

PENSION FUND ANNUAL REPORT AND ACCOUNTS

2008–2009



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1. SCOPE OF RESPONSIBILITY

1.1 Suffolk County Council (the County Council) is responsible for administering the Local Government Pension Scheme in Suffolk in accordance with Statutory Regulations. It has a fiduciary duty to the contributors and beneficiaries of the Pension Funds to ensure contributions are collected, that benefits are calculated correctly and paid promptly, and that any surplus monies are properly invested. The County Council has established a Pension Fund Committee (the Committee) to carry out its duties and responsibilities as an administering authority within the Statutory Regulations.

1.2 In discharging its responsibilities the County Council is responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions, which includes arrangements for the management of risk.

2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

2.1 The County Council's system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise risks to the achievement of the Funds' policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

3. THE INTERNAL CONTROL ENVIRONMENT

Establishing and monitoring the achievement of the Funds' objectives

3.1 The County Council has established objectives which are set out in its Statement of Investment Principles and it has also published a Funding Strategy Statement. The effectiveness of these is monitored throughout the year by the Committee. The Committee monitors investment performance relative to the growth in the liabilities by means of annual interim valuations and quarterly actuarial monitoring reports received from independent service providers who undertake performance analysis and actuarial services for the fund. The County Council's internal auditors report the results of their work to the Committee. The Committee reports back to employers by means of the annual employers' meeting and communication of the interim valuation results.

The facilitation of policy and decision-making

3.2 New members of the Committee receive initial training on the role and responsibilities of the Committee. The Head of Strategic Finance provides advice to the Committee and the County Council employs external advisors as necessary to advise on specific issues (e.g. on performance measurement, actuarial issues and corporate governance). The County Council has appointed specialist investment managers to manage the investments of the Funds.

3.3 Committee Members receive on-going training to help develop their awareness and ensure they have the necessary skills/knowledge base to fulfil their responsibilities effectively. Training needs are addressed by a variety of means including external training seminars, in-house briefings and the training provided to the Committee by the Funds' external advisors at the Committee meetings.

Ensuring compliance with established policies, procedures, laws and regulations

3.4 Customer Service Direct (CSD) undertake the accounting arrangements and administration of benefits of the Local Government Pension Scheme on behalf of the County Council. This includes the management of records, calculation of benefits, and payment of pensioners. Day-to-day management of the Funds' cash flow is also undertaken by CSD.

3.5 Compliance with established policies, procedures, laws and regulations, relating to the conduct of business by CSD is achieved through the contractual agreement between CSD and the County Council, and the County Council's internal control framework. This includes the County Council's Financial Regulations and Procedures, Statement of Investment Principles and Funding Strategy Statement. The Head of Strategic Finance (as the County Council's Section 151 Officer) also has a statutory responsibility for ensuring compliance with the regulatory framework.

- 3.6 The investment management agreements with external investment managers are an important part of the internal control environment. Quarterly performance reports provide evidence of the fund managers' compliance and performance in accordance with their investment management agreements. In addition, through the Advisory agreement with the fund's actuarial and investment advisers, the County Council is kept up to date with developments relating to the exercise of its functions as an administering authority and of any changes required to its policies and procedures.

The financial management of the County Council

- 3.7 The system of internal financial control operated by the County Council is based on a framework of regular management information, financial regulations, administrative procedures, management supervision, and a system of delegation and accountability. The system includes regular reviews of periodic and annual financial reports which indicate financial performance and sets targets to measure financial and other performance. In addition, the County Council has appointed independent advisors on investment matters, and an actuarial consultant specifically for the Pension Fund.
- 3.8 Within the County Council's agreed internal audit plan, Audit Services carry out reviews of different aspects of the Pension Fund. Using the latest guidance produced by the County Chief Auditors Network and Lead Authority Working Group on the Audit of Investment Managers (LAWGAIM), two audits were completed during 2008/09: a) a compliance review of the Pension Scheme Administration, and b) a review of the Pension Fund Investment Management arrangements against LAWGAIM's good practice guidance.
- 3.9 Overall, the audits concluded that the internal controls within the Pension Scheme Administration and Pension Fund Investment arrangements were effective.

4. REVIEW OF EFFECTIVENESS

4.1 Specific review processes applied in maintaining and reviewing the effectiveness of the system of internal control are indicated below.

The Committee:

- Has met on a regular basis and has received regular reports from officers on issues concerning the Fund;
- Receives and considers quarterly performance reports from its Fund Investment Managers and Custodian;
- Receives regular monitoring reports of the Fund's asset allocation and investment returns relative to the benchmark;
- Monitors the delivery of benchmark returns relative to liabilities at the triennial actuarial valuations and actuarial monitoring between valuations;
- Receives annual interim valuations and quarterly actuarial monitoring reports;
- Has reviewed the Statement of Investment Principles and approved the publication of a Funding Strategy Statement; and
- Receives quarterly reports on investment performance from an independent performance analysis service.

Audit Services

Audit Services is an integral part of the County Council's internal control arrangements. The role, responsibility and objectives of Audit Services are specified in the County Council's Constitution. The Head of Strategic Finance (Section 151 Officer) has delegated responsibility, under the Accounts and Audit (Amendment) (England) Regulations 2006, to maintain a continuous, adequate and effective internal audit of the County Council's accounting, financial and other processes.

Audit Services work to the professional standards specified by the Chartered Institute of Public Finance and Accountancy (CIPFA). Internal audit reports address identified weaknesses in internal control arrangements. The work includes auditing the Fund, as described in 3.8 above. The resultant reports were discussed with management and presented to the Committee for consideration.

Annual Governance Statement

The County Council is required to publish an Annual Governance Statement each year, which summarises the annual review of the effectiveness of its governance framework, including the system of internal control. The Annual Governance Statement is published within the County Council's Statement of Accounts.

Within the Annual Governance Statement, the Head of Audit, Governance & Customer Rights gave the following opinion:

In the opinion of the Head of Audit, Governance and Customer Rights, overall systems of control within the County Council are acceptable and financial administration systems are generally effective. However, Councillors should note that assurance cannot be absolute.

The upgrade to ORACLE 12 during 2008/09 was a major project and had significant impact on all of the Council's main financial systems. Audit Services were involved throughout Project Matrix to ensure internal controls were implemented within the developments.

Where internal audit work identified that controls were not operating effectively within those financial systems, recommendations to correct these were made. Audit Services have revisited those systems and are now satisfied that the internal control environment is effective.

Within directorates, internal audit work has identified where improvements to controls are required and these recommendations have been accepted by management. Follow-up work undertaken to date has identified that improvements as specified have been implemented. Outstanding matters will be subject to further internal audit review.

Looking forward, as the Council enters a period of financial restriction (and possible restructure not least as a result of local government review), Audit Services will work with management to ensure that the internal control environment is appropriate to risk.

Audit Services have, via various audits, focused on different aspects of the controls in place for data management within the Council. These audits have identified opportunities to improve the controls and systems in place for data management. Managers within the Council are working to improve these areas; for example the introduction of a revised and improved data quality policy; working groups to achieve the standards required to join the Government Secure Network (GCSx), and data management and security through the development and improvement of systems.

5. SIGNIFICANT INTERNAL CONTROL ISSUES

5.1 In my view, no significant weaknesses requiring corrective action have been identified in the system of internal control with regard to the County Council's Pension Scheme Administration and Pension Fund Investment Management arrangements.

Geoff Dobson
Head of Strategic Finance

September 09

Independent auditor's report to the Members of Suffolk Pension Number 1 Fund and Suffolk Pension Number 2 Fund (Ipswich Buses Ltd)

I have audited the pension funds' accounts for the year ended 31 March 2009. The pension funds' accounts comprise the Fund Account, the Net Assets Statement and the related notes. The pension funds' accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Suffolk Pensions Number 1 Fund and Suffolk Pension Number 2 Fund (Ipswich Buses Ltd) 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.

Respective responsibilities of the Head of Strategic Finance and auditor

The Head of Strategic Finance is responsible for preparing the pension funds' accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008. In preparing this pension funds' accounts, the Head of Strategic Finance is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgments and estimating 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.

My responsibility is to audit the pension funds' accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension funds' accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the pension funds during the year and the amount and disposition of the funds' assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year. I also report to you whether, in my opinion, the information which comprises the commentary on the financial performance included within the Pension Fund Annual Report, is consistent with the pension funds' accounts. That information comprises the 5-year financial summary.

I review whether the governance compliance statement published in the Pension Funds' Annual Report reflects compliance with the requirements of Regulation 34(1)(e) of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I 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 I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

I read other information published with the pension funds' accounts and related notes and consider whether it is consistent with the audited pension funds' accounts. This other information comprises:

- The report of the pension fund committee;
- The report by the head of strategic finance;
- The management report;
- The investment report.

I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension funds' accounts and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my 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 Authority and Group accounting statements, firefighters' 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 Authority and Group accounting statements, firefighters' 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.

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

Opinion

In my opinion the pension funds' accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Suffolk Pension Funds during the year ended 31 March 2009, and the amount and disposition of the fund's assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Neil A Harris

Officer of the Audit Commission

Crown House, Crown Street, Ipswich IP1 3HS

30 September 2009

Report of the Pension Fund Committee

The Pension Fund Committee is pleased to present the Suffolk County Council Pension Fund Annual Report and Accounts for 2008-2009. The County Council is required to approve a Governance Policy Statement for the pension funds it administers as the administering authority for the Local Government Pension Scheme in Suffolk. Under the terms of the County Council's Governance Policy Statement, the Pension Fund Committee is responsible for the effective and prudent management of the Suffolk County Council pension funds. The Pension Fund Committee acts with the assistance of professional advisers, including the County Council's Head of Strategic Finance and external advisers such as the fund's actuary and investment adviser, Hymans Robertson LLP. The Fund employs a number of specialist fund managers to manage the fund's investments.



During 2008-2009, the Pension Fund Committee reviewed the performance of the fund and its individual fund managers at regular intervals. It met and reviewed the performance of the following investment managers during the year: Aberdeen, BlackRock, Bernstein, JP Morgan, Newton, Pantheon, Schrodgers and Wilshire. The Committee also received regular reports from Hymans Robertson on the performance of the Fund's investments.

The Committee reviewed the investment strategy for the main No 1 Pension Fund in May 2008, and agreed a number of changes to the statement of investment principles for the fund, to reflect the arrangements for the implementation of the currency hedging programme that had been agreed for the Fund. The Committee also considered a review of the long-term investment strategy for the smaller No 2 Fund at its meeting in November 2008. It agreed to maintain the investment strategy of the Fund broadly unchanged in advance of the 2010 actuarial valuation.

The Pension Fund Committee has continued to receive reports on a regular basis from the Fund's actuary on the actuarial situation of the Pension Fund. The significant deterioration of the funding level of the Fund during the year has been reported to the scheme employers. The Committee continues to keep the actuarial position of the Fund under regular scrutiny, but has agreed with the recommendation of the Fund's actuary not to make any changes to the Funding Strategy for the Fund in advance of the 2010 actuarial valuation.

A number of major changes to the structure of the Local Government Pension scheme came into effect on 1 April 2008. The implementation of the new scheme has proceeded largely without problems, despite the delays in the issue of a number of scheme regulations by the department of Communities and Local Government. The County Council's staff within Customer Services Direct have worked closely with the scheme employers to ensure that they were aware of the implications of the new scheme.

The Pension Fund Committee approved an Administration Strategy for the Pension fund with effect from April 2008. This provides a comprehensive statement for employers and other stakeholders of the performance that the County Council seeks to achieve in its administration of the Local Government Pension Scheme and the service standards that employers should expect. It also sets out the County Council's requirements on employers in terms of their performance in working with the Council to ensure the effective administration of the scheme. The Pension Fund Committee has reviewed the performance of the administration of the scheme and is satisfied that a high standard is being maintained.

Report of the Pension Fund Committee

The Committee has also considered work undertaken by the Council's Internal Audit Services to review the internal controls of the Council and its fund managers in managing the fund. Overall, the audits concluded that the internal controls within the Pension Scheme Administration and Pension Fund Investment arrangements were effective. The Pension Fund Committee reviews its management of the Pension Fund on a regular basis and it has approved a business plan for the period up to 2011.

The Pension Fund Committee has met with the scheme employers at the Annual Pension Fund Employers Meeting to report on its management of the Pension Fund. The Pension Fund Annual Report and Accounts is an important channel of communication for reporting on our stewardship of the Pension Fund over the past year. The Committee welcomes comments and views on the Pension Fund Annual Report and Accounts for 2008-2009 from all interested parties.

Councillor Peter Bellfield

Chairman of Pension Fund Committee

September 2009

Explanation of Financial Statements

The County Council is responsible for the administration of the local government pension scheme in Suffolk. We manage two pension funds of which the No. 1 Fund is the main fund, covering most employees and pensioners in the local government pension scheme in Suffolk. This report sets out the pension funds' income and expenditure, and assets and liabilities for the financial year ended 31 March 2009.

The report also provides information about the management structure of the funds, their membership and administration and an analysis of investment performance. Pages 29-31 show an analysis of the investments, the largest holdings and the participating employers in the main No. 1 fund.



Investment Performance of the No.1 Pension Fund

The Suffolk No. 1 Pension Fund produced a negative investment return of -22.3% in 2008-2009. This was a poor result in absolute terms, and it reflected the falls in all major stockmarkets in 2008-2009. The fund underperformed its benchmark (based on the indices of the markets that the fund is invested in) by -1.0% in the year.

The longer term returns of the Fund are also poor. Over the past three years, the No. 1 Fund produced a negative investment return of -6.4% per year. This was broadly in line with the fund's benchmark over this period, which in turn reflected the significant falls in most markets over the past three years.

Over the past 10 years, the investment return has been positive but modest in absolute terms, 1.3% per year, which reflects the impact of the falls in equity markets in the first three years of the decade after the end of the dotcom bubble as well as the major falls in stockmarkets in 2008-2009. The fund's investment returns over 10 years are below the increase in both inflation (2.6% per year) and pay increases (3.7% per year) over this period.

The long-term performance of the Suffolk Pension Fund reflects the experience of local authority funds generally which have had 60-70% of their assets in equities over this period. The average local authority pension fund return over the past 10 years was 2.0% per year, better than the return of the Suffolk Fund (1.3%), but worse than the growth in fund liabilities as indicated by inflation and pay growth over that period.

Actuarial Valuation and Funding Strategy Statement

We are required to obtain an independent actuarial valuation of the fund's assets and liabilities and to approve a Funding Strategy for the Fund every three years. The fund had an actuarial deficit at the actuarial valuation at March 2007 of £158 million and the fund's assets represented 89% of its liabilities at that date.

The Funding Strategy sets out the approach determined by the Pension Fund Committee to funding the liabilities of the fund and setting the contributions of individual employers. The Committee has confirmed its long-term strategy to return the pension fund to a fully funded position within 15 years and the individual employer contributions to the fund for the three years starting April 2008 have been set on that basis. In the majority of cases the Funding Strategy maintained the level of employer contributions unchanged at the 2007 valuation, to ensure that the Fund continued to make inroads into reducing the deficit.

Report by the Head of Strategic Finance

The Committee monitors the actuarial position of the Pension Fund on a quarterly basis. The poor investment returns of the fund during the period since March 2007 have been reflected in a deterioration of the funding level from 89% funded at March 2007 to 60% funded at March 2009. The Committee is continuing to keep the funding position of the Fund under scrutiny. The next statutory valuation of the Pension Fund will be undertaken at March 2010, and the employer contributions for the period starting April 2011 will be assessed in the light of the situation of the Fund at the valuation date.

Changes to Investment Strategy

In the autumn of 2006 the Pension Fund Committee agreed a number of changes to its investment strategy following a review undertaken by our investment advisors, Hymans Robertson. The changes to the investment strategy were intended to give the fund's investment managers the opportunity to seek investment returns from a broader range of stock markets across the world. The changes to the investment strategy for the Fund involved appointments to three new equity mandates, JP Morgan and Newton Investment Management for overseas equities and BlackRock for UK equities to replace two of the Fund's previous managers, Capital International and Societe Generale. The new managers started their investment mandates at the end of July 2007.

In addition, the Committee agreed to make an allocation of assets to currency management, in order to gain access to a potential area of high investment returns. Two mandates for active currency management were awarded and the new managers, Record Currency Management and Millennium Global Investments, started their mandates towards the end of 2007-2008.

The performance of each the fund's investment managers is assessed against the benchmark for their specific asset class, typically over rolling three year periods. Over the past 12 months, both Aberdeen and AllianceBernstein have reported significant levels of underperformance on their mandates, which has contributed to the underperformance of the Fund as a whole compared with its own benchmark. The currency mandate managed by Record Currency Management has also reported significant underperformance in 2008-2009, although the smaller size of this mandate has limited the impact of the manager's underperformance on the fund as a whole. The Pension Fund Committee is undertaking a review of these managers' performance during 2009-2010. The Fund's private equity managers have reported strong levels of outperformance in 2008-2009. However the nature of private equity as an asset class means that the performance of a manager can effectively only be assessed over longer periods of up to 10 years. The Fund's property manager, Schroders, has continued to report outperformance on their mandate compared with their benchmark over the past three years.

Audit

The Pension Fund accounts are included within the County Council's Statement of Accounts for 2008-2009, which is subject to audit. The full Pension Fund Annual Report and Accounts is not subject to a separate audit. The external auditor will provide an opinion on whether the information provided within Pension Fund Annual Report and Accounts is consistent with the audit review that has been undertaken on the County Council's main Statement Of Accounts.

Geoff Dobson

Head of Strategic Finance

September 2009

Management Structure of the Fund

Administering Authority	Suffolk County Council Endeavour House 8 Russell Road Ipswich Suffolk IP1 2BX	
Pension Fund Committee	Councillor Stefan Oliver - Chairman Councillor John Klaschka Councillor Keith Rawlingson Councillor Richard Kemp Councillor Rae Leighton (to Sept 08) Councillor Jeremy Clover (Sept 08 to Feb 09) Suffolk Local Government Association (SLGA) representatives: Councillor Peter Bellfield Councillor Paul Farmer (to Sept 08) Councillor Derrick Haley (from March 09) UNISON representative: Mr. Andrew Monro	
Investment Managers	Aberdeen Asset Management Limited AllianceBernstein Institutional Investments BlackRock Investment Management JP Morgan Asset Management Legal & General Investment Management Millennium Global Investments Newton Investment Management Pantheon Ventures Record Currency Management Schroder Property Investment Management Wilshire Associates	
Actuaries	Hymans Robertson 20 Waterloo Street Glasgow G2 6DB	
Auditors	Audit Commission Ground Floor, Crown House Crown Street Ipswich IP1 3HS	
Fund Administration	Investments Head of Strategic Finance Endeavour House 8 Russell Road Ipswich Suffolk IP1 2BX Tel. (01473) 264337	Benefits Pensions Manager Human Resources Customer Service Direct Constantine House 5 Constantine Road Ipswich Suffolk IP1 2DH Tel. 08456 053000

Summaries

The following table shows a summary of the financial position at the end of the year.

<u>Financial Summary</u>	2004-05 £'000	2005-06 £'000	2006-07 £'000	2007-08 £'000	2008-09 £'000
Contributions	73,890	82,988	87,963	85,775	90,622
Other Income	10,633	11,201	7,040	7,632	5,467
	<u>84,523</u>	<u>94,189</u>	<u>95,003</u>	<u>93,407</u>	<u>96,089</u>
Benefits Payable	-39,869	-42,521	-46,636	-49,023	-55,537
Other Expenditure	-8,598	-14,056	-5,577	-4,417	-5,422
	<u>-48,467</u>	<u>-56,577</u>	<u>-52,213</u>	<u>-53,440</u>	<u>-60,959</u>
Net additions / withdrawals (-) from dealings with members	36,056	37,612	42,790	39,967	35,130
Investment Income (net of fees)	12,898	18,301	18,387	20,475	21,442
Change in Market Value of Investments	68,687	216,255	72,866	-55,877	-324,595
Net Return on Investments	84,392	234,556	91,253	-35,402	-303,153
Change in Fund during year	120,448	272,168	134,043	4,565	-268,023
<u>Net Assets at 31 March</u> <u>(Market Value)</u>	<u>894,434</u>	<u>1,166,602</u>	<u>1,300,645</u>	<u>1,305,210</u>	<u>1,037,187</u>

<u>Membership Summary</u>	2004-05	2005-06	2006-07	2007-08	2008-09
Members	16,782	17,517	17,977	18,336	19,148
Employee Pensioners	6,983	7,417	7,721	8,157	8,635
Widow / Widower Pensioners	1,444	1,533	1,545	1,599	1,671
Deferred	6,403	9,189	10,748	11,861	12,442
TOTAL	31,612	35,656	37,991	39,953	41,896

Introduction

1. The County Council is the administering authority for the Suffolk County Council Pension No. 1 Fund. Its duties are fulfilled by delegating the necessary powers to the Pension Fund Committee, with day-to-day decision-making undertaken by the Head of Strategic Finance. All enquiries about the scheme generally or about an individual's entitlement to benefit should be sent to the Pensions Manager at the address shown at the bottom of page 5.
2. The County Council is required by the Local Government Pension Scheme Regulations to maintain a Pension Fund for some of its own employees and those of the district councils within Suffolk. In addition non-teaching staff of the further education colleges in Suffolk, civilian employees of Suffolk Police Authority and employees of the Suffolk Probation Board are entitled to become scheme members. Parish and town councils may decide by resolution to allow their employees join the pension fund. The regulations also permit the County Council to admit to the fund certain other bodies providing public services. The County Council also administers a separate smaller No. 2 pension fund, which provides pension benefits for certain employees and pensioners of Ipswich Buses Ltd.
3. The Pension Fund does not cover teachers, firefighters or police officers; other statutory schemes provide for their pension benefit arrangements.
4. The scheme is financed through contributions from employees and employers and by earnings from the fund's investments. The surplus of contributions and investment income over benefits currently being paid is invested in compliance with the regulations.
5. The contributions from employees is prescribed by regulation.
6. The employers' contributions are assessed periodically by the Fund's Actuary and have to be enough to maintain the long term solvency of the Fund. The law requires these reviews (actuarial valuations) to be carried out every three years. The last statutory actuarial valuation was carried out as at 31 March 2007.
7. Most of the benefits payable under the regulations are mandatory but in certain instances discretion is given to employing bodies. Pensions payable from the Fund are defined as "official pensions" for the purposes of the Pensions (Increase) Act 1971, the effect of which is to increase the pension annually in line with movements in the Retail Price Index.
8. The local government pension scheme pays more than the minimum pension requirements of the State Second Pension (S2P) scheme (formerly the State Earnings Related Pension Scheme, SERPS) and the pension scheme is therefore classified as being 'contracted out'.

Contributions and Benefits

9. The employers' contributions are determined by the scheme's actuary as:-
 - a) A common rate, generally expressed as a percentage of employees' pensionable pay, which is required to ensure the solvency of the fund having regard to the circumstances common to all the participating employers; and
 - b) An individual adjustment to the common rate, which is related to the Fund's liabilities specific to any individual employer.
10. Employers' contributions are recommended by the Fund's Actuary for the period between actuarial valuations. The common rate of employers' contributions for 2008-2009 was determined as part of the valuation at 31 March 2007.
11. The individual adjustments to the common rate vary between employing authorities and include the cost of all pensions increase liabilities to date.
12. Details of the contributions payable to and benefits receivable from the Fund are contained within the Employees' Guide issued to all new employees who are allowed to join the scheme. The guide also gives information on what the pension entitlements are when a member leaves local government, or which rights can be transferred to other funds on a change of employment.

Membership

13. Membership of the scheme is automatic for all eligible employees (except casual employees), unless they choose to opt out. Casual employees can choose to opt in to the scheme if they want to.
14. The total number of employee and pension members of the pension fund increased by 1,943 (4.9%) from 39,953 to 41,896 during 2008-2009. The number of employee members have also increased by 4.4% to 19,148 at March 2009 (18,336 at March 2008).

New Look Pension Scheme

15. A new-look local government pension scheme for 2008 came into effect in April 2008. The detailed administrative changes were the subject of regulations which were issued during 2007. The County Council's Pensions Section has worked closely with employers to ensure that they are aware of the impact of the changes on them.

Financial Development of the Scheme

16. During the year the value of the fund has fallen by £268m, which represented a net addition from dealings with members of £35m, and a negative return on investments of £303m.
17. The net addition from dealings with members of £35m reflects the positive cash flow that arises from both the normal contributions from employers and employees and also additional contributions of around £23m towards the pension fund deficit by employers. The fund received net income of £1.4m from transfer values paid over by other funds in respect of scheme members transferring into the Suffolk fund.

Management Report

18. The negative return of £303m from the fund's investments reflects the fall in the market value of investments of £325m and investment management expenses of £2.9m, offset by investment income (principally dividends and interest) of £24.3m.
19. Although investments shown in this report are at their market values as at 31 March 2009, these values will change from time to time, as market conditions alter. However, short term variations should not have a significant effect on the long term financial position of the fund.

Voting Policy In Respect Of Pension Fund Investments

20. The pension fund investments in UK and overseas equities give us the right to vote on the resolutions at company general meetings. We have adopted a voting policy which covers our holdings in the top 350 UK companies. This represents around 90% of our UK equities by value. A copy of the detailed voting guidelines can be obtained from the Head of Strategic Finance.
21. The general principles we have followed in our voting guidelines are:-
 - We will vote in favour of proposals at annual and extraordinary general meetings which comply with good practice on corporate governance.
 - We will vote against proposals which breach the code where the company is unable to provide a satisfactory explanation of its policy.

Investment Report

Investment Powers

1. The principal powers to invest pension fund assets are contained within the Local Government Pension Scheme (Investment and Management of Funds) Regulations 1998 (as amended) which allow a wide range of investments.
2. The significant restrictions are that:-
 - (a) Not more than 15% may be invested in securities which are not listed on either the UK Stock Exchange or a foreign stock exchange of international repute.
 - (b) With the exception of gilts and bank deposits no more than 10% may be invested in a single holding.
 - (c) Not more than 10% may be deposited with any one bank.
 - (d) Loans from the fund, including money used by us or lent to other local authorities, but not including loans to the government, may not in total exceed 10%.
 - (e) Not more than 10% may be invested in an individual bond with the exception of the UK or Isle of Man governments.
 - (f) The total investment in funds managed by a single manager may not exceed 35% of the value of the fund.

The fund operated within these limits throughout 2008-2009.

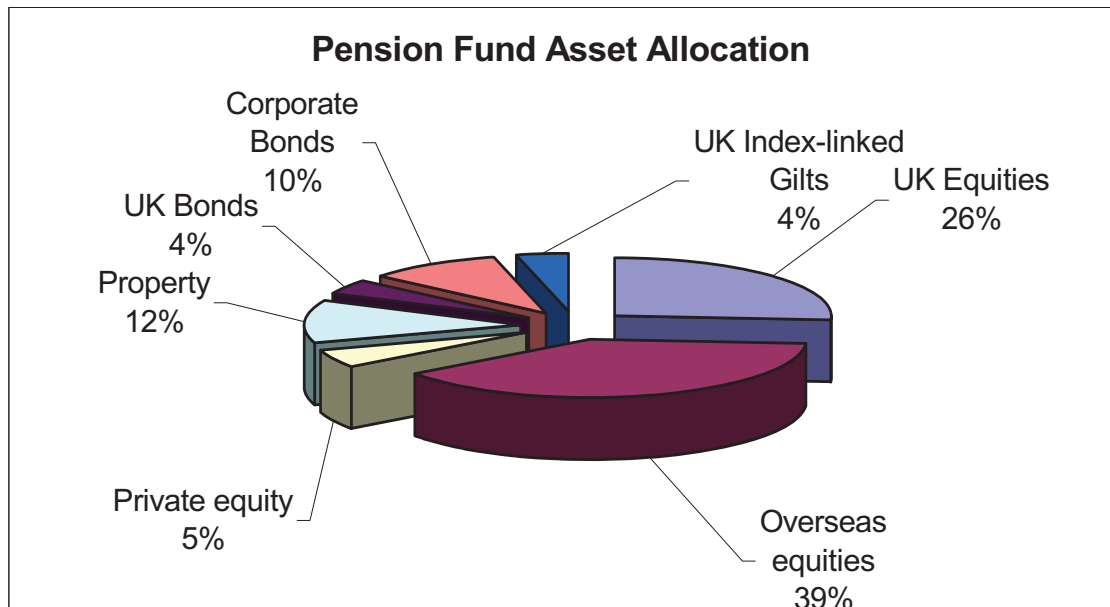
Statement of Investment Principles

3. The County Council adopted a bespoke investment strategy for the Pension Fund in 2000, following an asset-liability review, which it commissioned from the fund's actuary. This review set a framework for the investment of the fund's assets, and this has been incorporated into a formal policy statement for the fund, the Statement of Investment Principles. The statement is published on the County Council's website (www.suffolkcc.gov.uk). The investment strategy has been reviewed on a number of occasions since 2000, and some further changes have been made, although the overall balance between the main asset classes (equities, bonds and property) has been maintained.
4. The main rationale for holding equities is that over the longer term they are expected to outperform bonds, which are a closer match to the Fund's liabilities. Any investment in equities implies a departure from the matching portfolio in the pursuit of higher expected returns. The equity allocation accounts for the majority of the investment risk taken by the Fund. The equity benchmark is structured in such a way as to generate the highest return for a given level of risk, and to provide appropriate diversification, rather than being considered as matching the fund's liabilities in any way. The Fund currently invests around 70% of its assets in equities with a target of 65% in quoted equities and 5% in private (unquoted) equities.

Investment Report

5. The strategic asset allocation benchmark for the Fund is shown below. Cash flow from employer and employee contributions is used to re-balance any variation in allocation caused by market movements back towards the strategic asset allocation.

Asset Class	Benchmark Allocation	
	%	%
UK Equities	26	
Overseas equities	39	
Total equities		65
Private equity	5	
Property	12	
Total Alternatives		17
UK Bonds	4	
UK Corporate Bonds	10	
UK Index-linked Gilts	4	
Total Bonds		18
Total		100

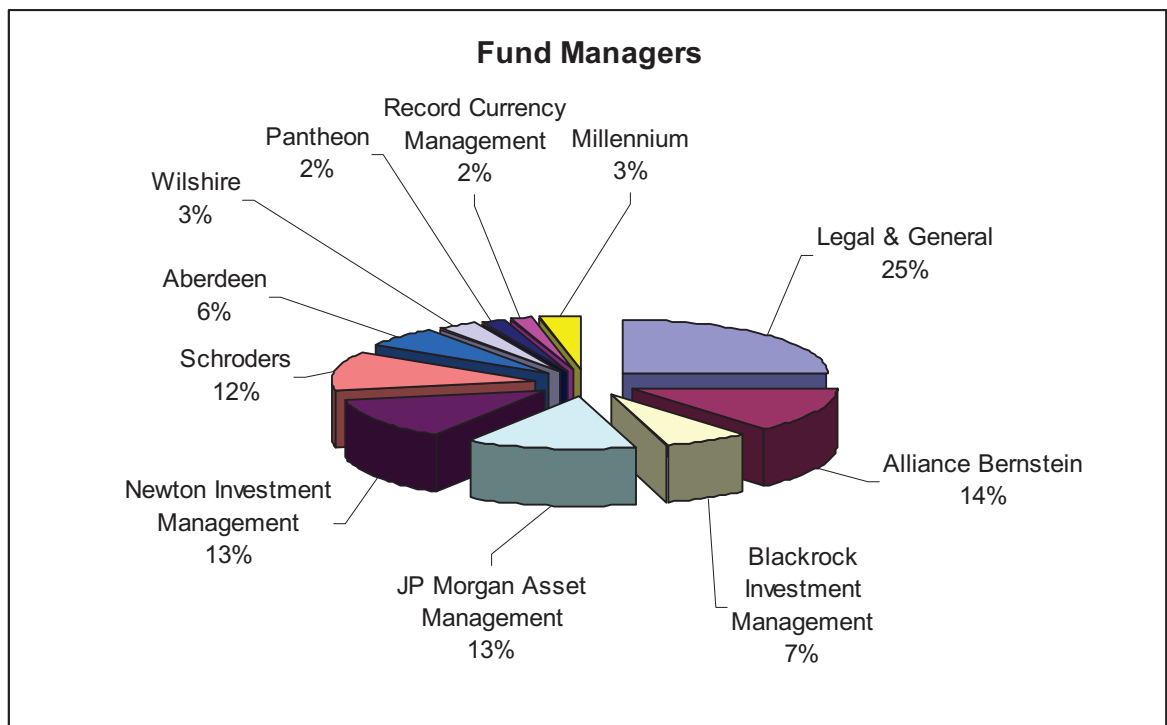


Investment Report

Investment Management Arrangements

6. The following investment managers managed the fund's assets during 2008-2009:

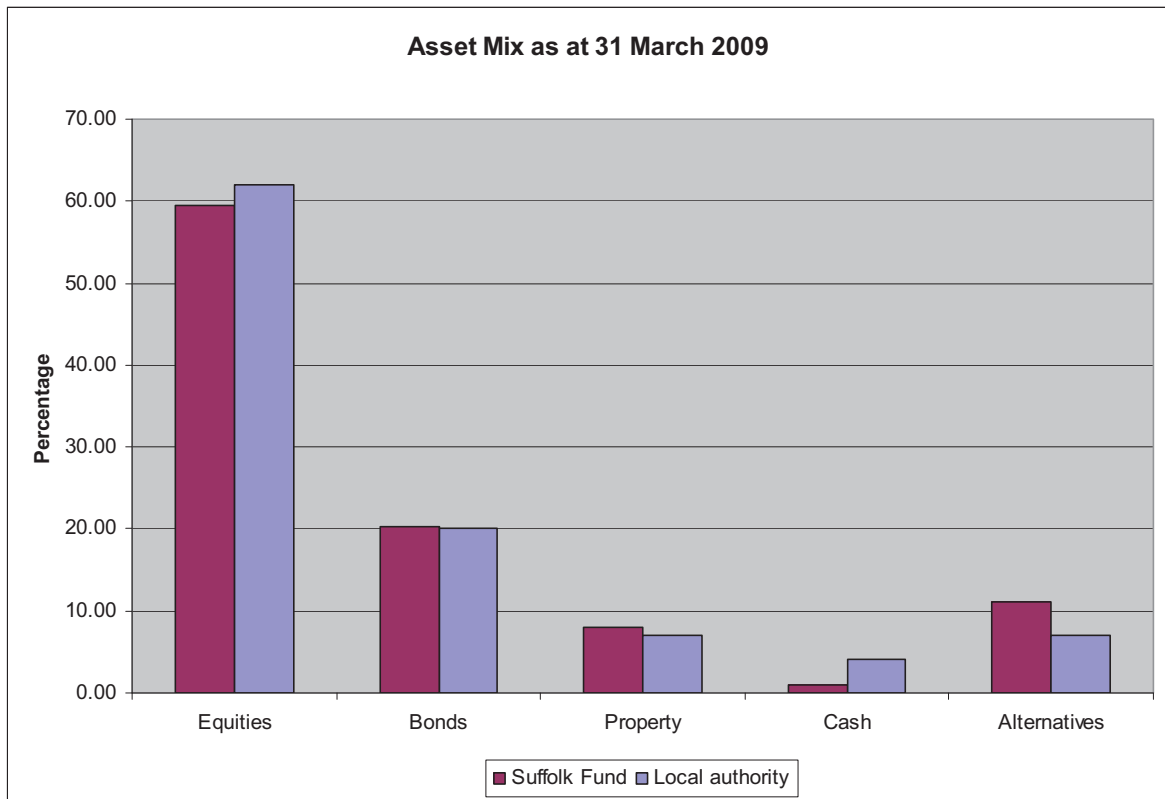
- Legal & General Investment Management) manage a multi-asset index tracking mandate (25% of the fund);
- JP Morgan Asset Management manage a global equity mandate(13.2% of the fund);
- Newton Investment Management manage a global equity mandate (13.2% of the fund);
- AllianceBernstein Institutional Investments manage a UK equity mandate (14% of the fund);
- BlackRock Investment Management manage a UK equity mandate (6.6% of the fund);
- Schroder Property Investment Management manage a property mandate (12% of the fund);
- Aberdeen Asset Management (6% of the fund) manage a bonds mandate;
- Wilshire Associates (3% of the fund) and Pantheon Ventures (2% of the fund) manage private equity mandates;
- Record Currency Management (1.8% of the fund) and Millennium Global Investments (3.2% of the fund) manage currency mandates. Man Financials is included within the Millennium figures and manage futures as part of the currency mandate.



Investment Report

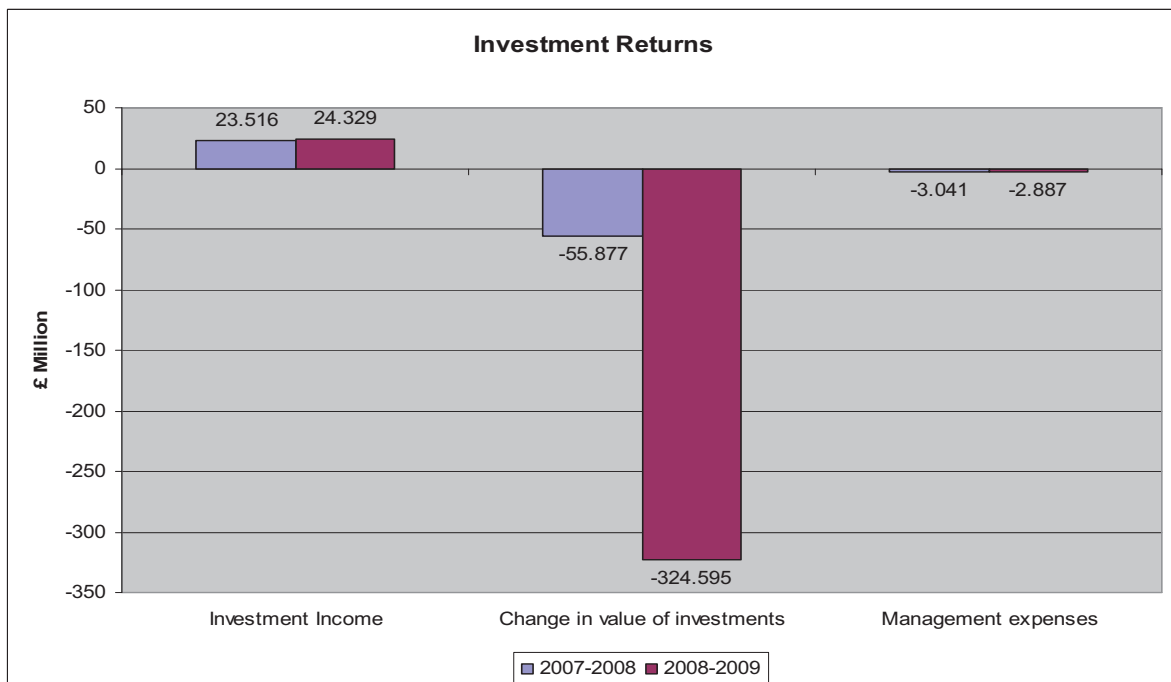
Asset Allocation

7. The fund had 59.5% of its assets in equities in March 2009. The fund had 20.3% of its assets in bonds, 8.0% in property, 12.2% in other investments and temporary cash.

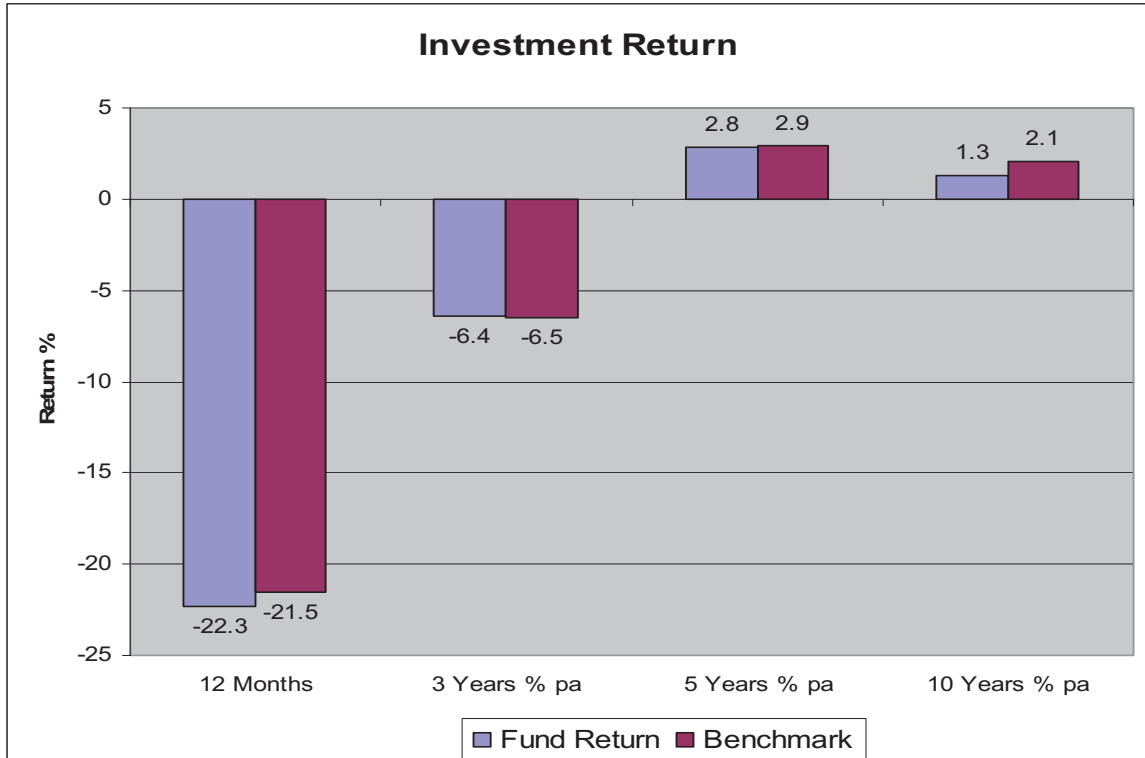


Investment Performance

8. The chart below shows the main source of investment returns during 2008-2009. The change in the value of the investments includes realised and unrealised gains and losses.

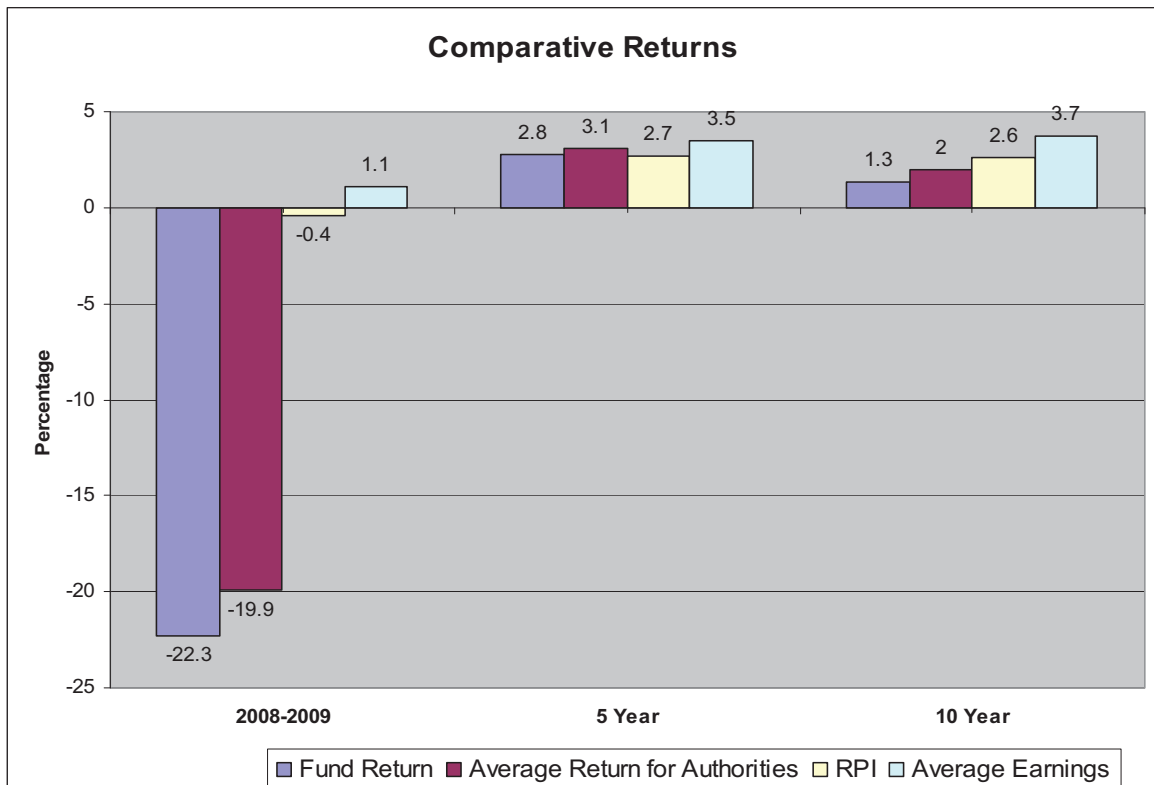


9. The fund's assets decreased from £1,305 million to £1,037 million during 2008-2009. After allowing for the net cash flow from additional employer and employee contributions in the year, this represented a negative investment return of -22.3%, compared with the fund's own benchmark target of -21.5%. The fund's own benchmark is based on the index returns for the markets that the fund invests in. The fund's investment return compared with its benchmark index over one, three, five and 10 years is shown below.



10. The chart below compares the investment returns achieved by the Suffolk Pension Fund over one year (-22.3%), three years (-6.4%), five years (2.8% per year) and 10 years (1.3% per year) with the average local authority pension fund, and with price and pay increases in the respective periods. Over the past ten years the fund has achieved an average return of 1.3% per year, below the local authority average of 2.1% per year, which reflects the fund's underperformance in the years 2000 and 2001 and 2008-2009. The Suffolk Pension Fund's investment return over 10 years was worse than both price inflation (2.6% per year) and pay increases (3.7% per year) over the period.

Investment Report



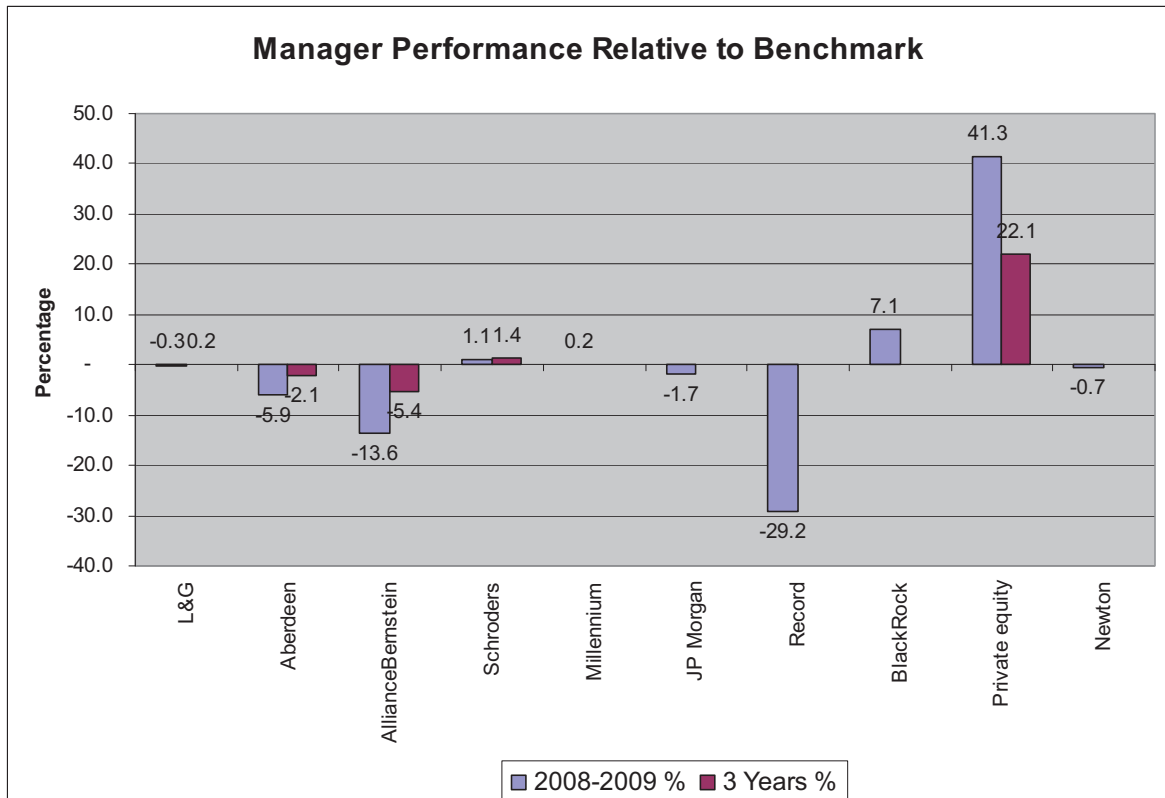
Manager Performance

11. The table and chart below show the investment returns achieved by the fund managers relative to their own benchmarks, together with that of the total fund over one year and three years. JP Morgan, Newton and BlackRock's mandates started in July 2007, Record started December 2007 and Millennium started in March 2008 so the performance figures for these managers relate to one year only.

% of Fund	Manager	Asset	2008-2009 Relative Return	3 Year Relative Return
%			%	% p.a.
30	Legal & General	Multi Asset Passive	-0.3	0.2
7	BlackRock	UK Equities	+7.1	N/A
11	Alliance Bernstein	UK Equities	-13.6	-5.4
13	Newton	Global Equities	-0.7	N/A
12	JP Morgan	Global Equities	-1.7	N/A
1	Record	Active Currency	-29.2	N/A
6	Millennium	Active Currency/ Futures	+0.2	N/A
7	Aberdeen	Bonds	-5.9	-2.1
9	Schroder	Property	+1.1	+1.4
4	Pantheon and Wilshire	Private Equity	41.3	22.1
100				

Investment Report

12. Although very short-term performance is not considered significant, BlackRock, Millennium, Schroders and the Private Equity Managers outperformed in 2008-2009. All other managers underperformed against their benchmarks in 2008-2009. Over three years Alliance Bernstein and Aberdeen underperformed against their benchmarks. The performance of the fund's private equity investments will be assessed over the longer term, but the investments have outperformed over both one and three years compared with listed equity markets. The valuations of private equity funds may not necessarily reflect current market values, since there can be significant time lags in revaluing individual private equity holdings.



Pension Fund No. 1 Accounts

<i>Fund Account for the year ended 31 March 2009</i>			
2007 - 2008			2008 - 2009
Restated			
£ million	Fund account	Notes	£ million
	Dealings with members, employers and others directly involved in the scheme		
	Contributions and benefits		
	Contributions receivable:		
	From employers:		
59.694	Normal	2	64.280
3.956	Deficit funding	2	3.337
4.691	Other		3.256
	From members:		
17.434	Normal	2	19.749
	Transfers in:		
7.588	Individual transfers in from other schemes		5.431
0.044	Other income		0.036
	Benefits payable:		
-40.711	Pensions	2	-43.947
-7.703	Commutations of pensions and lump sum retirement benefits		-10.590
-0.609	Lump sum death benefits		-1.000
	Payments to and on account of leavers:		
-0.026	Refunds of contributions		-0.021
0.003	State scheme premiums		-0.005
-3.247	Individual transfers out to other schemes		-4.052
-1.147	Administration expenses borne by the scheme		-1.344
39.967	Net additions (withdrawals) from dealings with members		35.130
	Returns on investments		
	Investment income:		
0.680	Interest from fixed interest securities		0.968
18.108	Dividends from equities		19.197
4.579	Income from pooled investment vehicles		4.656
0.860	Interest on cash deposits		0.572
0.188	Other		0.225
-55.877	Change in market value of investments		-324.595
-0.899	Taxation - irrecoverable withholding tax		-1.289
-3.041	Investment management expenses borne by the scheme		-2.887
-35.402	Net returns on investments		-303.153
4.565	Net increase, or decrease, in the fund during the year		-268.023
1,300.645	Opening net assets of the scheme		1,305.210
1,305.210	Closing net assets of the scheme		1,037.187

Pension Fund No. 1 Accounts

31 March 2008 Restated £ million	Net asset statement	Notes	31 March 2009 £ million
	Investment assets	6	
	Fixed interest securities:		
21.077	UK government fixed interest securities		20.469
1.428	Overseas fixed interest securities		0.000
	Equities:		
279.140	UK companies		198.004
302.840	Overseas companies		241.736
33.869	Private equity		45.245
4.929	Other Managed Funds		10.458
	Pooled investment vehicles:		
60.858	Open ended investment company		56.746
4.052	Unit trusts		2.651
368.604	Unit linked insurance policies		308.570
141.027	Property unit trusts		82.863
	Derivative Contracts:		
41.672	Futures: UK		31.804
0.184	Forward foreign exchange contracts		2.756
20.042	Active Currency		42.167
1,279.722			1,043.469
	Investment liabilities		
	Derivative Contracts:		
0.000	Futures: US		-3.549
-0.036	Forward Foreign exchange contracts	6	-2.702
1,279.686	Total investments		1,037.218
	Current assets		
12.747	Sundry debtors	10	8.153
0.100	Margin Variation	6	0.598
5.516	Cash temporarily lent to the council	6	9.594
3.159	Cash held by broker for Futures Contracts	6	6.874
90.312	Cash held by the investment managers	6	5.887
111.834			31.106
	Current Liabilities		
-41.672	Cash backing Open Futures Contracts	6	-28.255
-3.138	Sundry creditors	10	-2.882
-41.500	Cash temporarily borrowed from (-) the council	6	0.000
-86.310			-31.137
25.524	Net current assets / liabilities (-)		-0.031
1,305.210	Net assets		1,037.187

The accounts do not take account of liabilities to pay pensions and other benefits after the year end. The ability to meet these future liabilities is considered by the actuary as part of the valuation.

The net assets for 2007-2008 have not been restated for the movement from Mid to Bid price. Please see the accounting policies on page 23.

The notes on pages 19 to 28 form part of these accounts.

Notes on the Accounts

1. Running the Fund

The fund is administered by Suffolk County Council and provides retirement benefits for all employees who are members of the Local Government Pension Scheme. Also included in the fund are employees of all District Councils and Town Councils in Suffolk, the Suffolk Probation Board, civilian employees of the Suffolk Police Authority and several other organisations. Teachers, Firefighters and Police Officers have their own pension schemes and are not included in the fund.

2. Membership

The fund has the following numbers of members and pensioners:

31 March 2008			31 March 2009	
18,336		Members	19,148	
8,157		Employee pensioners	8,635	
1,599		Dependent pensioners	1,671	
11,861		Deferred	12,442	

Contributions received and benefits paid during the year were as follows:

2007-2008				2008-2009		
Employers' Contributions £ million	Employees' Contributions £ million	Benefits Paid £ million		Employers' Contributions £ million	Employees' Contributions £ million	Benefits Paid £ million
40.033	10.148	-19.207	Suffolk County Council	41.429	11.598	-20.887
26.828	6.758	-20.868	Other Scheduled and Resolution Bodies	27.269	7.404	-22.595
1.480	0.528	-0.636	Admitted Bodies	2.175	0.747	-0.465
<u>68.341</u>	<u>17.434</u>	<u>-40.711</u>	Total	<u>70.873</u>	<u>19.749</u>	<u>-43.947</u>

Included within employer normal contributions of £64.280 million is an amount for deficit funding of £20.522 million paid within the employers contribution percentage. The deficit funding identified separately on the fund account of £3.337 million refers to those employers funding their deficit by means of lump sum payments.

Employer contributions are made up of two elements:

- a) the estimated cost of future benefits being accrued, the “future service rate”; plus
- b) an adjustment for the funding position of accrued benefits relative to the Fund’s solvency target, “past service adjustment”. If there is a surplus there may be a contribution reduction; if a deficit a contribution addition, with the surplus or deficit spread over an appropriate period.

Notes on the Accounts

The Fund's actuary is required by the regulations to report the Common Contribution Rate¹, for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay. For the purpose of calculating the Common Contribution Rate, the surplus or deficit under (b) has in the past been spread over a period equivalent to the remaining working lifetime of all the employers' scheme members. The aim is to cover any deficit within 15 years as per the actuarial position on page 22.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer². It is the adjusted contribution rate which employers are actually required to pay.

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

2008-2009 is the first in a three year period for the contribution rates set by the actuary to reflect a and b above.

You will find a full list of employers and their contribution rates in the Funding Strategy Statement that we publish separately on the Suffolk County Council website.

The scheduled bodies contributing to the fund are:

County and District Councils Suffolk County Council Babergh District Council Forest Heath District Council Ipswich Borough Council Mid Suffolk District Council St. Edmundsbury Borough Council Suffolk Coastal District Council Waveney District Council	Town Councils Beccles Town Council Bury St. Edmunds Town Council Felixstowe Town Council Framlingham Town Council Hadleigh Town Council Haverhill Town Council Kesgrave Town Council Newmarket Town Council Stowmarket Town Council Sudbury Town Council Woodbridge Town Council
Parish Councils Boxford Parish Council Great Cornard Parish Council Lakenheath Parish Council Leavenheath Parish Council Mildenhall Parish Council Nayland and Wissington Parish Council Onehouse Parish Council Pinewood Parish Council Woolpit Parish Council	Other Bodies Lowestoft College Otley College Suffolk New College Suffolk Police Authority Suffolk Probation Service Suffolk Valuation Tribunal West Suffolk College

¹ See Regulation 77(4)

² See Regulation 77(6)

3. Managing the Fund

We invest the balance of the fund in line with Local Government Pension Regulations.

The Fund's investments are managed by:

- Aberdeen Fund Management
- AllianceBernstein Institutional Investments
- BlackRock Investment Management
- Cambridge Research and Innovation Limited
- JP Morgan Asset Management
- Legal and General Investment Management
- MAN Financials
- Millennium Global Investments
- Newton Investment Management
- Pantheon Ventures
- Record Currency Management
- Schroders Investment Management
- Wilshire Associates

The managers invest within a broad policy agreed with the Pension Fund Committee, who they report to at intervals during the year. The long term nature of the fund's liabilities means that capital growth potential and likely income, within acceptable levels of risk, are the main investment considerations. You can get a copy of the fund's Statement of Investment Principles from the Head of Strategic Finance or from the Suffolk County Council website.

The following table shows the market value of investments held by each manager at 31 March 2009.

31 March 2008		31 March 2009		
Market Value £ million	Percentage of Assets %	Market Value £ million	Percentage of Assets %	
82.643	6.46%	Aberdeen Fund Management equities	77.098	7.43%
169.930	13.28%	AllianceBernstein Institutional Investments	109.520	10.56%
83.387	6.52%	BlackRock Investment Management	70.953	6.84%
0.119	0.01%	Cambridge Research & Innovation Limited	0.119	0.01%
158.024	12.35%	JP Morgan Asset Management	123.177	11.88%
368.604	28.79%	Legal and General Investment Management	308.570	29.75%
41.672	3.26%	Man financials	28.477	2.75%
-	0.00%	Millennium Global Investments	33.486	3.23%
175.804	13.73%	Newton Investment Management	139.559	13.46%
14.846	1.16%	Pantheon Ventures	15.171	1.46%
20.042	1.57%	Record Currency Management	8.681	0.84%
145.711	11.39%	Schroder Property Investment Management	92.452	8.91%
18.904	1.48%	Wilshire Associates	29.955	2.88%
<u>1,279.686</u>	<u>100.00%</u>	<u>1,037.218</u>	<u>100.00%</u>	

100% (£308.570 million) of the Legal and General Investments are invested in its own index pooled funds (100%, £368.604 million as at 31 March 2008). Similarly 73.4% (£56.746 million) of Aberdeen investments are in its own overseas and corporate bond pooled funds (73.7%, £60.858 million as at 31 March 2008). These investments are shown

Notes on the Accounts

on the Net Asset Statement as pooled investment vehicles. The pooled funds are one step removed from direct ownership of the assets.

At the 31 March 2009 the following Derivative contracts were outstanding. The Futures were held by Man Financials and Aberdeen Asset Management. The forward exchange contracts were held by various managers.

2007-2008 Economic Exposure Value £ million	Type of Derivative	Expiration	2008-2009 Economic Exposure Value £ million
	Forward foreign exchange contracts		
0.148	(over the counter)	Less than 1 Year	0.054
41.672	UK FTSE (exchange traded)	Less than 1 Year	28.477
	- UK Treasury (exchange traded)	Less than 1 Year	3.327
	- US Treasury (exchange traded)	Less than 1 Year	-3.549

4. Actuarial Position

The last statutory three-yearly actuarial valuation was carried out as at 31 March 2007. The valuation report sets out the rates of the employers' contributions for the three years starting 1 April 2008. The valuation was based on:

- Meeting the requirements of the Local Government Pension Regulations
- 100% funding of future liabilities for service completed to 31 March 2007.
- The 'projected unit method' of actuarial valuation.
- Projected investment returns of 6.1% per year, increases in future salaries of 4.7% a year and for pension increases of 3.2% a year.
- The actuarial assessment of the value of the fund's assets was £1,301.2 million as at 31 March 2007 (the market value of assets in the draft accounts), plus £1.3 million for augmentation and redundancies, making a total of £1,302.5 million.
- The actuarial assessment of the fund's liabilities was £1,460.9 million at 31 March 2007.

The valuation showed that the fund's assets covered 89.2% of its liabilities at 31 March 2007, and the deficit based on the actuarial valuation was £158.4 million. The actuary has confirmed that the employer's common contribution rate should be 19.0% of pensionable pay for the three years starting 1 April 2008. The aim is to recover the pension fund deficit over a period of fifteen years.

An interim valuation was carried out as at 31 March 2009. The valuation was based on the following assumptions:

- Projected investment returns of 5.79% per year, increases in future salaries of 4.59% a year and pension increases of 3.17% a year.
- The actuarial value of the fund's assets was £1,055.3 million and the liabilities £1,745.2 million at 31 March 2009.

The valuation showed that the fund's assets covered 60.5% of its liabilities at 31 March 2009 and the deficit was £690 million.

5. Accounting Policies

The Fund Account and Net Asset Statement have been prepared in accordance with the provisions of Section 2 *Recommended Accounting Practice* of the Pension SORP – *The Financial Reports of Pension Schemes* issued by the Pensions Research Accounts Group and the associated guidance notes issued by CIPFA.

Expenditure and income are accounted for on an accruals basis with the exception of transfers into and out of the scheme which are accounted for on a cash basis. Acquisition costs of investments are included in the purchase price.

Administration costs are charged to the pension fund based on time spent by our staff. The costs are based on a contract charge from Customer Service Direct.

Investment management expenses are agreed in the respective mandates governing their appointment. Fees are based on the market value of the portfolio under management.

All investments are valued at their market value at the balance sheet date, as follows;

- Listed securities and managed fund are valued at the current bid price on the 31st March
- Property Unit trusts – open ended funds are shown at bid price and closed-ended funds are shown at Net Asset Value
- Private Equity – valuations as at 31 December 2008 which are compiled in accordance with the guidelines issued by the British Venture Capital Association or an Equivalent Body, adjusted for payments to and payments received from the private equity managers in the period 1 January 2009 to 31 March 2009.
- Investments held in foreign currencies have been valued on the relevant basis and translated into sterling at the rate on the balance sheet date.
- Futures are shown at market value which is the total exposure to the stock market that the futures contracts effect.

A change in accounting policy took place in April 2008 whereby listed securities changed from being valued at mid-price to being valued at current bid price.

Notes on the Accounts

6. Buying and Selling Investments

This is a summary of the investments we bought and sold during the year.

	Opening Balance	Purchase	Transaction costs on purchase	Sales	Transaction costs on sale	Change in Market Value	Closing Balance
	01 April 2008						31 March 2009
	£ million	£ million	£ million	£ million	£ million	£ million	£ million
Quoted							
UK Government Fixed Interest Securities	21.077	12.147	0.000	-13.638	0.000	0.883	20.469
Overseas Fixed Interest Securities	1.428	0.000	0.000	-1.413	0.000	-0.015	0.000
UK Companies	279.140	137.810	0.124	-107.277	0.098	-111.891	198.004
Overseas Companies	302.840	313.422	0.366	-298.071	0.357	-77.178	241.736
Other Managed Funds	4.929	33.946	0.000	-28.778	0.000	0.361	10.458
Derivatives - Currency	20.042	36.000	0.000	-3.000	0.000	-10.875	42.167
UK FTSE exchange traded futures	41.672	136.250	0.000	-136.331	0.000	-13.114	28.477
UK Treasury Exchange Traded Futures	0.000	24.743	0.001	-21.923	0.000	0.506	3.327
Derivatives - Forward Foreign Exchange contracts	0.148	490.027	0.000	-491.372	0.000	1.251	0.054
US Treasury Exchange Traded Futures	0.000	24.265	0.006	-27.215	0.000	-0.605	-3.549
Pooled Investment vehicles							
Open ended investment company	60.858	8.888		-7.026		-5.974	56.746
Unit trusts	4.052	4.227		-4.227		-1.401	2.651
Unit linked insurance policies	368.604	302.839		-302.708		-60.165	308.570
	1,104.790	1,524.564	0.497	-1442.979	0.455	-278.217	909.110
Unquoted							
Pooled Investment Vehicle - Property Unit trust	141.027	2.580	0.000	-11.715	0.000	-49.029	82.863
Private Equity	33.869	11.253	0.000	-2.020	0.000	2.143	45.245
	174.896	13.833	0.000	-13.735	0.000	-46.886	128.108
	1,279.686	1,538.397	0.497	-1,456.714	0.455	-325.103	1,037.218
	Opening Balance	Movement in Cash Balance	Change in Market Value	Closing Balance			
	01 April 2008			31 March 2009			
	£ million	£ million	£ million	£ million			
Margin Variation	0.100	0.000	0.498	0.598			
Cash [temporarily lent to/(borrowed from) the council]	5.516	4.078	0.000	9.594			
Cash [temporarily lent to/(borrowed from) the council]	-41.500	41.500	0.000	0.000			
Cash Backing Open Futures Contracts	-41.672	13.417	0.000	-28.255			
Cash held by broker for Futures Contracts	3.159	3.715	0.000	6.874			
Cash [held by the investment managers]	90.312	-84.435	0.010	5.887			
	15.915	-21.725	0.508	-5.302			

Notes on the Accounts

7. Holdings above 5 % of the Fund

This is a summary of the individual holdings within the fund which exceed 5% of the total value of the fund at the balance sheet date.

<u>Market Value 31 March 2008 £ million</u>	<u>Percentage of the Fund 31 March 2008</u>	<u>Asset Type</u>	<u>Manager</u>	<u>Market Value 31 March 2009 £ million</u>	<u>Percentage of the Fund 31 March 2009</u>
74.904	5.85%	Corporate Bond Index	Legal and General	66.412	6.40%
N/A	N/A	Corporate Bond Index	Aberdeen Asset Management	52.149	5.03%
69.159	5.40%	European Equities Index	Legal and General	N/A	N/A

In November 2008 Legal & General transferred a percentage of their European Equities Index into a European Passive Equities Index.

8. Stock Lending

The fund has an arrangement with its custodian State Street Bank and Trust to lend eligible securities from within its portfolio of stocks to third parties in return for collateral. In October 2008 a decision was taken by the Pension Fund Committee to suspend the stock lending agreement due to the global market conditions. The decision was reversed at the January 2009 committee meeting when stock lending recommenced.

Lending is limited to a maximum of 25% of the total value. Collateralised lending generated income of £0.129 million in 2008-2009 (£0.062 million 2007-2008) the third year that securities lending has occurred within the fund. This is included within 'other' investment income in the Fund Account. At March 2009 £28.526 million worth of stock (2.75% of the Fund) was on loan, for which the fund was in receipt of £29.286 million worth of collateral.

9. Related Parties

The pension fund is a related party to its administering authority and other participating employers. During 2008-2009 the material transactions were as follows: Please see note 2 for employer contributions.

<u>2007-2008 £ million</u>	<u>2008-2009 £ million</u>
0.880	1.073
-0.133	-0.086
Suffolk County Council - Administration Expense	
Interest on money lent to Suffolk County Council	

10. Net Current Assets and Liabilities

This is a breakdown of the Listed Debtors and Creditors in the Net Asset Statement:

<u>2007-2008</u> <u>£ million</u>		<u>2008-2009</u> <u>£ million</u>
	<u>Sundry Debtors:</u>	
6.932	Employer Contributions	3.460
0.568	Employee Contributions	0.502
4.981	Investment Assets	3.048
0.018	Stock Lending Income	0.012
0.000	Class action income	0.001
0.000	Payment in advance	0.037
0.098	Interest on Cash Deposits	0.086
0.150	Income due from Employers for Benefits Paid	1.007
<u>12.747</u>		<u>8.153</u>
	<u>Sundry Creditors:</u>	
-0.753	Investment Manager Expenses	-0.826
-0.975	Administration Expenses	-1.025
-0.721	Employer Contributions	-0.400
-0.677	Individual Transfers Into the Scheme	-0.343
-0.012	Payments for Lump Sums on Retirement	-0.288
<u>-3.138</u>		<u>-2.882</u>

11. Additional Voluntary Contributions

Scheme members have the option to make additional voluntary contributions to enhance their pension benefits. In accordance with regulation 5 (2) (C) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended), additional voluntary contributions have been excluded from the Fund Account and Net Assets Statement. These contributions are held by the providers and therefore do not form part of the fund's investments. A total of £1.377m was paid over to the providers, Prudential, Clerical Medical, Standard Life, Equitable Life and Century Life in 2008-2009.

12. Contingent Liabilities

At the 31 March 2009 there was a pending determination of the transfer value from the Pension No. 1 Fund to the Civil Service Pension Scheme due to a staff transfer which occurred in April 2005 of employees of the Suffolk Magistrates Courts Committee. The determination of the amount of any payment from the Suffolk Pension Fund to the Civil Service Pension Scheme is subject to the outcome of national discussions between the Government Actuary and the actuaries acting on behalf of local authority pension funds.

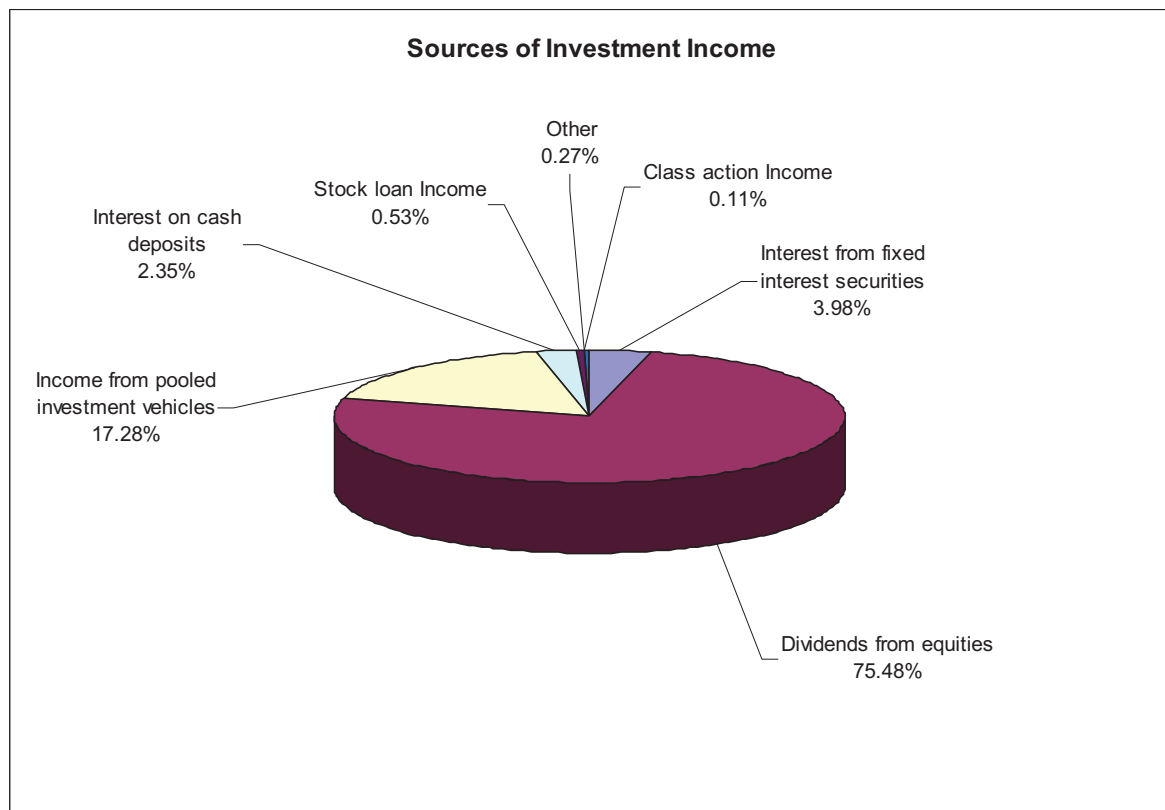
At the 31 March 2009 there was a pending bulk transfer of 41 employees from the Pension No. 1 Fund to the National Health Service. The value of the transfer is still to be determined by the actuaries of the respective schemes.

Notes on the Accounts

At the 31 March 2009 there was a pending bulk transfer of 28 employees from the Pension No. 1 Fund to Essex County Council. The provisional value of the transfer has been determined by the actuaries of the respective schemes. Essex County Council provided on the 21st May 2009 details of those wishing to transfer and this was communicated to the actuaries.

13. Investment Income

The following chart shows the sources of Investment Income earned by the Fund in 2008-09.



Investment income	£m	%
Interest from fixed interest securities	0.968	3.98
Dividends from equities (net of tax)	18.361	75.48
Income from pooled investment vehicles (net of tax)	4.203	17.28
Interest on cash deposits	0.572	2.35
Stock loan Income	0.129	0.53
Class action Income	0.027	0.11
Other	0.069	0.27
	24.329	100.00

Notes on the Accounts

14. The following table provides a breakdown of the retirement benefits paid.

Retirement Pensions	2007-08	2008-09
	£000	£000
Pensions to Retired Members : Statutory	26,896	29,090
: Supplementary	734	723
: Other	108	55
Pensions to Widows / Widowers : Statutory	1,922	1,896
: Other	63	60
Pensions Increases : Basic	9,189	10,228
: Widows / Widowers	1,785	1,881
: Other	14	14
	40,711	43,947

15.

Administrative and Management Expenses	2007-08	2008-09
	£000	£000
Administrative Costs		
Suffolk County Council	880	1,073
Actuarial and Investment Advisory Services	103	155
Audit Fees	31	47
Other Consultancy Charges	133	69
	1,147	1,344
Fund Management Expenses		
Capital International	304	0
Aberdeen	133	157
Legal & General	401	343
Societe Generale	146	0
Schroders	217	154
AllianceBernstein	623	489
BlackRock	141	180
Blackrock performance fee	0	273
Newton	560	701
JP Morgan	428	501
Millennium	1	6
Wilshire	0	0
Pantheon	0	0
Custodian (State Street Bank and Trust)	87	83
	3,041	2,887
TOTAL	4,188	4,231

The costs of administration and investment management increased by £43,000 (1%) in 2008-2009. The main factor that determines the investment management expenses of the fund is the value of the funds under management, which decreased by 20% in 2008-2009. The total administration and investment management costs represent about 0.4% of the value of the Fund at 31 March 2009, which is broadly in line with the local authority average.

Pension No. 1 Fund's Analysis of Investments

Analysis of Investments at 31 March 2009 by Industrial and Geographical Sector

Holdings	Pooled Investment Vehicles – Market Value £000	Segregated Holdings - Market Value £000	Total Market Value £000	% of Market Value %
Bonds				
Fixed Interest UK Securities - Gilts	22,098	20,469	42,567	4.10
Index Linked Gilts	44,824	-	44,824	4.32
Overseas Fixed Interest Securities	4,597	-	4,597	0.44
Corporate Bonds	118,561	-	118,561	11.43
Total Bonds	190,080	20,469	210,549	20.29
UK Equities				
Resources	-	30,485	30,485	2.94
Basic Industries	-	394	394	0.04
General Industrials	-	47,752	47,752	4.60
Cyclical Consumer Goods	-	1,968	1,968	0.19
Non Cyclical Consumer Goods	-	24,224	24,224	2.34
Cyclical Services	-	13,540	13,540	1.31
Non Cyclical Services	-	28,478	28,478	2.75
Utilities	-	6,271	6,271	0.60
Financials	2,651	43,005	45,656	4.40
Information Technology	-	1,887	1,887	0.18
Pooled	11,393	-	11,393	1.10
Total UK Equities	14,044	198,004	212,048	20.45
Overseas Equities				
Europe	49,679	57,742	107,421	10.36
North America	55,576	135,785	191,361	18.45
Japan	14,350	21,742	36,092	3.48
Other Asia	21,040	17,717	38,757	3.74
Other International	23,198	8,750	31,948	3.08
Total Overseas Equities	163,843	241,376	405,579	39.11
Private Equity	-	45,245	45,245	4.36
Other Managed Funds - Cash Instruments	-	10,458	10,458	1.01
Active Currency	-	42,167	42,167	4.07
Futures Contract	-	28,255	28,255	2.72
Forward Foreign Exchange Contracts (Net Asset Position)	-	54	54	0.01
Property Unit Trusts	82,863	-	82,863	7.98
Total	450,830	586,388	1,037,218	100.00

Pension No. 1 Fund's Largest Shareholdings as at 31 March 2009

Top 40 Holdings as at 31 March 2009

Holding (No of Units)		Market Value £ million	% Of Market Value
59,615,514	L&G AAA Fixed Interest Over 15 Year Bond Index	66.412	6.40%
47,777,430	Aberdeen Sterling Credit Fund Total	52.149	5.03%
47,220,870	North America Equity Index GBP hedged	46.436	4.47%
12,965,387	L&G Over 5 Year Index Linked Gilts Index	44.824	4.31%
312,066	Millennium Active Currency Total	36.537	3.52%
21,753,655	L&G European Equity Index hedged	25.660	2.47%
4,455,432	L&G European Equity Index	24.019	2.31%
7,048,688	Global Emerging Markets Index	23.198	2.23%
6,721,875	L&G Over 15 Year Gilts Index	22.098	2.13%
20,105,000	Aberdeen UK Treasury	20.468	1.97%
10,687,956	L&G Other Pacific Basin Equity Index hedged	17.238	1.66%
13,896,809	Vodafone Group	17.010	1.64%
3,506,903	BP PLC Total	16.535	1.59%
1,040,624	Royal Dutch Shell	15.932	1.53%
482,026	Schroder Exempt Property units	14.401	1.39%
13,503,715	L&G Japan Equity Index hedged	14.350	1.38%
2,515,220	UK Equity Index Total	11.393	1.10%
929,795	GlaxoSmithKline	10.098	0.97%
2,427,914	HSBC Holdings	9.578	0.92%
230,254	Standard Life Pooled Pension Property Fund	9.211	0.89%
1,755,911	North America Equity Index	9.140	0.88%
369,065	Astrazeneca	9.042	0.87%
5,135,240	Schroder Cash Instruments	9.013	0.87%
6,289	UBS Triton Property Unit Trust	8.699	0.84%
298,016	Record Active Currency	8.681	0.84%
1,889,823	Hermes Property Unit Trust	7.532	0.72%
1,043,325	Wilshire US Private Equity Fund VII	7.256	0.70%
508,747	BHP Billiton Plc	7.046	0.68%
229,600	Blackrock Asset Management Property Unit Trust	7.004	0.67%
409,609	British American Tobacco	6.607	0.64%
1,783,598	BAE Systems	5.953	0.57%
1,783,648	Tesco	5.945	0.57%
610,079	Wilshire US Private Markets Fund V	5.513	0.53%
698,085	Wilshire US Private Markets Fund VI	5.038	0.48%
19,636	Threadneedle Property Unit Trust	4.726	0.45%
445,899	BG Group	4.700	0.45%
644,809	Aberdeen Overseas Bonds	4.597	0.44%
1,758,537	Sprint Nextel Corp	4.355	0.42%
7,943	Pantheon USA fund V	4.317	0.42%
43,228	Roche Holdings AG	4.140	0.40%

These 40 holdings make up £626.851m, 60% of the total value of the portfolio.

Participating Authorities in Pension No. 1 Fund

Scheduled Bodies

Suffolk County Council

Babergh District Council
Forest Heath District Council
Ipswich Borough Council
Mid Suffolk District Council
St. Edmundsbury Borough Council
Suffolk Coastal District Council
Waveney District Council

Suffolk New College
West Suffolk College
Lowestoft College
Otley College
Suffolk Police Authority
Suffolk Probation Service

Resolution Bodies

Beccles Town Council
Bury St. Edmunds Town Council
Felixstowe Town Council
Framlingham Town Council
Hadleigh Town Council
Haverhill Town Council
Kesgrave Town Council
Newmarket Town Council
Stowmarket Town Council
Sudbury Town Council
Woodbridge Town Council

Great Cornard Parish Council
Mildenhall Parish Council
Onehouse Parish Council
Pinewood Parish Council
Woolpit Parish Council
Nayland & Wissington Parish Council
Boxford Parish Council
Leavenheath Parish Council
Lakenheath Parish Council

Admitted Bodies

1ST East
Abbeycroft Leisure
Anglia Community Leisure Trust
Association of Colleges in the Eastern Region
Coastal Homeless Action Group
Churchill Contract Services
Commission for Social Care Inspection
Hadleigh Market Feoffment Charity
Havebury Housing Partnership
Kings Forest Housing Ltd.
Leiston Long Shop Steam Museum
Papworth Trust
Partnership In Care Ltd.
Seckford Foundation
Sports and Leisure Management Ltd
Suffolk Association of Local Councils
Suffolk Coastal Leisure Community Assn. Ltd.
Suffolk Development Agency
Suffolk Valuation Tribunal
University Campus Suffolk
Waveney Norse

Other Employer (no active members)

Aldeburgh Town Council
Community Council For Suffolk
Ely, Mildenhall & Newmarket Water Board
Felixstowe Dock and Railway Company
Ipswich and District Citizens' Advice Bureau
Lakenheath Internal Drainage Board
Leiston Town Council
Mid Suffolk MIND
Mildenhall Fen Internal Drainage Board
Museum of East Anglian Life
National Care Standards Commission
Suffolk Archaeological Unit
Suffolk Heritage Housing Association
Suffolk Magistrates' Courts Committee
Suffolk Old People's Welfare Association
Suffolk Trust for Nature Conservation
West Suffolk Water Board

Pension No. 2 Fund (Ipswich Buses Ltd)

Fund Account for the year ended 31 March 2009

2007 - 2008			2008 - 2009
£ million	Fund account	Notes	£ million
	Dealings with members, employers and others directly involved in the scheme		
	Contributions and benefits		
	Contributions receivable:		
	From employers		
0.182	Normal		0.232
0.325	Deficit Funding		0.130
0.000	Other		0.073
	From members		
0.045	Normal		0.047
	Benefits payable:		
-0.610	Pensions		-0.644
	Commutations of pensions and lump sum retirement benefits		-0.207
-0.009	Lump sum death benefits		0.000
0.000	Individual transfers out		-0.036
-0.027	Administration expenses borne by the scheme		-0.038
-0.155	Net additions (withdrawals) from dealings with members		-0.443
	Returns on investments		
	Investment income		
0.059	Income from pooled investment vehicles		0.054
-0.309	Change in market value of investments:	6	-2.658
-0.008	Taxation - irrecoverable withholding tax		-0.004
-0.014	Investment management expenses borne by the scheme		-0.012
-0.272	Net returns on investments		-2.620
-0.427	Net increase, or decrease, in the fund during the year		-3.063
15.795	Opening net assets of the scheme		15.368
15.368	Closing net assets of the scheme		12.305

Pension No. 2 Fund (Ipswich Buses Ltd)

Net Asset Statement as at 31 March 2009

31 March 2008	Net asset statement	Notes	31 March 2009
£ million			£ million
	Investment assets		
	Pooled investment vehicles		
14.003	Unit linked insurance policies		11.828
1.393	Unit trusts: property		0.910
15.396	Total investments	6	12.738
	Current assets		
0.032	Sundry debtors		0.132
0.001	Cash [held by the investment managers]		0.002
0.033			0.134
	Current liabilities		
-0.004	Sundry creditors		-0.015
-0.057	Cash [temporarily lent to / borrowed from (-) the council]		-0.552
-0.061			-0.567
-0.028	Net current assets		-0.433
15.368	Net assets		12.305

The accounts do not take account of liabilities to pay pensions and other benefits after the year end. The ability to meet these future liabilities is considered by the actuary as part of the valuation.

The net assets for 2007-2008 have not been restated for the movement from Mid to Bid price. Please see the accounting policies on page 35.

The notes on pages 34 to 37 form part of these accounts

Notes on the accounts

1. Running the Fund

The fund is administered by Suffolk County Council and provides retirement benefits for employees of Ipswich Buses Limited. The separate fund was started on 1 April 1987.

2. Membership

The fund has the following number of members:

31 March 2008		31 March 2009
47	Membership	39
126	Employee pensioners	135
22	Dependent pensioners	22
33	Deferred	35

3. Managing the Fund

The balance of the fund is invested in line with the Local Government Pension Regulations. The fund is quite small therefore to keep administration costs down the fund is invested in Legal and General unit linked insurance policies (£11.828 million, 91% as at 31 March 2009) and Schroders property units (£0.910million, 9% as at 31 March 2009). A copy of the fund's Statement of Investment Principles can be obtained from the Head of Strategic Finance or from Suffolk County Council's website.

4. Actuarial Position

The last statutory actuarial valuation was carried out as at 31 March 2007. The valuation report sets out the rates of the employer's contributions for the three years starting 1 April 2008. The valuation was based on:

- Meeting the requirements of the Local Government Pension Regulations
- 100% funding of future liabilities for service completed to 31 March 2007.
- The 'attained age method' of actuarial valuation.
- Projected investment returns of 5.8% per year, increases in future salaries of 4.7% a year and for pension increases of 3.2% a year.
- The actuarial assessment of the value of the fund's assets was £15.8 million as at 31 March 2007 (the market value of assets), and
- The actuarial assessment of the fund's liabilities, which was £16.6 million at 31 March 2007.

The valuation showed that the fund's assets covered 94.9% of its liabilities at the valuation date, and the deficit based on the actuarial valuation was £842,000. The estimated funding level for the No. 2 Pension Fund at March 2008 was 88%, which reflects the falls in all major markets over the period since the March 2007 actuarial valuation.

The actuary has confirmed that the employer's common contribution rate should be 26.2% of pensionable pay for the three years starting 1 April 2008. In addition, monetary payments of £130,000 in 2008-2009, £136,000 in 2009-2010 and £143,000 in 2010-2011.

An interim valuation was carried out as at 30 November 2008. The valuation was based on the following assumptions:

- Projected investment returns of 5.6% per year, increases in future salaries of 4.41% a year and pension increases of 3% a year.
- The actuarial value of the fund's assets was £12.663 million and the liabilities £17.373 million at 30 November 2008.

The valuation showed that the fund's assets covered 72.9% of its liabilities at 30 November and the deficit was £4.7 million.

5. Accounting Policies

The Fund Account and Net Asset Statement have been prepared in accordance with the provisions of Section 2 *Recommended Accounting Practice* of the Pension SORP – *The Financial Reports of Pension Schemes* issued by the Pensions Research Accounts Group and the associated guidance notes issued by CIPFA.

Expenditure and income are accounted for on an accruals basis with the exception of transfers into and out of the scheme which are accounted for on a cash basis. Acquisition costs of investments are included in the purchase price.

Administration costs are charged to the pension fund based on time spent by our staff. The costs are based on a contract charge from Customer Service Direct.

Investment management expenses are agreed in the respective mandates governing their appointment. Fees are based on the market value of the portfolio under management.

All investments are valued at their market value at the balance sheet date, as follows;

- Listed securities and managed fund are valued at the current bid price on the 31st March
- Property Unit trusts – open ended funds are shown at bid price and closed-ended funds are shown at Net Asset Value
- Investments held in foreign currencies have been valued on the relevant basis and translated into sterling at the rate on the balance sheet date.
- Futures are shown at market value which is the total exposure to the stock market that the futures contracts effect.

A change in accounting policy took place in April 2008 whereby listed securities changed from being valued at mid-price to being valued at current bid price.

Notes on the accounts

6. Buying and Selling Investments

	Opening Balance 01 April 2008 £ million	Purchase £ million	Sales £ million	Change in Market Value £ million	Closing Balance 31 March 2009 £ million
<u>Pooled Investment Vehicles</u>					
Property Unit Trusts	1.393	0.270	-0.270	-0.483	0.910
UK Companies	3.856	0.755	-0.095	-1.157	3.359
UK Government Index Linked Securities	3.178	0.035	-0.570	-0.120	2.523
Corporate Bonds	3.151	0.293	-0.673	-0.131	2.640
Overseas Companies	3.818	0.506	-1.378	-0.744	2.202
Overseas Companies - Currency Hedged	-	1.167	-0.040	-0.023	1.104
Total	15.396	3.026	-3.026	-2.658	12.738

The pooled investment vehicles are managed by fund managers registered in the UK. No transaction costs were incurred by the fund managers in managing this fund.

7. Holdings above 5% of the fund

This is a summary of the investments above 5% of the total value of the investments (£12.738 million) at the balance sheet date. All the individual holdings shown below are shown within Pooled Investment Vehicles on the Net Asset Statement.

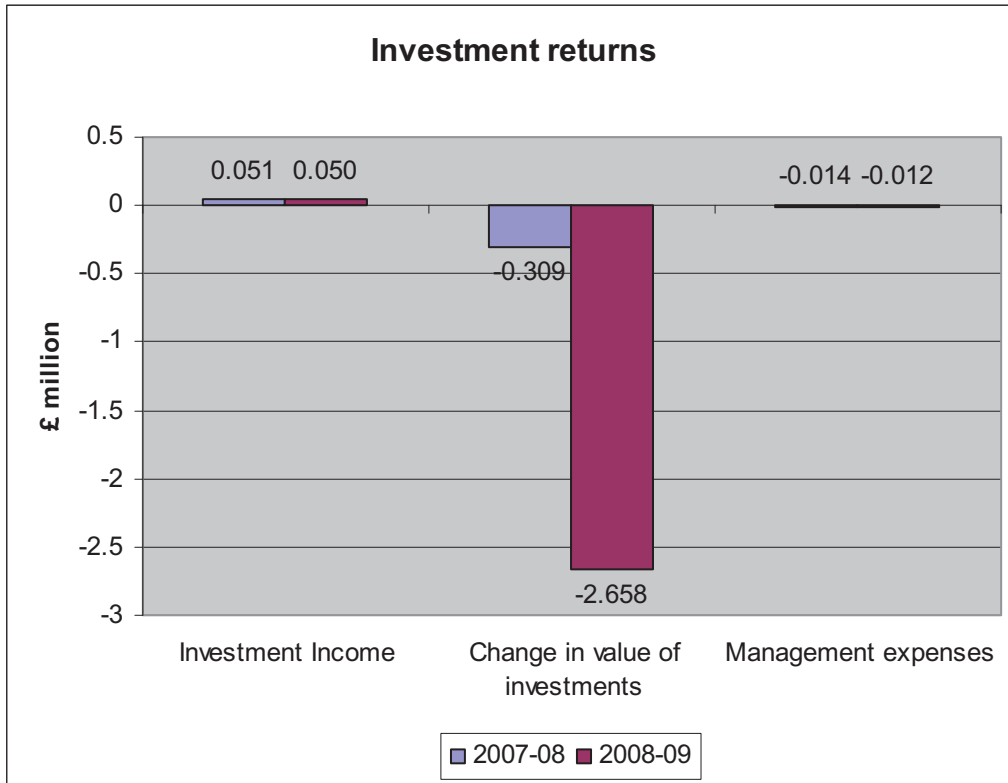
Value 31 March 2008 £ Million	% of the Fund 31 March 2008	Asset Type	Manager	Value 31 March 2009 £ Million	% of the Fund 31 March 2009
1.104	7.17%	North American Equities Index	Legal and General	N/A	N/A
0.777	5.05%	Japan Index	Legal and General	N/A	N/A
1.193	7.75%	European Equities Index	Legal and General	0.677	5.32%
1.392	9.04%	Property Unit Trust	Schroders	0.910	7.14%
3.179	20.65%	Over 5 Year Index Linked Index	Legal and General	2.523	19.82%
3.150	20.46%	Corporate Bond Index	Legal and General	2.640	20.72%
3.856	25.05%	UK Equities Index	Legal and General	3.359	26.37%

8. Related parties

2007-2008 £ million		2008-2009 £ million
	<u>Transactions:</u>	
0.006	Suffolk County Council - Administration Expenses	0.005
	Interest on money borrowed from Suffolk County Council	
0.000		0.005
	<u>Balances:</u>	
0.017	Employer contributions	0.020

9. Investment Performance

The chart below shows the main source of investment returns during 2008-2009. The change in the value of the investments includes realised and unrealised gains and losses.



Glossary

Active Management – Investment management, where the fund manager aims to outperform a benchmark by superior asset allocation, market timing or stock selection.

Actuarial Valuation – An independent assessment of the fund's assets and liabilities which is undertaken by the Fund actuary every three years for the purpose of determining the contributions required from the fund's employers in order to maintain the fund's long-term solvency.

Actuary – An independent professional advisor who advises Suffolk County Council on the actuarial position of the pension fund.

Admitted Bodies - The regulations allow an administering authority to make admission agreements with certain other employers to enable their employees to become (or remain) members of the local government pension scheme. This is particularly relevant in the case of transfers of staff where services may be transferring from a local government employer to the private sector and the private sector employer is required to provide a pension scheme which is broadly comparable to the local government pension scheme.

Asset Allocation – Apportionment of a fund's assets between asset classes and/or world markets.

Attained Age Method – An actuarial valuation methodology, whereby the actuarial liabilities of a fund are valued by reference to the pension entitlements that accrue to current scheme members up to the age when they retire, cease employment or die. It is a methodology which is suitable for a pension fund which is closed to new employees.

Benchmark – A yardstick against which the investment performance of a fund manager can be compared.

Bond – A security that pays interest. The issuer agrees to pay the bondholder a regular set sum based on the amount borrowed and the bond's coupon, and to repay the principal amount of the loan at a future date.

Corporate Bond – Debt issued by a corporation.

Currency management – A specialist investment manager who seeks to deliver investment returns by exploiting opportunities in international currency markets.

Custodian – The pension fund's custodian is State Street. The custodian provides safe-keeping of all the investment managers' securities, by holding and recording the investments and processing tax reclaims.

Diversification – An effective spread of investments so that the failure of a few, or even an individual market, would be less likely to have a serious effect on the integrity of the overall portfolio.

Equity – The risk capital of a business. Holders of equities of a company have the ability to influence the management of the company by the use of voting rights.

Funding Level – The proportion of the Fund's liabilities to pay current and future pension payments, as assessed by the Fund Actuary, which are covered by the Fund's current level of investments.

Funding Strategy Statement – A statement that the County Council is required to prepare every three years, in conjunction with the triennial actuarial valuation, which sets out its strategy to maintain the long-term solvency of the Pension Fund.

Government Bond – Debt issued directly by a country's government in its own currency.

Indexation – A style of fund management that aims to construct a portfolio to provide the same return as that of a chosen index.

Glossary

Index Linked – The UK Government issues stocks, the interest and ultimate capital repayment on which are recalculated on the basis of changes in the Retail Price Index (RPI). Index-linked stocks may be regarded as being the most secure investment available, the value of income and underlying capital being projected in real terms against the effects of inflation on the spending power of money over the full life of the stock: during this period the market price will be volatile, as it will be for any other security.

Listed Securities – Investments which are listed on a recognised stock exchange.

Market Value – The price at which an investment can be bought or sold at a given date.

Property Unit Trusts – Pooled investment vehicles that enable investors to hold a stake in a diversified portfolio of properties.

Pooled Fund – A fund in which a number of investors hold units. The assets are not directly held by each client, but as part of a ‘pool’.

Private equity – A form of equity investment whereby the investment is typically not listed on a recognised stock exchange. This means that the ability to buy and sell such investments depends on finding a suitable counterparty to contract with. Such investments are typically more difficult to buy and sell than listed investments.

Projected Unit Method – An accrued benefits actuarial valuation methodology in which the scheme liabilities make allowance for projected future earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- The benefits for pensioners and deferred pensioners and their dependants, allowing where appropriate for future increases, and
- The accrued benefits for members in service on the valuation date.

Proxy – A written authorisation given by a shareholder to someone else to vote on their behalf at a company’s annual general meeting.

Relative Return – The degree of out or under performance relative to the Fund’s or an investment manager’s benchmark index.

Resolution Bodies – Scheme employers with the power to decide if an employee or a group of employees can belong to the scheme.

Scheduled Bodies – A number of public sector bodies, mainly local authorities, but including bodies such as further education colleges and probation services, are required to offer membership of the Local Government Pension Scheme to certain groups of employees. These bodies are known as scheduled bodies. Teachers, firefighters and police officers are covered by separate public sector pension arrangements and are not eligible to join the Local Government Pension Scheme.

Stock Lending – The lending of a security by the registered owner, to an authorised third party, for a fixed or open period of time, for an agreed consideration and secured by acceptable collateral.

Unit Trust – An open-ended pooled fund in which investors can buy and sell units on an ongoing basis.

Withholding Tax - An amount withheld by the party making payment to another and paid to the taxation authorities. Pension Funds are generally able to recover withholding tax in respect of their dividend income from overseas equity holdings, because of their tax-exempt status

