly traded on a recognised stock exchange.

Projected unit method - an accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- a. the benefits for pensions and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases; and
- b. the accrued benefits for members in service on the valuation date. The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

Risk - generally taken to mean the variability of returns.

Scheme liabilities - the liabilities of a defined benefits pension scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

Securities - investment in company shares, fixed interest or index-linked stocks.

Vested rights - in relation to a defined benefit pension scheme, these are:

- a. for active members, benefits to which they would unconditionally be entitled to on leaving the scheme;
- b. for deferred pensioners, their preserved benefits; and
- c. for pensioners, pensions to which they are entitled.

Vested rights include where appropriate the related benefits for spouses or other dependants.