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Northamptonshire County Council Pension Scheme

Annual Report and Statement of Accounts 2007-08

Northamptonshire County Council

NORTHAMPTONSHIRE COUNTY COUNCIL PENSION SCHEME

Annual Report and Statement of Accounts 2007-08

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INTRODUCTION

This annual report sets out the arrangements by which the Local Government Pension Scheme operates, reports changes which have taken place and reviews the investment activity and performance of the Northamptonshire Fund during the year.

An abbreviated version of this report is circulated to the scheme members along with their annual benefit statements.

The report has been prepared in accordance with Code of Practice for Local Authority Accounting in Great Britain and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom (Pension Scheme Accounts) (SORP) 2008.

J. Raisin

Head of Finance

Date: 23 July 2008

LEGAL FRAMEWORK AND ADMINISTRATION

Legal framework

The Local Government Pension Scheme is a statutory, funded pension scheme. It is "contracted-out" of the state scheme and is termed a defined benefit (or final salary) scheme. The operation of the Northamptonshire Local Government Pension scheme is principally governed by the Local Government Pension Scheme Regulations 1997 [as amended] (effective from April 1998). The scheme covers eligible employees of the County Council, the Police Authority, District and Borough Councils within the county area other than teaching staff, police officers and fire-fighters for whom separate statutory arrangements exist. A number of other bodies are also members of the Scheme. A list of all those bodies with employees currently participating in the Scheme is shown on pages 48 to 51.

This defined benefit scheme provides benefits related to salary for its members and is unaffected by the investment return achieved on the Scheme's assets. Pensions paid to retired employees, their dependents, and deferred benefits are subject to mandatory increases in accordance with annual pension increase legislation. The amount is determined by the Secretary of State and is based on the Retail Price Index (RPI).

Contributions

The Scheme is financed by contributions from employees and employers, together with income earned from investments. The surplus of contributions and investment income over benefits being paid is invested.

The contribution from employees is prescribed by statute at the rate of 5% or 6% of pensionable pay depending upon their conditions of service.

Employers' contribution rates are set following the actuarial valuation which takes place every three years. The contribution rate reflects the Fund deficit or surplus and is the rate at which employers need to contribute to achieve a 100% funding level. The Fund has agreed that deficits will be recovered over a maximum period of 20 years commencing April 2005, as set out in the Funding Strategy Statement.

Contribution rates for 2007-08 were based on the last completed valuation of the Scheme's financial position as at 31st March 2004 and are shown on pages 48 to 51.

The next actuarial valuation has been undertaken as at 31 March 2007 and the subsequent change in contribution rates, as a result of this valuation, will take effect from 1 April 2008.

Statement of Investment Principles

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999 came into force in February 2000. One of the principal provisions was the requirement by administering authorities to maintain and publish a Statement of Investment Principles (SIP).

The written statement which sets out the principles governing decisions about investment also addresses the way voting rights are carried out and the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments.

Funding Strategy Statement

The Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004, provide the statutory framework from which the Administering Authority is required to prepare and publish a Funding Strategy Statement.

The statement sets out the aims and purpose of the Pension Fund, the responsibilities of the key parties, discusses solvency issues and target funding levels and links to investment policy set out in the Statement of Investment Principles.

Governance Policy

The Local Government Pension Scheme (Amendment) (No2) Regulations 2005 [SI2005 No. 3199] – December 2005, require all Administering Authorities to prepare, publish and review a Policy Statement setting out the governance of the Fund.

This statement sets out the Fund's scheme of delegation and the terms of reference, structure and operational procedures of delegation.

Communications Policy

The Local Government Pension Scheme (Amendment) (No2) Regulations 2005 [SI2005 No. 3199] – December 2005, require all Administering Authorities to prepare, publish and review a Policy Statement setting out the communication strategy for communicating with Members, Members representatives, prospective Members and Employing Authorities; and for the promotion of the Scheme to prospective Members and their Employing Authorities.

Link to policy documents on the internet

All the policy documents discussed above are separate publications available on the internet using the following link. In addition there are other useful pension fund documents on this link.

http://www.northamptonshire.gov.uk/Democracy/finance/NLGPS/nlgps.htm

A hardcopy will be made available upon request.

INVESTMENT ARRANGEMENTS

Legal Framework

The investment management of the Fund is governed by the provisions of the Local Government Pension Scheme – Management and Investment Regulations 1998. The main stipulations are:

- An administering authority may appoint one or more investment managers to manage and invest fund monies on their behalf.
- The investment manager must provide, at least once every three months, a report setting out his actions.
- The investment manager must have regard to the need for diversification of investments of fund monies and to the suitability of investments which they propose to make.

Pensions Committee

The investment activities of the Fund are controlled by the County Council's Pensions Committee, supported by an Investment Advisory Panel.

The Pensions Committee consists of:

- five members nominated by the County Council;
- one district council representative;
- an employee representative nominated by the employees' union UNISON (non-voting)

Since April 2001 the Fund has been advised by independent adviser, Mr. P Meredith. The independent adviser is not formally a member of the Pensions Committee.

The members of the Pensions Committee as at 31 March 2008 are listed on page 52.

In respect of Investments the Pensions Committee seeks to ensure that all:

- funds are suitably invested,
- investments are diversified,
- relevant investment limits are not exceeded,
- investments and investment arrangements are regularly monitored and reviewed.

Investment Asset Allocation and the role of Fund Managers

Asset Allocation is the determination by the Pensions Committee informed by professional investment advisors of the categories of investment that the Fund should seek to invest in, being an assessment of the asset types that best serves the current and future demands on the Fund. Typical categories are Equities, Fixed Interest Instruments, Property and Cash.

Following determination of the categories of investment, external investment managers are appointed to implement the investment strategy. Operational "day to day" investment decisions are taken by external investment managers, appointed by the Pensions Committee to optimise returns, as determined within the Fund's Asset Allocation.

All external investment managers have been given “active” briefs to outperform the benchmark, which means they must determine which stocks to hold and which not to hold, in order to out perform the investment benchmark they are instructed to trade in.

External investment managers:-

- ❖ Are given specific briefs in a defined asset class, therefore have little or no flexibility between asset classes.
- ❖ Have limited sums to invest and are therefore less disruptive to replace should the need arise.
- ❖ Have competitive performance targets to reflect the intensity of their limited specialist investment brief.
- ❖ Are sometimes limited in which country they can invest, for example we have investment managers who can only invest in UK Equities.

<u>Performance</u>
Fund manager performance is undertaken by the Investment Advisory Panel of the County Council, where fund managers are required to report investment performance on a quarterly basis. They are subject to challenge in these meetings from the Panel members and the Panel’s well respected and informed independent investment adviser.

Custodian Services
Northern Trust has been the Fund’s appointed Global Custodian since September 2000.

The responsibilities of the Global Custodian are:

- arranging for the custody of the scheme’s assets in compliance with the custody agreement.
- ensuring that all holdings have been registered as assets of the Fund.
- manage the settlement of all deals entered into by the fund managers, collect all dividends and interest accruing to the Fund and to hold all cash.
- providing the administering authority with monthly valuations of the scheme’s assets and details of all transactions during the quarter.
- providing details in a timely manner to Russell Mellon Performance Services Limited and the WM Company.

Asset Liability Study
The Fund is required to undertake a full actuarial valuation of its assets and liabilities every three years. The valuation which impacted on the financial period covered in the report came into effect from 1st April 2005 for a three year period ending on March 2008.

The valuation process considers current and future liabilities and the degree to which these liabilities are provided for in the current value of assets, anticipated future investment return and the level of ongoing employer funding.

It is best practice following a valuation to review the asset allocation of the Fund and consider changes to the Fund’s investment strategy.

The Fund duly undertook an Asset Liability Study which informed changes in investment strategy throughout the period covered by the March 2004 valuation.

To gain a full perspective of the development of the Fund's investment strategy over the financial years April 2005 to March 2006 and April 2006 to March 2007, please refer to the Annual Report and Statement of Accounts for these financial years, which are available on the Northamptonshire County Council's website. http://www.northamptonshire.gov.uk/Democracy/finance/NLGPS/nlgps.htm

Developments undertaken in the financial year April 2007 to March 2008, the period pertaining to this annual report, are set out below.

REVIEW OF DEVELOPMENTS IN 2007-08

Introduction

This financial year has seen significant change in both investment, legislative and administrative terms, the following pages provide a summary of these developments.

The period April 2007 to March 2008 was subject to a number of significant changes to the investment portfolio of the Fund.

Hedge Funds

In February 2007, the Pensions Committee approved the principle of investment in Hedge Fund of Funds. The benefits to the wider investment portfolio of Hedge Funds, is to provide risk diversification to a primarily traditional asset class portfolio. Hedge Funds have low correlations with the returns from Quoted Equities and Bonds, therefore for example if Quoted Equities are subject to negative volatility the causes of such volatility should have little or no correlation to the behaviour of the hedge funds.

Two Fund of Fund Hedge Fund managers were appointed, being Fauchier Partners Management LTD and Partners Group both with 2.5% of the Fund being approximately £28.5m, with effect from July 2007.

Less Constrained Bonds Remit

Following studies on the performance of Fixed Income Investments and consideration of alternative options for Fixed Income investment the Fund approved adoption of a “less constrained” mandate. A “less constrained” mandate provides greater flexibility to the Fund’s two existing Fixed Income managers to utilise a wider range of investment options in the Fixed Income environment with the intent to provide enhanced returns and greater investment diversity.

In respect of Aberdeen Fund Management Limited the transfer to the new investment structure happened on the 2nd April 2008. The new structure provided for 50% of their mandate on their historical benchmark and the remaining 50% on the new “less constrained” mandate.

Property

In 2007-08 it became apparent that the decade of consistently positive property returns was coming to an end, with projections of eighteen months of difficult trading conditions. In this light and in consideration of the liquidity constraints of property investing, the Pensions Committee approved changes to the nature of property investments.

Traditionally the Fund had limited property investments to the United Kingdom, however following the projections of consistent negative returns in the United Kingdom it was determined to widen the scope of property investing.

The Pensions Committee approved a number of options throughout the 2007-08 financial year the summary of which is:-

- ❖ Increased gearing levels in the benchmark to accommodate the higher gearing typical of “non-UK” property investing.
- ❖ Permitted property managers to undertake investments firstly in Europe and subsequently on a “global” perspective.

- ❖ Maintained all property investments to be measured against the HSBC All Balanced PUT, being a UK property benchmark.
- ❖ Permitted the use of property "index linked notes", which project significant investment benefits to the Fund over the longer term, against current investment projections.
- ❖ Permitted property managers to hold a limited cash balance, rather than force the purchase of property in a negative and difficult market.

These actions gave property managers significant flexibility to seek improved returns from a wide universe. The requirement for all options to be measured against the UK benchmark provides a degree of protection to the Fund, as managers must be mindful of the performance of the UK property market against which their performance is measured.

In addition the Fund's property holdings benefit from diversity.

Overseas Equities
The final material development in 2007-08 was the appointment of a new overseas equity manager, being Newton Investment Management Limited (Newton). Newton joined the Fund in March 2008 with a mandate to invest 17.25% of the Fund, in overseas equities.

Fund Managers Holdings:
The percentage holdings of the Funds Investment Managers as at 31st March 2008 are:-

		Holding	Brief
❖	UBS	17.50%	UK Equity mandate
❖	Martin Currie	8.50%	UK Equity Specialist
❖	Majedie	8.50%	UK Equity Specialist
❖	Alliance Bernstein	17.25%	Overseas Equity Specialist [ex. UK]
❖	Newton	17.25%	Overseas Equity Specialist [ex. UK]
❖	UBS	7.00%	Fixed Interest Mandate
❖	Aberdeen	11.00%	Fixed Interest Specialist
❖	UBS	3.00%	UK Property Mandate
❖	CB Richard Ellis	3.00%	UK Property Specialist
❖	RREEF	2.00%	UK Property Specialist
❖	Fauchier Partners	2.50%	Hedge Fund of Funds
❖	Partners Group	2.50%	Hedge Fund of Funds
❖	TOTAL	100.00%	

The Fund's Benchmark as at 31 March 2008, which incorporates the changes recorded above, is:-

Current benchmark as at 31 March 2008

Weighting		%	Market Benchmark adopted
UK Equities		**34.5**	FTSE All Share
Overseas Equities		**34.5**	
	6.80%		FTSE AW All World ex UK
	7.00%		FTSE AW Developed World ex UK
	6.07%		FTSE AW Developed Europe ex UK
	6.07%		FTSE AW North America
	6.07%		FTSE AW Developed Asia Pacific
	2.50%		FTSE AW Emerging
Bonds		**18**	
	3.19%		FTSE Government All Stock
	1.20%		FTSE Government All Stock > 15 Years
	5.80%		Iboxx Sterling Non-Gilts
	2.30%		FTSE Index Linked Gilts > 5 Years
	3.50%		20 Year Sterling Inflation Linked Swap
	1.00%		Lehman Bros 240 Month Sterling Swap
	1.00%		Lehman Bros 600 Month Sterling Swap
Property		**8**	
	8.00%		HSBC AREF All Balanced Funds
Hedge Funds		**5**	
	5.00%		1 month LIBOR + 5% p.a.
	Total	**100**	

Market Value of the Fund March 2008 £1.056bn

Regulations
One of the major events for pension administration during 2007/2008 was the introduction of a new Local Government Pension Scheme. Although regulations had been promised on this new Scheme by 1 April 2007, we have found ourselves with only some of the regulations being produced and only some guidance being provided on these by the Department of Communities and Local Government. Further new and amending regulations are awaited as is clarification on a number of areas.

Despite this, a complete review of all leaflets, forms and letters produced has been undertaken. Many of these new documents have been produced in-house to reflect the requirements of this Scheme, but others have been produced in collaboration with other administering authorities within the East Midlands region.

Communication of the new Scheme has been achieved with all its stakeholders through various media, including a DVD produced to identify many of the changes, seminars and presentations to employers and employees.

2007/2008 has also required the triennial valuation of the Northamptonshire Local Government Pension Scheme. This requires the coordination of all employers for providing specific information on their members of this Scheme and submission of all data relevant to individual members of the Northamptonshire Local Government Pension Scheme to the Fund’s actuary. This mammoth task was achieved within a shorter timetable than ever before and with only a minimal number of questions raised on the data by the actuary.

The regular annual benchmarking exercise, controlled by CIPFA, has again been undertaken to determine the level of workloads and costs in the administration of this Scheme against many other administering authorities. The results identify Northamptonshire Local Government Pension Scheme as low cost and high workloads.

Whilst these are again extremely pleasing results, we must continue to review all areas of our administration to ensure that they are adequately supported and resourced to ensure the requirements of all our stakeholders are supported by the delivery of an efficient, cost effective and forward looking service.

Northamptonshire County Council Pension Fund
Investment Review

Economic and market background

The world economy continued to grow steadily through 2007. The difficulties which emerged initially in "sub-prime" US mortgages and then in pricing "structured products" containing those mortgages and eventually in effective closure of the inter-bank money market were seen as arcane banking issues. It was generally accepted that tighter credit conditions might curtail corporate acquisitions and private equity but central bankers, led by the US Federal Reserve Board, were clearly prepared to lower interest rates aggressively to ameliorate significant impact on the wider economy. Growth in emerging economies, particularly in the "BRICs" [Brazil, Russia, India and China], was seen as strong enough to substantially offset slowdown elsewhere. Outside banking, company profits seemed reasonably robust and headline equity valuations were not high.

However, by the first quarter of 2008 there were clear signs that the impact of credit contraction would be more widespread. Bankers predicating their complex products and balance sheets on a permanent rise in house prices confused their management, much as those peddling complex mortgage deals confused low quality borrowers. The US Federal Reserve Board cut interest rates sharply to 2¼% and then took risk assets as security, initially from Bear Stearns to facilitate its rescue by JP Morgan Chase. These were seen as desperate measures and by year end the Fed chairman had to accept the possibility of a US recession. The dollar weakened throughout the year - by 16% against a strong Euro. Oil and most other commodity prices remained volatile and remarkably firm, despite signs of weaker economic activity.

Equity markets were finally "spooked" and although by late March they were beginning to take some encouragement from the Bear Stearns rescue and banking rights issues, prices at year end had hardly recovered. UK equities returned –8% for the year but there were large divergences with banks particularly weak and mining companies very strong. Overseas equity markets in aggregate returned –1% with emerging markets at +20% and Pacific ex Japan at +9% notably strong and Japan at –15% the weakest. UK gilts returned +8% and index-linked +13% but all credit suffered severely, particularly banking debt, and the ML sterling non-gilt index returned –1%. UK property returned –11% as activity seized up with credit tight while retail investors withdrew funds.

Performance

The value of the Fund fell over the year from £1.1bn to £1.06bn. The return over this third year of the revised arrangements at –5.5% was well below the benchmark return of –2.6%, reflecting the problems faced by many fundamental value strategies in this environment.

Outlook

The rebalancing of the US, UK and several other economies following the "Anglo-Saxon" [housing/consumer centric] model seems well overdue. A "nice decade" of cheap and plentiful credit has led to house prices well above long term trend and unprecedented levels of unsecured personal debt. Imported consumer goods have caused trade deficits, which can not be financed indefinitely by capital inflows, particularly if those oil producers and Asian manufacturers recycling their surpluses lose confidence in this economic model. Nevertheless, the unwinding of the credit "binge" has many potentially desirable effects. Housing becomes more affordable and after a hiatus this should improve job mobility. Savings should pick up. At a more competitive exchange rate incoming and domestic tourism should revive. Manufacturing should regain competitiveness. The US trade deficit already seems much less forbidding than a year ago – indeed the US is now a net exporter of cars, albeit mainly with Japanese badges. However, prolonged "binges" can take time to "work off" and there is still a significant risk that defaulting mortgages and foreclosures on US homes with negative equity [9 million and rising] will become self-reinforcing over the next few years. This could easily turn the present credit "crunch" into a US recession.

Significant issues remain too on the wider stage. Soaring commodity prices and volatile currencies inhibit progress on long-term capital projects. Growing OPEC surpluses do not easily trickle down to the hungry poor in the Third World. Recent action by some governments in the face of food riots to restrict exports and to subsidise basic foods goes against the theme of deregulation and free trade that has underpinned strong economic growth, particularly in Asia. The Beijing Olympics will doubtless throw unwelcome light on the lack of economic and political rights for most Chinese. Official corruption and dubious property rights suggest that the momentous transition to a developed modern state may yet stumble. Oil will remain a critical component of economic activity for several decades. Demand, stimulated by BRIC growth, seems to have become remarkably insensitive to price. Investment in energy efficiency, whilst continuous and impressive, is many years in gestation as is investment in new more complex mostly offshore oilfields, in nuclear and in other alternatives. There may be a speculative element in oil prices over $130 per barrel but it is hard to see any demand or supply factors bringing much relief for many years. The resulting global inflation with negative real interest rates in much of the world could yet present a greater long-term threat to economic growth and stability than purely domestic US issues.

Here in the UK the mortgage drought will cause house prices to fall significantly. The authorities' attempts to rejuvenate this market by accepting risk assets from banks as security may not do much to offset the constraints on supply resulting from the virtual demise of securitisation. Unemployment may well rise as a result of cutbacks in financial services and there isn't much scope for increased Government spending. A "really nasty" housing market could still trigger recession here but the underlying shortage of homes makes this rather less likely than in the US. Domestic profits will suffer from weaker demand and higher input costs, particularly fuel. For most exporters this is an acceptable price to pay for renewed competitiveness, particularly if selling into euro markets where the terms of trade have improved by over 15% since mid 2007. Also major multinationals still dominate equity markets and are relatively untroubled by domestic demand. Rights issues from banks and tighter credit for private equity will restrain overall equity prices but "sovereign wealth funds" are growing rapidly and are prepared to diversify into equities, sometimes aggressively. The UK Equity market is on an aggregate earnings yield of over 8% and, even if those earnings don't grow much for several years, for a long-term investor this seems reasonable value.

Overseas equity markets, developed and emerging, are valued on broadly similarly terms to the UK. They too offer reasonable value to the investor who is not too troubled by short-term swings in prices. On the other hand, the UK long government bond markets have limited attraction. A yield of 0.7% on inflation-linked reflects pressure from private pensions and annuity funds needing to provide guarantees almost regardless of cost. A fixed yield of 4.7% also reflects significant doubts over the

Monetary Policy Committee's ability to meet its inflation target. However, within credit there is still phenomenal dispersion and pockets of value will undoubtedly emerge, as losses are taken and confidence returns. UK commercial property transactions have dried up under adverse credit conditions and headline valuations probably have further to fall before willing buyers and sellers can deal in confidence. Nevertheless, a yield of about 5½% with upward only rent reviews, a high degree of investor protection and land shortage remains a sound diversification from equities.

In 2008/9 markets are off to an erratic start but they are a discounting mechanism and quite a bit of gloom seems to be "in the price".

Strategic Asset Allocation

The bulk of the Fund, 69%, continues to be held in equities to produce the higher long-term returns that should help to minimise employer contributions. A balance is struck with bonds, property and other alternatives providing diversification. This should help moderate potential short-term upward fluctuations in contributions if equity markets again suffer a major downturn, as in 2000-03 or 1973-04.

With the appointment in March of Newton to replace UBS in managing part of the overseas equities, the benchmark distribution has moved a further step away from the former equal weights for North America, Europe [ex UK] and Pacific Basin towards market capitalisation, which weights the US more highly. Historically there has been some risk benefit from hedging part of the associated overseas currency exposure back into sterling. However for the present the Investment Panel has decided to retain full exposure.

Fund management

All the fund managers are kept under regular review to help ensure that active management has the best possible prospect of adding value over a full market cycle. The dislocation in many financial markets has signalled the end to the credit binge but also to some mechanical investment strategies, typically chasing trend and risk. This may take some time to clarify. Nevertheless the performance of several managers is a cause for concern. The overall structure and in particular the use of other alternative investments is kept under active review but most alternatives including private equity seem to be vulnerable to these much tighter credit conditions.

Paul Meredith

INVESTMENT PERFORMANCE

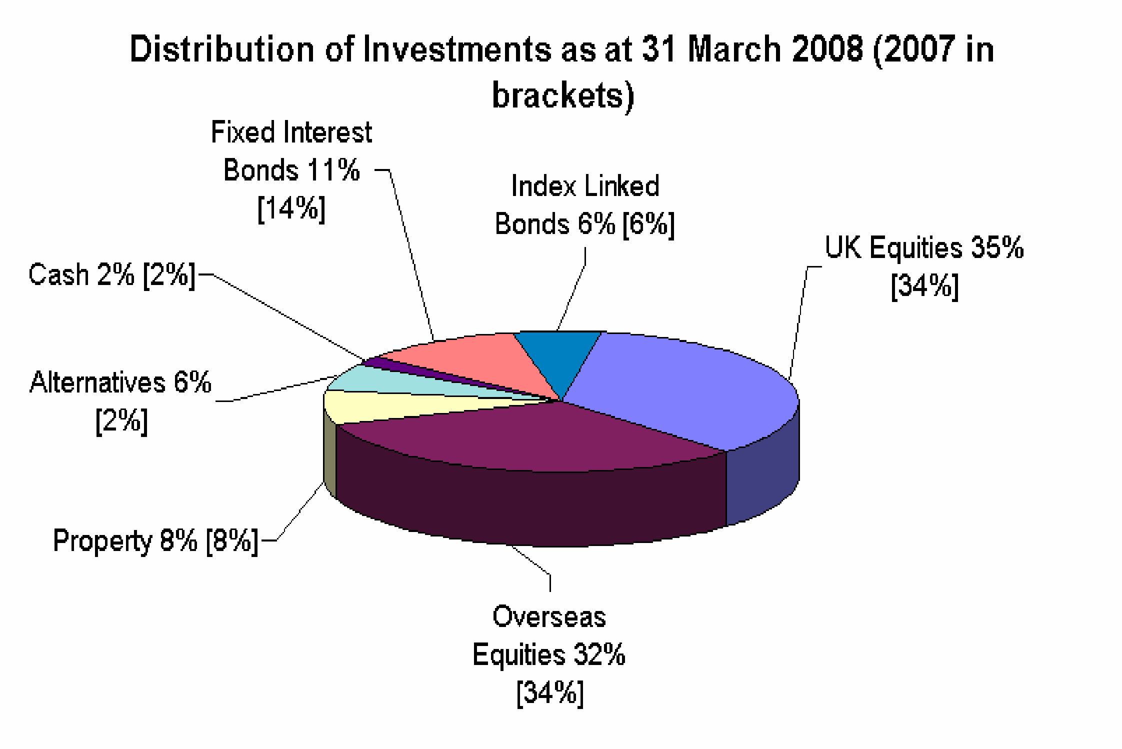
The Fund receives performance reports from external providers of performance information, Russell Mellon and Northern Trust with a focus on individual fund manager performance and The WM Company with a focus on the Local Authority Universe.

The former two are used to report on specific fund manager performance on a consistent basis, facilitating fund manager comparison and challenge. These reports provide the key data by which fund managers are measured against their individual investment mandates and potentially may lead to their replacement if consistently unfavourable.

The latter is sought because it provides useful information on the ever changing Local Government investment culture and facilitates the Local Government sharing of best practice.

Portfolio as a whole

The actual distribution for the portfolio as a whole, at 31 March 2008 between the asset types is shown with the equivalent figures for 31 March 2007 in brackets. The distribution shows reductions in Fixed Interest Bonds and an underweight position in Overseas Equities offset against an overweight position in UK Equities and an increase in the benchmark in respect of Alternatives. Alternatives have increased due to the appointment of Hedge Fund managers.



Monitoring against Benchmark

The performance of the managers, in respect of their portfolios is monitored against the benchmark quarterly. The target for each manager is to return the following percentages per annum above the benchmark over a three year period:

Fund Manager	Individual Target as at 31st March 2008
UBS	1%
Martin Currie	2%
Majedie	2%
Alliance Bernstein	2%
Newton	2%
Aberdeen AM	0.75%
RREEF	0.75%
CBRE	1%
Fauchier Partners	Libor +5%
Partners Group	Libor +5%
Overall Fund target	+1.3%

Investment Performance comparisons

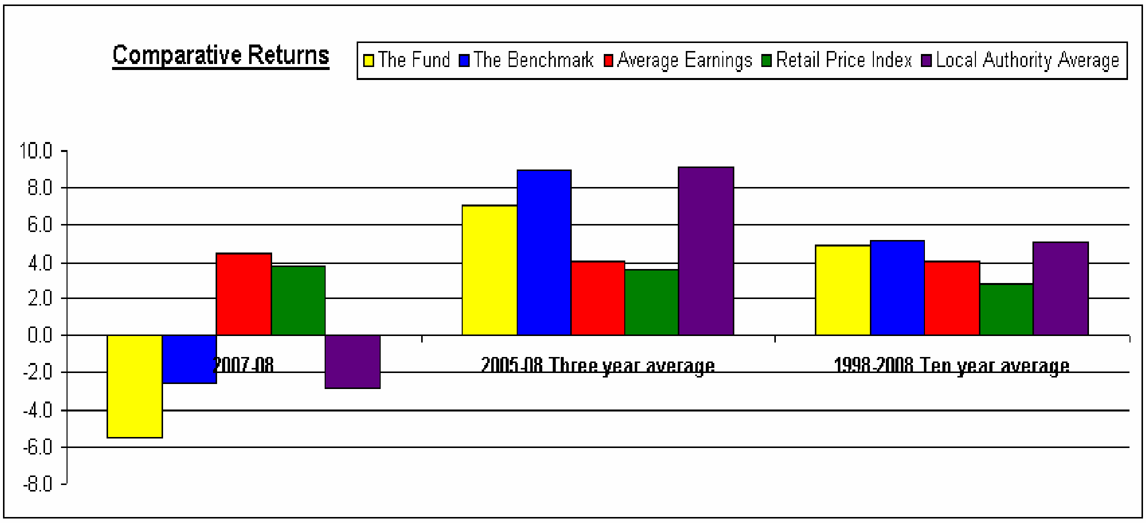
At 31 March 2008 the Fund was valued at £1.06bn, compared to £1.1bn as at 31 March 2007.

In 2007-08, the Fund returned -5.5% against the Fund's specific benchmark -2.6%, an underperformance against benchmark of -2.9%. The targeted outperformance for the Fund as a whole equates to +1.3% therefore the Fund under achieved its overall investment target by -4.2%, caused by underperformance in both equity classes and fixed interest. The return was also below the average of Local Authority returns (-2.8%), measured by the WM Local Authority Average.

These performance figures are shown in the table below with comparisons over three and ten years in addition, together with the comparable increases in average earnings and retail prices.

INVESTMENT PERFORMANCE TABLE Average return % per annum		The Fund	The Benchmark	Retail Price Index	Average Earnings	Local Authority Average
2007-08	1 year	-5.5	-2.6	3.8	4.5	-2.8
2005-08	3 years	7.1	9.0	3.6	4.1	9.1
1998-2008	10 years	4.9	5.2	2.8	4.1	5.1

The table below shows comparatives returns.



The Comparative Returns Table above indicates that the Fund fell short of the benchmark, the Retail Price Index, Average Earnings and the Local Authority Average over one year.

Over the three year period, the Fund exceeded the Retail Price Index and Average Earnings, but fell short of the benchmark and the Local Authority Average.

Over the ten year period, the Fund's performance exceeded the Retail Price Index and Average Earnings, but fell short of the benchmark and the Local Authority Average.

These comparatives indicate that 2007-08 was a difficult year for the Fund.

Balanced Manager Performance

The table below shows UBS' investment returns compared to benchmark over one, three and ten years. UBS (holding 27.5% of the Fund) has been shown separately to the other fund manager's, because they have held an investment manager mandate longer than ten years and therefore a longer term profile of performance can be shown.

UBS - Balanced Mandate	**2007-08** 1 year	**2005-08** 3 years	**1998-2008** 10 years
Benchmark	-4.7	8.1	4.9
Return	-7.4	5.6	4.9
Relative Performance	-2.7	-2.5	0

Balanced Mandate
UBS have held a balanced mandate incorporating both UK and Overseas Equities, Fixed Income and Property. The overall twelve month performance showing a disappointing -2.7, further the three year performance is similarly negative (-2.5).

UBS also underperformed the benchmark over the 3 year measure and matched the benchmark over the longer 10 year measure.

In March 2008 the Fund reduced the UBS holding from 50% to 27.5%, in particular by moving the UBS Overseas holding to Newton Investment Management Limited (Newton). In addition the Fixed Income mandate with UBS has been amended.

Specialist Manager Performance

This table sets out the specialist fund manager performance for 2007-08.

2007-08				
Specialist Manager	**Holding**	**Return**	**Benchmark**	**Variance**
SPECIALIST UK EQUITY MANAGERS				
Majedie	8.50%	-2.8	-7.7	4.9
Martin Currie	8.50%	-13.9	-7.7	-6.2
SPECIALIST OVERSEAS EQUITY MANAGERS				
Alliance Bernstein	17.25%	-6.2	-1.1	-5.1
Newton [1]	17.25%	**Appointed March 2008**		
SPECIALIST FIXED INCOME MANAGER				
Aberdeen	11.00%	4.5	7.1	-2.6
SPECIALIST PROPERTY MANAGERS				
CBRE	3.00%	-5.6	-11.1	5.5
RREEF	2.00%	-9.7	-11.1	1.4
SPECIALIST HEDGE FUND MANAGERS				
Fauchier [2]	2.50%	7.7	4.2	3.5
Partners [2]	2.50%	-5.5	4.2	-9.7

NB: 1) Newton joined the Fund in March 2008, so their performance returns are not available yet
2) Fauchier and Partners show 9 months figures as they were appointed in late June 2007.

Performance at the total fund level has been disappointing over the twelve month period.

Specialist UK Equity Mandates
The two UK equity managers show a contrast in performance. Majedie have significantly outperformed the benchmark (+4.9) albeit still an overall negative return, whist Martin Currie have struggled with an underperformance of -6.2 against benchmark.

Indications for the June quarter suggest that both managers have delivered positive returns against an expected negative benchmark. Martin Currie are showing signs of recovering from a very poor 2007-08.

Fixed Income Mandate
Aberdeen, the Fixed Income manager, delivered an overall positive return although they underperformed against the benchmark by -2.6.

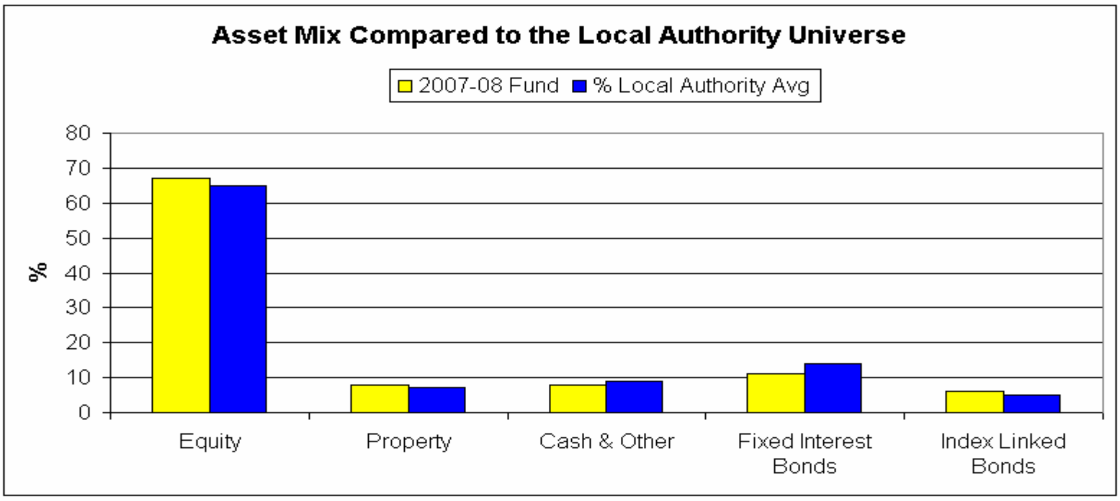
Early indications are that they have outperformed the benchmark for the June 2008 quarter.

Property Mandates
CBRE and RREEF both outperformed (by 5.5 and 1.4 respectively) over the twelve month period against a negative benchmark, albeit both with an overall negative return.

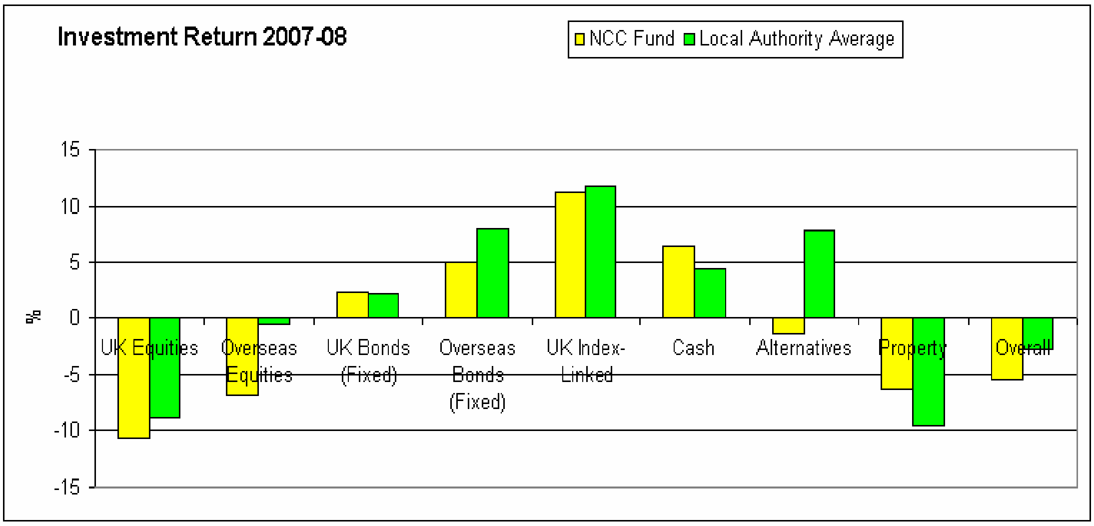
Hedge Fund Mandates
There was contrasting performance from the two Hedge Fund managers, Partners and Fauchier, during their first nine months since their appointment in July 2007. Fauchier outperformed the benchmark by 3.5, whilst Partners underperformed by -9.7.

Indications are that both have outperformed the benchmark for the June 2008 quarter.

Investment returns and the Local Authority Average
The Fund participates in the WM Company's benchmarking of Local Authority investment performance, which provides useful information on how well the Fund has performed in comparison with other Local Authorities.



The Fund's specific benchmark indicates that the authority is broadly comparable with the Local Authority Average, the main variances indicating the Fund's preference for equity, property and index linked bonds against fixed interest bonds and cash.



NB: The Fund figure for Alternatives includes Hedge Funds only, while the local Authority figure includes Private Equity, Hedge Funds, GTAA, Commodities etc.

The comparison above shows that the underperformance of the Fund against the Local Authority Average was most significant in Overseas Equities and Fixed Interest. The Fund has taken action in both these investment classes, with Overseas Equities the recent appointment of Newton and in respect of Fixed Interest changes to the existing portfolios to provide greater flexibility to the Fund Managers in their management of their mandates.

The Fund was strongest in its property performance; even so the property managers have been given greater scope to improve performance with permission to add value in particular with flexibility to acquire overseas property.

<u>Annual Returns – Total Assets</u>

		Years							
		2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Annual Return	Total Fund	-2.9	0.5	-21.8	27.0	11.8	24.9	4.1	-5.5
	WM Benchmark	-6.3	-0.5	-19.5	23.4	11.7	24.9	7.0	-2.8

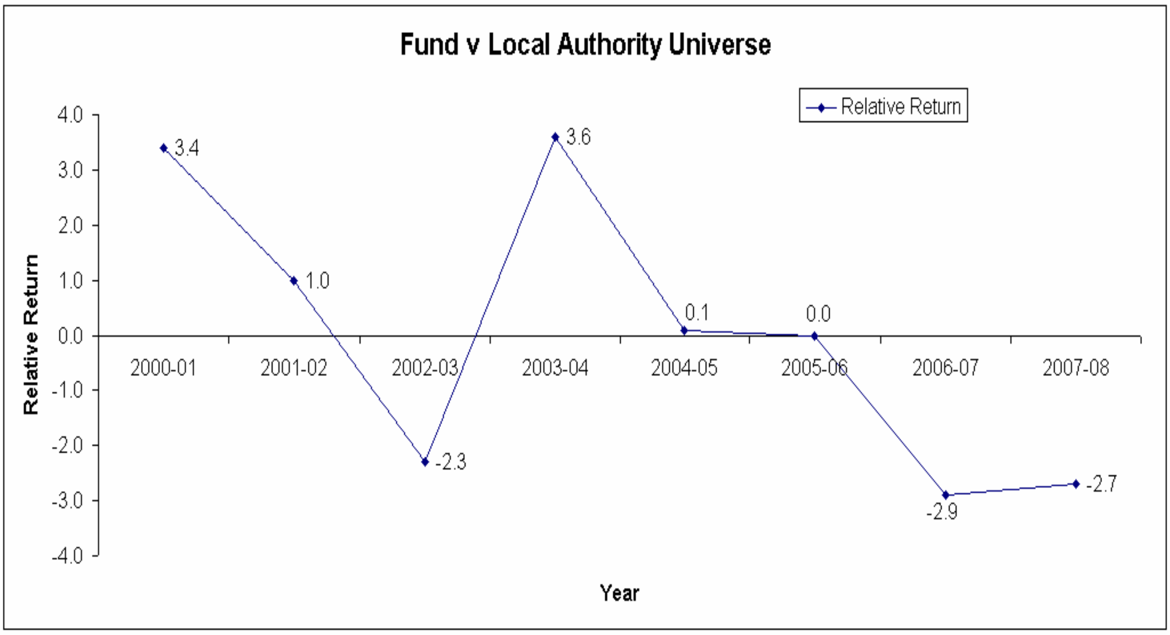
The table above compares the Fund's performance with the Local Authority Average for the eight years since 2000. This is shown graphically below where the relative returns are plotted.

The graph demonstrates the volatility of annual return comparisons of Fund performance against the Local Authority Universe.

Of the eight years shown the Fund has outperformed the Local Authority Average on four occasions, underperformed on three occasions and in 2005-06 the Fund matched the average.

The latest years 2006-07 and 2007-08 show underperformances against the Local Authority Average.

The Fund has recognised these underperformances and has taken action to improve future performance in particular in Overseas Equities and Fixed Interest. In addition it has been noted that the first quarter of 2008-09 is indicating significant improvements in performance.



ACTUARIAL POSITION STATEMENT

1. An actuarial valuation of the Fund was carried out as at 31 March 2007.

2. The 31 March 2007 valuation position is calculated using a market value based approach, similar to that adopted for the FRS17 accounting for pension costs.

3. At the valuation date, the Fund showed a deficit of £341.1 million and a funding level of 76%, based on the assumptions made for calculating its funding target. The assets held at the valuation were sufficient to cover 76% of the accrued liabilities, a funding level increase of 5% compared to the level at the 2004 actuarial valuation.

4. This valuation also showed that the Common Contribution Rate, i.e. the average employer contribution rate payable in respect of future service only was 12.7% of Pensionable Pay (10% at the March 2004 valuation). Individual adjustments to the Common Contribution Rate payable by the respective authorities have been provided.

5. The deficit of £341.1 million is to be recovered over a maximum period of 17 years through additional employer contributions. Based on this the average employer contribution rate is 20.2% of Pensionable Pay per annum (17.8% at the 2004 valuation). This consists of 12.7% in respect of future service and 7.5% in respect of the deficit recovery contributions.

6. The revised contribution rates are effective from 1st April 2008. The increase in the contribution rate from 17.8% to 20.2% is due to a combination of increases to the cost of accruing benefits offset by a slight reduction to the contribution required to meet the past-service shortfall. The existing contribution rates following the 31 March 2007 valuation for each participating body are shown in Appendix 4.

7. The market value of the Fund’s assets at the valuation date was £1107.9m.

8. The main actuarial assumptions used in the 31 March 2007 actuarial valuation were as follows:

Rate of price inflation	3.1% per annum
Rate of general pay increases	4.6% per annum
Rate of increase of pensions [in excess of Guaranteed Minimum Pension (GMPs)]	3.1% per annum

Investment return assumptions:

Return on long dated gilts 4.4%

Assumed out performance relative to gilts, provided by Fund's significant equity exposure:

Pre Retirement (per annum) 2%
Post Retirement (per annum) 1%

	2007 Funding Target (past service assumptions)	2007 Normal Cost (future service assumptions)
Pre-retirement Investment Return	6.4% p.a.	6.5% p.a.
Post-retirement Investment Return	5.4% p.a.	6.5% p.a.
Salary increases	4.6% p.a.	4.25% p.a.
Pension increases	3.1% p.a.	2.75% p.a.

ACTUARIAL VALUATION
as at 31 March 2007

1. Mercers Human Resource Consulting undertook a valuation of the Fund as at 31 March 2007 in compliance with Regulation 77 of the Local Government Pension Scheme Act 1997 (as amended) ("the Regulations").

   The revised contribution arrangements which are effective from 1 April 2008 are set out in the Rates and Adjustments Certificate required by Regulation 77.

   It should be noted that contribution rates are subject to review under Regulation 78(3)(b) if the need arises and, in any case, rates for years from 2011-12 onwards will be reviewed at the next valuation.

   In the normal course of events, it would be expected that the funding level would increase by the time of the next valuation at 31 March 2010, largely because the rates of contribution to be paid contain an element to liquidate the deficiency found at this valuation. The residual deficiency would then be re-spread at the next valuation. (Amortising early retirement costs as they arise means that future redundancies should have no great effect on the position of the Fund.) However, any increase in funding level is dependant on the assumptions made being borne out in practice, the main areas where variations might be expected being increases in pay and investment returns in excess of price inflation.

2. Mercers Human Resource Consulting are of the opinion that the rates of contribution in payment from 1 April 2008, together with the increases recommended to apply in future, and the existing assets of the Fund, will be sufficient, on the basis of the assumptions adopted for the actuarial valuation of the Fund as at 31 March 2007, to meet the liabilities of the on-going Fund under the regulations associated with accrued and currently accruing pensionable service, increasing levels of pensionable remuneration and increases to pensions both in payment and in deferment.

FOREWORD TO THE ACCOUNTS

1. The accounts summarise the transactions of the Fund during the year, both in respect of benefits and investments, and show the position of the Fund at 31st March 2008. They are shown on pages 27 and 28.

2. The Pension Fund financial statements provide information about the financial position, performance and financial adaptability of the Fund. They are intended to show the results of the stewardship and management, that is the accountability of management for the resources entrusted to it, and of the disposition of its assets at the period end. The only items that are required to be excluded by regulations are liabilities to pay pensions and other benefits in the future, which are reported upon in the actuary's statement.

3. These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in Great Britain and with the guidelines set out in the Statement of Recommended Practice "Financial Reports of Pension Schemes" (SORP) (Revised November 2002); except for additional voluntary contributions discussed in Note14 on page 35.

4. The Fund Account discloses the magnitude and character of financial transactions and changes in the value of the Fund during the period. These transactions are identified as being either Contributions and Benefits or Returns on Investments (including investment income and profit and losses on investment). The net Fund increase or decrease is reconciled to the net assets of the scheme.

5. The Net Asset Statement shown on page 28 discloses the size and distribution of the net assets of the Fund at the end of the financial year.

6. The Notes to the Accounts on pages 29 to 36 provide further explanation and breakdown of the figures included in the Fund Account and the Net Asset Statement.

Fund Account for the year ending 31 March 2008
ACCOUNTS 2007-08

2006-07 £000		Note	2007-08 £000s	2007-08 £000s	2007-08 £000s
	Contributions	(3)			
51,643	Employers' contributions		58,153		
16,088	Employees' contributions		16,227		
319	Employees' additional voluntary contributions		488		
	Transfers in				
7,532	Individual transfers in		8, 591		
75,582				**83,459**	
	Benefits payable	(3)			
(868)	Death benefits		(665)		
(11,176)	Lump sums		(13,036)		
(36,727)	Pensions		(40,133)		
	Payments to and for leavers				
(46)	Return of contributions		(16)		
(7,249)	Individual transfers out		(7,244)		
(1,334)	**Administration expenses**	(4)	(1,717)		
(57,400)				**(62,811)**	
18,182	**Net additions from dealing with Members**				**20,648**
	Returns on investments				
51,491	Net profit on sales		23,885		
(37,202)	Net decrease in unrealised profit	(5)	(115,854)		
14,289	Change in market value of investments			**(91,969)**	
	Investment Income				
4,165	Interest from fixed-interest securities	(6)	2,339		
18,602	Dividend from equities	(6)	19,860		
1,045	Income from Index-linked securities	(6)	824		
5,885	Income from Pooled Investment Vehicles	(6)	5,693		
1,880	Interest from Cash deposits	(6)	1,864		
167	Stock Lending	(7)	225		
20	Commission Recapture	(8)	5		
59	Venture Capital	(9)	80		
(3,309)	Investment managers' fees	(4)	(3,229)		
28,514				**27,661**	
42,803	**Net returns on investments**				**(64,308)**
60,985	**Net (decrease)/ increase in the Fund**				**(43,660)**
1,046,872	**Net assets of the Fund at the start of the year**				**1,107,857**
1,107,857	**Net assets of the Fund at the end of the year**				**1,064,197**

Net Asset Statement as at 31 March 2008

31-Mar 2007 £000		Note	31-Mar 2008 £000s	31-Mar 2008 £000s
	Investments at market value			
104,569	Fixed-interest securities		37,908	
70,532	Index-linked securities		41,283	
626,851	Equities		664,517	
305,251	Pooled Investment Vehicles		306,449	
1,053	Cash deposits		3,630	
(7,384)	Other investment balances		2,294	
1,100,872		(10)		**1,056,081**
	Current assets			
	Debtor			
5,583	Contribution due from employers		4,194	
105	Others		95	
3,256	Cash with Northamptonshire County Council	(11)	5,690	
8,944			**9,979**	
	Current liabilities			
	Creditors	(12)		
(1,120)	Unpaid Benefit		(1,025)	
(839)	Others		(838)	
(1,959)			**(1,863)**	
6,985	**Net current assets**			**8,116**
1,107,857	**Net assets**			**1,064,197**

NOTES TO THE ACCOUNTS

The Director for Business Support is responsible for:

- The preparation of the accounts for Northamptonshire Pension Fund to present fairly the financial position at the accounting date and its income and expenditure for the year.
- Making reasonable and prudent judgements and estimates.
- Complying in all material aspects with the Code of Practice on Local Authority Accounting in Great Britain Pension Fund and applying accounting policies consistently.
- Keeping proper, up to date, accounting records.
- Taking reasonable steps for the prevention and detection of fraud and other irregularities.
- The administration of pension benefits.

1. Accounting Policies

The accounts have been prepared in conjunction with all relevant sections of the Pensions SORP.

(a) Contributions and benefits are included in the accounts on an accruals basis.

(b) Transfer values have been recorded on the basis of amounts receivable or payable as at 31 March.

(c) Interest and dividends are included in the accounts on an accruals basis.

(d) Investments including listed securities, property and unit trusts are included in the accounts at market value (Mid Price), which is determined by the custodian using prices supplied by several sources that include Exshare, Telekurs, Reuters, FT Interactive Data and Bloomberg. Unquoted securities are valued having due regard to the latest dealings, professional valuation, asset values and other appropriate financial information.

e) Taxation

The fund pays VAT collected on income in excess of VAT payable on expenditure to HM Customs and Excise. The accounts are shown exclusive of VAT.

The fund is exempt from tax on capital gains and from income tax on interest receipts.
The fund is liable to tax at a rate of 20% on small pensions that have been compounded into a lump sum.
The fund is exempt from US withholding tax.

The Fund receives interest on its overseas bond gross, but a variety of arrangements apply for the taxation of dividends on overseas equities in the various markets.
Where relief is available, it may be either in full at sources, or partial relief by claim.

In some markets (Finland, Japan, Canada, Italy, Norway and Sweden) tax is deducted at the treaty rate so that no further adjustment is required, and there are also markets (Malaysia and Singapore) where no double taxation agreements exist and the full amount is payable.

f) Invest Management Expenses

The investment managers are paid quarterly fees in arrears based on the market value of the investments managed at the end of each quarter. A performance fee is payable to Majedie Asset Management based upon the performance of their mandate.

g) Gains and Losses

Gains and losses are reflected on an average calculation basis.

h) Administrative Expenses
There is a dedicated Pensions Admin team, whose costs are recharged to the Fund.

i) Foreign Currency Translation
Investments held in foreign currency are translated into sterling at the exchange rate as at the date of valuation.

J) The **Statement of Investment Principles** is available on the Northamptonshire County Council's website.
http://www.northamptonshire.gov.uk/Democracy/finance/NLGPS/nlgps.htm

A brief summary of all policies is on page 5 of the Annual Report.

2. Long Term Liabilities

The accounts do not take account of the liabilities to pay future benefits. They should therefore be read in conjunction with the Report of the Actuary which takes such liabilities into account.

3. Contributions

All accruals for contributions owed by employers have subsequently been received.

The following tables show the breakdown of contributions and benefit payments by Administering Authority, Admitted Bodies and Scheduled bodies.

Analysis of Contributions

	Employers contributions £'000s	Employees contributions £'000s	Employees AVC £'000s	Total £'000s
NCC	26,220	7,670	176	34,066
Admitted Bodies	1,833	748	9	2,590
Scheduled Bodies	30,100	7,809	303	38,212
Total	58,153	16,227	488	74,868

Analysis of Benefits

	Death Grants £'000s	Lump Sums £'000s	Pensions £'000s	Total £'000s
NCC	(348)	(6,637)	(17,743)	(24,728)
Admitted Bodies	(39)	(680)	(613)	(1,332)
Scheduled Bodies	(278)	(5,719)	(21,777)	(27,774)
Total	(665)	(13,036)	(40,133)	(53,834)

4. Administration expenses and Investment Managers' Fees

	2006-07 £000	2007-08 £000
Administration expenses:		
Pensions administration	1,133	1,390
Actuarial services and investments	126	215
Fund monitoring	36	36
Other	39	76
	1,334	1,717
Investment managers' fees:		
	3,309	3,229
Total	4,643	4,946

Pension administration costs in 2007-08 mainly reflect additional costs in the consultation and implementation of the New Look Scheme effective April 2008.

Actuarial service costs increase in 2007-08 reflects the work programme on the March 2007 Valuation and support to the Fund on investment changes and Fund manager appointments, such as Overseas Equities.

Other costs have increased mainly due to the seeking of legal advice on Fund Manager Appointments, and other advice requiring legal counsel.

Fund manager fees have decreased due to falling investment balances held by managers and a rebate agreed with one fund manager on appointment.

Fund Manager Fees Not Shown in the Accounts
Fund managers that work through pooled arrangements take their fees at source from the pooled fund and therefore the fees don't go through the Fund's accounts. The nominal value of fees are:

	£000s
RREEF UK Core Property Fund	160
RREEF UK Ventures Property Fund No. 2 Exempt Unit Trust	23
	183

5. Decrease in value of unrealised profits

	£000s	£000s
Market value of investments at 31.3.08	1,056,081	
Investments at cost at 31.3.08	1,038,692	
Unrealised profit		17,389
Market value of investments at 1.4.07	1,100,872	
Investments at cost at 1.4.07	967,629	
Unrealised profit		133,243
Decrease in value of unrealised profits		(115,854)

The decrease in value of unrealised profits of £115,854k represents the change in the unrealised profit between the opening and closing position of the market value of investments and the cost of these investments.

Unrealised profits reflect assets held by the Fund, however profits are only realised when actually sold. This reflects the investment performance of the Fund in the 2007-08 financial year.

6. Analysis of Investment Income

Investment Income for the years ended 31st March was received from the following sectors.

2006-07 Interest and Dividend £000s		2007-08 Interest and Dividend £000s
4,165	**Interest from fixed-interest securities**	2,339
18,602	**Dividend from equities**	19,860
1,045	**Income from Index-linked securities**	824
	Income from Pooled Investment Vehicles	
2,797	Unit Trust Fixed Interest	2,243
226	Unit Trust Equities	0
2,862	Property Unit Trusts	3,450
5,885		5,693
1,880	**Interest from Cash deposits**	1,864
31,577		**30,580**

7. Stock Lending

Income of £225,041 was earned from stock lending activities, undertaken on behalf of the Fund by Northern Trust, the Fund's global custodian. This income is the premium paid by third parties who borrow stock held by this Fund. Collateral stock is held to safeguard the Fund's assets. Lending is limited to 35% of the stock held by the Fund, although actual activity in 2007/08 averaged 16%.

As at 31 March 2008 the value of stock loaned to third parties was £51.86m against collateral held of £56.7m, more information on this is shown below.

Analysis by Asset Class of securities on loan:

	31-Mar 2008 £000
Investments at market value	
Fixed-interest securities	11,834
Equities	40,031
Total Securities on Loan	**51,865**

Analysis of Collateral:

	31-Mar 2008 £000
Investments at market value	
Certificates of Deposit	2,295
Delivery-By-Value Gilts	13,698
Equities	18,144
Government Fixed	21,465
Letters of Credit	636
UK Gilt	463
Total value of Collateral	**56,701**

8. Commission Recapture

Income of £4,875 was earned from Commission recapture activities, undertaken on behalf of the Fund by Lynch Jones and Ryan, specifically appointed by the Fund to undertake this role. This relates to "recapturing" commission regarding research and development costs paid to third party brokers, whose sole role is to buy and sell stock on behalf of the Fund manager. The decrease on 2006/07 is mainly an impact of broker withdrawals from the Lynch Jones and Ryan panel, leaving Investment Managers with fewer brokers to deal with, who participate in Lynch Jones and Ryan's Commission Recapture programme.

9. Venture Capital Income

The income of £80,000 reflects the third tranche of income from the East Midlands Regional Capital Fund No1 LP.

The Fund holds two Venture Capital investments both with Catapult Venture Managers being:

	£
East Midlands Regional Venture Capital Fund No1LP.	790,667
Catapult Growth Fund LP	442,333
Total	1,233,000

These funds are small private equity commitments with a total potential drawdown of £4m. Feedback from Catapult Venture Managers indicates an Internal Rate of Return (IRR) of 10%.

10. Investment transactions during the year

The market values of investments referred to in this report are provided by our global custodian, Northern Trust.

	Market Value 31 Mar 2007 £'000	Purchase £'000	Sales £'000	Inspecie Transfer £'000	Change in Market Value £'000	Market Value 31 Mar 2008 £'000
Fixed Interest Securities						
Public Sector	104,569	45,566	(109,350)	18,816	(21,693)	37,908
	104,569	**45,566**	**(109,350)**	**18,816**	**(21,693)**	**37,908**
Index linked securities						
UK	70,532	64,430	(24,768)	(16,267)	(52,644)	41,283
	70,532	**64,430**	**(24,768)**	**(16,267)**	**(52,644)**	**41,283**
Equities						
Other Listed Fund	626,066	456,429	(387,600)	63,989	(95,600)	663,284
Other Unlisted Fund	784	482	(33)	-	0	1,233
	626,850	**456,911**	**(387,633)**	**63,989**	**(95,600)**	**664,517**
Pooled Investment Vehicles						
Fixed interest Funds	75,706	14,597	(50,040)	(69,802)	139,717	110,178
Equity Funds	149,828	18,050	(25,494)		(74,884)	67,500
Property Funds	79,718	8,515	(5,801)		(11,714)	70,718
Hedge Fund		56,904			1,149	58,053
	305,252	**98,066**	**(81,335)**	**(69,802)**	**54,268**	**306,449**
Cash Deposits						
Money Market Funds	1,053	5,284	(2,707)	0	0	3,630
	1,053	**5,284**	**(2,707)**	**0**	**0**	**3,630**
Other Investment Balances						
Creditors	(14,779)	14,779	(23,124)	0	18,979	(4,145)
Debtors	7,395	25,601	(7,395)	0	(19,162)	6,439
	(7,384)	**40,380**	**(30,519)**	**0**	**(183)**	**2,294**
Total	**1,100,872**	**710,637**	**(636,312)**	**(3,264)**	**(115,852)**	**1,056,081**

* Inspecie Transfers relate to transfers of assets resulting from investment changes in respect of new Hedge Fund, Overseas Equities appointments and rebalancing of the legacy holdings of UBS. The balance of £3.3m is offset by movements within Net Profit on Sales, which are not required to be shown under Inspecie Transfer.

11. Cash

The cash balance forms part of the bank balances of Northamptonshire County Council, attributable to the Pension Fund, but does not represent a separate balance in the name of the Fund.

The value of cash held at 31 March 2008 (£5.7m) has increased over 2006-07 (£3.2m), the increased balance represents surplus contributions received over benefits paid, due to be distributed to Fund Managers for investment.

The cash balance in 2006-07 was overstated by £1.5m, which should have been offset against the net profit on sales.

12. Debtors and Creditors

The 2007-08 debtors balance reflects accrued contributions and transfers in as at 31st March 2008. The 2007-08 creditors balance reflects accrued transfers out and investment manager fees as at 31st March 2008.

13. Employer-related investments and related party transactions

There are no employer-related investments. Northamptonshire County Council [NCC] is responsible for managing the pension fund's finances, and therefore is a related party. NCC made payments of £23.5m to and received income of £1.4m from the pension fund in the 2007-08 financial year. Payments relate to employer contributions into the fund in respect of NCC and receipts relate to administration costs incurred by NCC on behalf of the Pension Fund.

On 31 March 2008 NCC held cash on behalf of the Pension Fund of £5.7m (see Note 11 to the accounts), which had not been distributed to fund managers.

In 2007-08 NCC paid net interest of £519,490 to the Pension Fund, whilst in 2006-07 the Pension Fund paid net interest on balances held of £1,730 to NCC. During 2007-08 the Pension Fund undertook a number of benchmark and fund manager changes; this resulted in higher cash balances being held by NCC on behalf of the Pension Fund, during the periods of change. This is the main reason for the NCC interest payments to the Pension Fund.

14. AVC Investments

Additional Voluntary Investments are assets invested separately from the main fund in the form of individual building society accounts and insurance policies, securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement each receive an annual statement, confirming the amounts held to their account and the movements in the year.

The movement during the year March 2007 to March 2008 reflects Investment performance, withdrawals and additional contributions.

The aggregate amounts of AVCs are as follows:

	Value at 31/03/07 £000	**Purchases £000**	**Sales £000**	**Change in market Value £000**	**Value at 31/03/08 £000**
Prudential Assurance	1,880	364	(264)	1	1,981
Standard Life*	501	34	(50)	17	502
Total	2,381	398	(314)	18	2,483

* The standard life valuation is as at the 5th February 2008.

15. Pooled Investment Vehicles

The companies used by the Fund are all registered in the UK, Ireland or the Channel Islands with the exception of Alliance Bernstein and Partners which are registered in Luxembourg. Aberdeen was registered in Ireland, but is now in Luxembourg.
CBRE, RREEF and Newton are unit trusts.

AUDITOR'S REPORT

In order to evidence that this document has been examined by external audit a copy of the Independent Auditor's Report to the Members of Northamptonshire County Council is shown below. This includes an opinion on the County Council's statement of accounts as well as an opinion on the pension fund accounts. It excludes an opinion on the pension fund's annual report.

Independent auditor's report to the Members of Northamptonshire County Council

Opinion on the statement of accounts

We have audited the Authority statement of accounts, pension fund accounts and related notes of Northamptonshire County Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority statement of accounts comprises the Explanatory Foreword, the Authority Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority Balance Sheet, the Authority Statement of Total Recognised Gains and Losses, the Authority Cash Flow Statement, and the related notes excluding note 21 on trust funds and the pooled budget memorandum accounts on pages 67 to 70. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The Authority statement of accounts and pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to Northamptonshire County Council, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to Northamptonshire County Council, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Northamptonshire County Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer's and auditor

The Chief Finance Officer's responsibilities for preparing the statement of accounts, including the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the Authority statement of accounts, pension fund accounts 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 Authority statement of accounts and the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007:

- the financial position of the Authority and its income and expenditure for the year; and

- 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 review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information we are aware of from our audit of the statement of accounts. We are not required to consider, nor have we considered, 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 Authority statement of accounts, pension fund accounts and related notes and consider whether it is consistent with the audited Authority statement of accounts. This other information comprises the Pension Fund Annual Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Authority statement of accounts, pension fund accounts and related notes. Our responsibilities do not extend to any other information.

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 Authority statement of accounts, pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority statement of accounts, pension fund accounts 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 Authority statement of accounts, pension fund accounts 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 Authority statement of accounts, pension fund accounts and related notes.

Opinion

In our opinion:

- The Authority statement of accounts presents fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended; and

- The pension fund accounts and related notes presents fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial transactions of the Pension Fund during the year ended 31 March 2008, and the amount and disposition of the fund's assets and liabilities as at 31 March 2008, other than liabilities to pay pensions and other benefits after the end of the scheme year.

KPMG LLP.

KPMG LLP
Chartered Accountants
Birmingham
18 December 2008

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities
The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditor's Responsibilities
We are required by the Audit Commission Act 1998 to satisfy ourselves that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for *principal local authorities*. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

In 2007 we were required by section 7 of the Local Government Act 1999 to carry out an audit of the Authority's best value performance plan and issue a report:

- certifying that we had done so;
- stating whether we believed that the plan had been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant making any recommendations under section 7 of the Local Government Act 1999.

Conclusion
We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for *principal local authorities* specified by the Audit Commission and published in December 2006, we are satisfied that, in all significant respects, Northamptonshire County Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008.

Best Value Performance Plan
We issued our statutory report on the audit of the authority's best value performance plan for the financial year 2007/08 on 17 December 2007. We did not identify any matters to be reported to the authority and did not make any performance improvement observations on procedures in relation to the plan.

Certificate

We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

KPMG LLP

KPMG LLP
Chartered Accountants
Birmingham
18 December 2008

ANALYSIS OF NET ASSET STATEMENT Appendix 1

Market Value 31 March 2007 £ 000s	%		Market Value 31 March 2008 £ 000s	%
250,807	22.6%	Government securities and certificates of deposit	189,369	17.8%
482,437	43.5%	UK equities	380,872	35.8%
293,457	26.5%	Global equities	349,912	32.9%
79,718	7.2%	Property unit trusts	70,718	6.6%
784	0.1%	Hedge Fund and Private Equities	59,286	5.6%
1,053	0.1%	Cash deposits and short term loans	3,630	0.3%
(7,384)	(0.7%)	Other	2,294	0.2%
1,100,872	99.4%	Total investments [sum of above]	1,056,081	99.2%
5,688	0.5%	Debtors	4,289	0.4%
3,256	0.3%	Cash with County Council	5,690	0.5%
(1,959)	(0.2%)	Creditors	(1,863)	(0.1%)
1,107,857	100.0%		1,064,197	100.0%

MAJOR INVESTMENTS as at 31 March 2008 — Appendix 2

	Market Value £000s	Percentage of Fund's Total Investments
UK EQUITIES		
BP ORD USD0.25	35,852	3.40%
ROYAL DUTCH SHELL 'B'ORD EUR0.07	26,350	2.50%
GLAXOSMITHKLINE ORD GBP0.25	24,673	2.34%
VODAFONE GROUP ORD USD0.11428571	24,020	2.28%
ASTRAZENECA ORD USD0.25	14,151	1.34%
UNILEVER PLC ORD GBP0.031111	13,275	1.26%
HSBC HLDGS ORD USD0.50(UK REG)	13,257	1.26%
MAJEDIE ASSET MGT SPECIAL SITS INV B ACCNAV	10,554	1.00%
RIO TINTO ORD GBP0.10	10,487	0.99%
PRUDENTIAL ORD GBP0.05	10,410	0.99%
HBOS PLC ORD 25P	9,437	0.89%
BARCb BARCLAYS ORD GBP0.25	8,533	0.81%
BG GROUP ORD GBP0.10	7,334	0.70%
ROYAL BK SCOT GRP ORD GBP0.25	6,904	0.65%
AVIVA ORD GBP0.25	6,773	0.64%
BT GROUP ORD GBP0.05	5,578	0.53%
XSTRATA PLC ORD GBP	4,978	0.47%
DIAGEO ORD GBX28.935185	4,792	0.45%
CARNIVAL PLC ORD USD1.66	4,338	0.41%
CENTRICA ORD GBP0.061728395	4,171	0.40%
BAE SYSTEMS ORD GBP0.025	3,983	0.38%
OVERSEAS EQUITIES		
ACM BERNSTEIN VAL INV-EM.MKVL.PTF S G	12,951	1.23%
NESTLE SA CHF1(REGD)	6,350	0.60%
E.ON AG NPV	5,020	0.48%
ROCHE HLDGS AG GENUSSCHEINE NPV	4,175	0.40%
STATOILHYDRO ASA COMMON STOCK	4,055	0.38%
TELEFONICA SA EUR1	3,897	0.37%
ADR PETROLEO BRASILEIRO SA PETROBRAS SPONSORED ADR NON VTG	2,857	0.27%
ADR COMPANHIA VALE DO RIO DOCE SPONSOREDADR REPSTG 250 PFD	2,605	0.25%
GOVERNMENT BONDS		
UBS GBL ASSET MGT FXD INT UK PLUS J GROSS ACC	9,032	0.86%
UK(GOVT OF) 4.25% STK 07/06/2032 GBP100	2,669	0.25%
UK(GOVT OF) 5% STK 07/03/2025 GBP100	2,427	0.23%
UK(GOVT OF) 4% STK 07/09/2016 GBP100	2,072	0.20%
UK(GOVT OF) 4.75% STK 07/06/2010 GBP100	2,005	0.19%
UK(GOVT OF) 8% STK 07/06/2021 GBP100	1,722	0.16%
INDEX LINKED GOVERNMENT BONDS		
US TREAS NTS INFLATION INDEXED 2.00 DUE 07-15-2014 REG	4,401	0.42%
UNIT TRUST INFLATION LINKED GILTS		
ABERDEEN PORTABLE FXD INC ALPHA 20 GBP IDX A	41,283	3.91%
UBS GBL ASSET MGT INFL LKD BD UK PLUS GRJ	22,279	2.11%

	Market Value £000s	Percentage of Fund's Total Investments
UNIT TRUST CORPORATE BONDS		
ABERDEEN FXD INC STERLING CREDIT G GBP	37,737	3.58%
UBS GBL ASSET MGT CORP BD UK PLUS J GROSS ACC	21,985	2.08%
UNIT TRUST OVERSEAS BONDS		
ABERDEEN PORTABLE FXD INC ALPHA 50 YR GBP A	10,755	1.02%
ABERDEEN PORTABLE FXD INC ALPHA 20 YR GBP A	10,725	1.02%
GLOBAL CASH		
GLOBAL CASH	21,358	2.02%
REAL ESTATE		
RREEF UK CORE PPTY UK MANAGED	19,246	1.82%
UBS GLOBAL AST TRITON	15,210	1.44%
BLACKROCK UK FD	6,124	0.58%
PREFF PAN EUROPEAN SHARES CLASS C	4,972	0.47%
THREADNEEDLE PROP PROPERTY	4,768	0.45%
HERMES PROPERTY UT	4,243	0.40%
SIGNUM FIN III PLC FRN 03/2012 GBP '08-01'	2,563	0.24%
HEDGE FUNDS		
JUBILEE ABSOLUTE CLASS B	31,303	2.97%
PARTNERS GR ALTERN .STR.-EQ.MKT NEU.GBP I	26,750	2.54%
BANK DEPOSITS		
DEUTSCHE BANK AG CDEUTSC150 5.55% 15/04/2008	500	0.05%
HBOS TREAS CHBOSTR150 5.55% 15/04/2008	500	0.05%
CASH		
CASH	3,628	0.34%

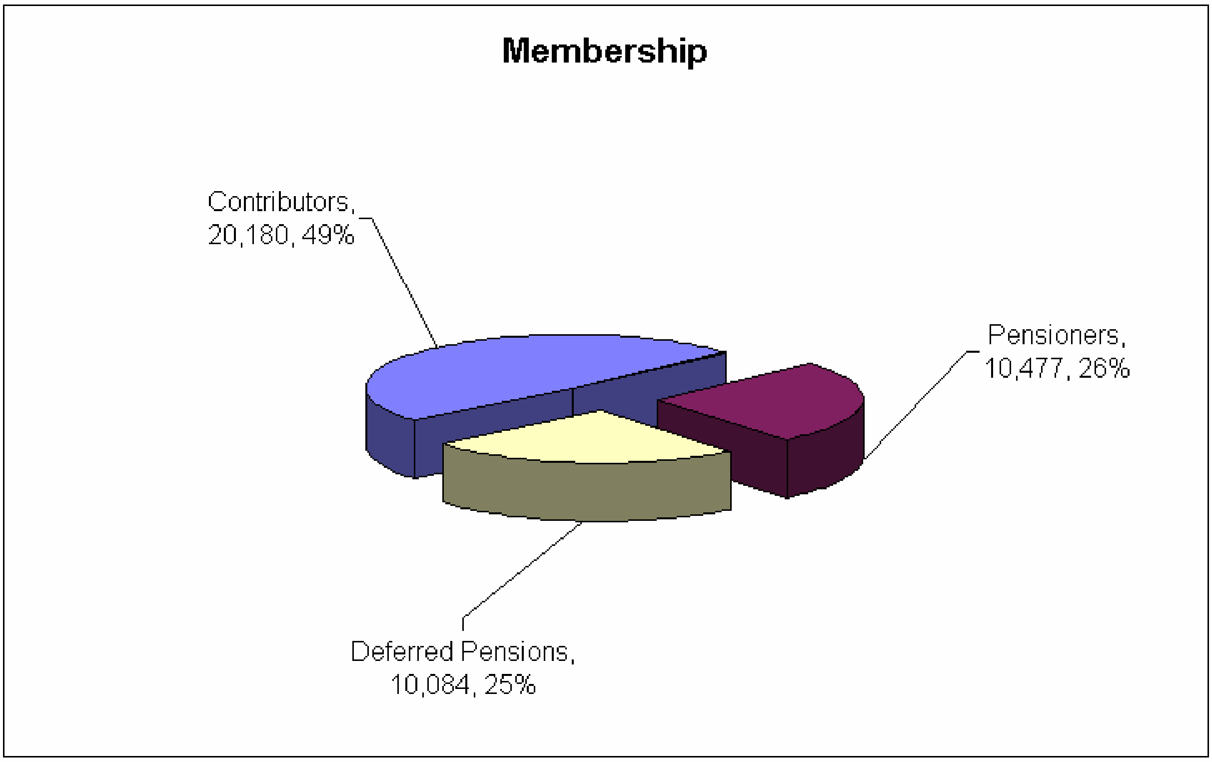
SCHEME MEMBERSHIP (AS AT 31 MARCH 2008) Appendix 3

	Contributors	Pensioners	Deferred Pensions	Total
Northamptonshire County Council	13657	5559	6314	25530
Probation	259	117	82	458
Coroners' Staff				
Northamptonshire Police Authority	1135	366	429	1930
District Councils				
Corby	397	487	282	1166
Daventry	295	252	204	751
East Northamptonshire	194	213	103	510
Kettering	432	443	231	1106
Northampton	1131	1482	765	3378
South Northamptonshire	293	249	198	740
Wellingborough	300	385	204	889
University of Northampton	572	245	346	1163
Northampton College	273	87	150	510
Tresham College	250	101	183	534
Moulton College	206	37	105	348
Other bodies	786	454	488	1728
(As at 31 March 2008)	**20,180**	**10,477**	**10,084***	**40,741**
(As at 31 March 2007)	**(19,611)**	**(9,874)**	**(9,861)**	**(39,346)**

	Mar 07	Mar 08
Number of new starters throughout the year	2,879	3,632
Number of new pensioners throughout the year	837	805
Number of new deferred beneficiaries throughout the year	1,070	328
Number of refunds and transfers out	288	258

* In addition to the 10,084 deferred records an additional 2,964 records have been closed awaiting final determination of whether the accrued benefits are to be refunded, transferred elsewhere or are to remain within this scheme as deferred benefits.

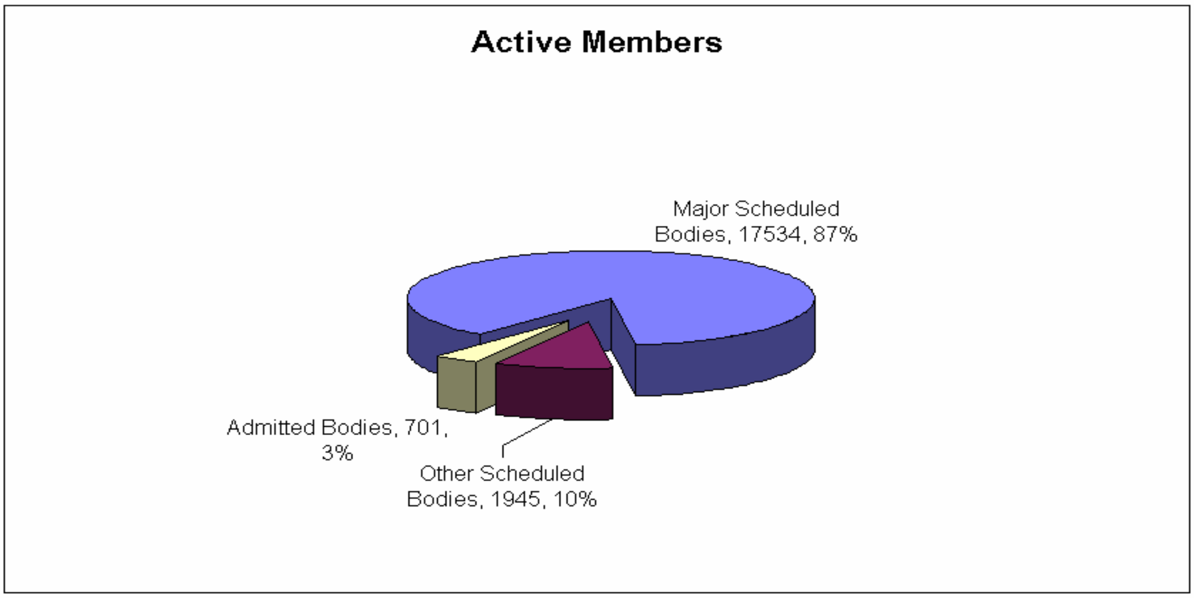
Membership
Total Fund membership as at 31 March 2008 was 40,741 shown below allocated against the classifications of membership.



Active membership

Active members are members still in pensionable employment with the NLGPS and actively paying contributions into the scheme. There were 20,180 active members as at 31 March 2008 representing 49% of the membership of the Fund.

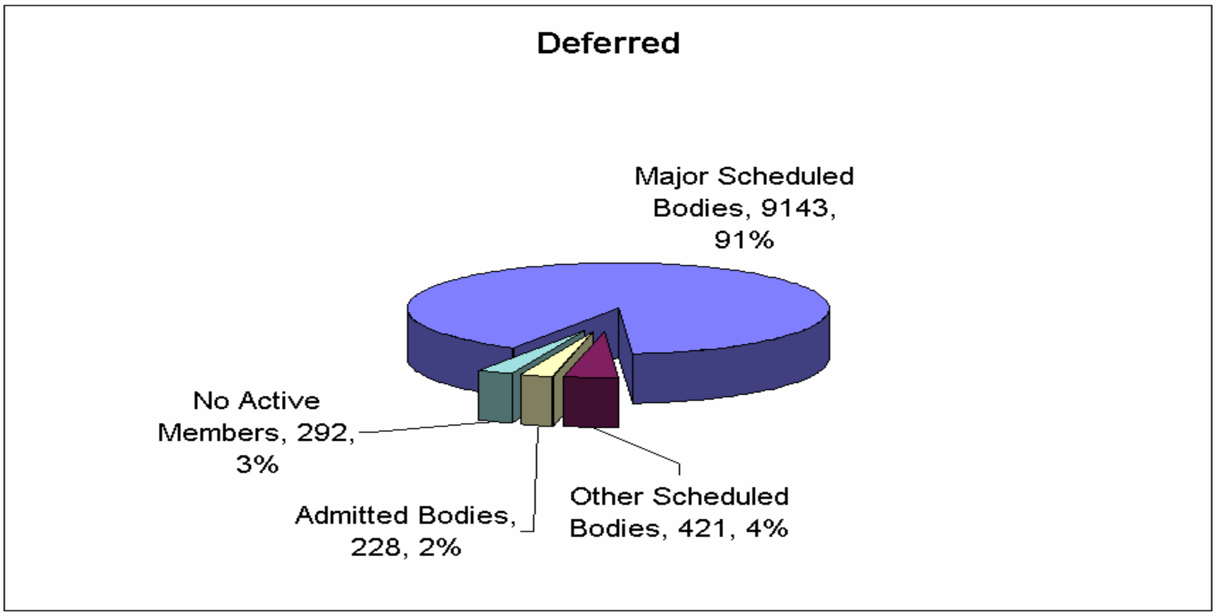
87% of Active membership is within the Major Scheduled Bodies, 10% within Other Scheduled Bodies (inc small scheduled bodies) and 3% is within Admitted Bodies.



Deferred Membership

Deferred members are members no longer in the NLGPS, but not eligible to drawdown on benefits and represent 25% of the members of the Fund; typically being employees that have left local government service and are still in gainful employment, but have opted not to transfer benefits from the Fund.

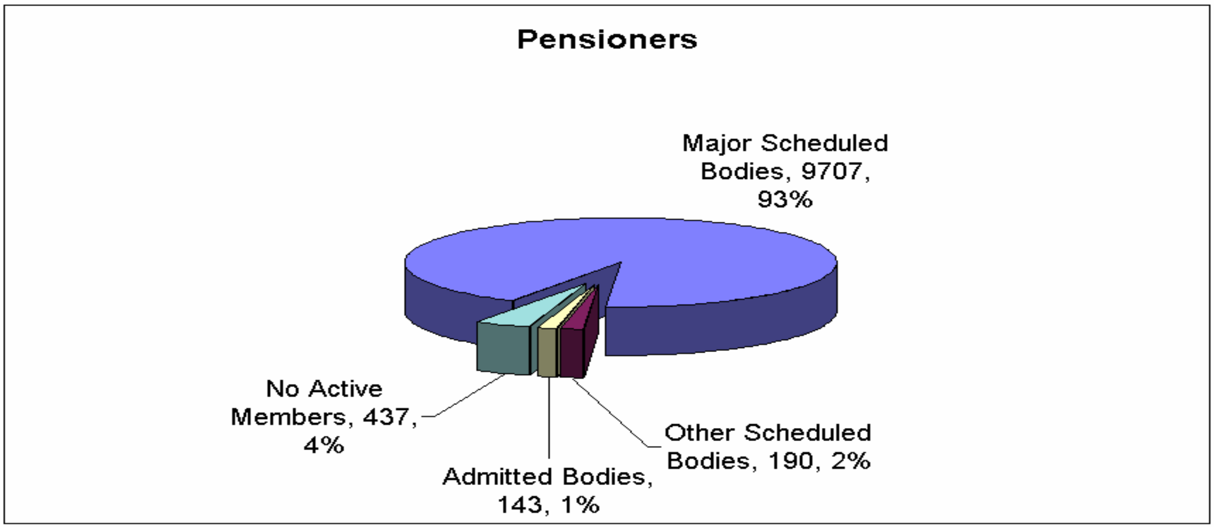
91% of Deferred membership is within the Major Scheduled Bodies, 4% within Other Scheduled Bodies (inc small scheduled bodies), 2% is within Admitted Bodies and 3% is within the no active membership grouping.



Pensioners Membership

Pensioners are employees that are drawing retirement benefits from the Fund and represent 26% of the members in the scheme.

93% of Pensioner membership is within the Major Scheduled Bodies, 2% within Other Scheduled Bodies (including small scheduled bodies), 1% is within Admitted Bodies and 4% is within the no active membership grouping.



PARTICIPATING EMPLOYERS AND CONTRIBUTION RATE

	Contribution Rate 2007-08	
	Percentage of Employees Contribution	Percentage of payroll
MAJOR SCHEDULED BODIES		
Northamptonshire County Council	294%	17.30%
Northamptonshire Police Authority	235%	14.10%
Northamptonshire Probation Committee	265%	15.90%
Borough Council of Wellingborough	382%	21.90%
Corby Borough Council	370%	21.90%
Daventry District Council	322%	19.00%
East Northamptonshire District Council	325%	19.50%
Kettering Borough Council	339%	20.00%
Northampton Borough Council	382%	22.40%
South Northampton Borough Council	352%	20.80%
Moulton College	193%	11.50%
Northampton College	234%	14.00%
Tresham Institute	198%	11.80%
University of Northampton	241%	14.30%
OTHER SCHEDULED BODIES		
Northampton County Council - Councillors	294%	17.30%
South Northamptonshire Council - Councillors	313%	20.80%
Borough Council of Wellingborough - Councillors	321%	21.90%
Abington Vale Primary	294%	17.30%
Bishop Stopford Ce School	294%	17.30%
Bugbrooke Primary	294%	17.30%
Campion School	294%	17.30%
Chenderit School	294%	17.30%
Collingtree Primary School	294%	17.30%
Corby Danesholme Junior School	294%	17.30%
Corby Lodge Park School	294%	17.30%
Corby Studfall Junior	294%	17.30%
Danetre School	294%	17.30%
Grange Community School	294%	17.30%
Great Addington Primary	294%	17.30%
Guilsborough School	294%	17.30%
Hardingstone Primary School	294%	17.30%
Headlands Primary	294%	17.30%
Irchester Primary	294%	17.30%
Irthlingborough Huxlow	294%	17.30%
Kettering Millbrook Infant School	294%	17.30%
Kettering Millbrook Junior School	294%	17.30%
Kettering Montagu School	294%	17.30%
Kettering Southfields School for Girls	294%	17.30%
Kingsbrook School, Deanshanger	294%	17.30%
Kingsley Primary	294%	17.30%
Kingsthorpe Comm College	294%	17.30%
Magdalen College	294%	17.30%

Moulton Primary School	294%	17.30%
Northampton School for Boys	294%	17.30%
Northampton School for Girls	294%	17.30%
Oakway Infants	294%	17.30%
Oakway Juniors	294%	17.30%
Oundle Primary School	294%	17.30%
Prince William School	294%	17.30%
Raunds Manor School and Sports College	294%	17.30%
Raunds Windmill Primary School	294%	17.30%
Redwell Infants	294%	17.30%
Rushden Community School	294%	17.30%
Sponne Community School	294%	17.30%
St Andrews Primary School	294%	17.30%
Standens Barn Primary	294%	17.30%
The King John School, Thrapston	294%	17.30%
The Kingswood School, Corby	294%	17.30%
Thomas Beckett Catholic School	294%	17.30%
Thrapston Primary School	294%	17.30%
Unity College	294%	17.30%
Welford, Sibbertoft and Sulby Endowed School	294%	17.30%
Well Lady's Catholic Junior School	294%	17.30%
Wellingboro Croyland Primary	294%	17.30%
Wellingborough Sir Christopher Hatton School	294%	17.30%
Wellingborough Weavers School	294%	17.30%
Wellingborough Wrenn School	294%	17.30%
Weston Favell School	294%	17.30%
Woodnewton A Learning Community	294%	17.30%
Coroners	294%	17.30%

SMALL SCHEDULED BODIES

Barby Parish Council	299%	17.60%
Billing Parish Council	299%	17.60%
Brackley Town Council	299%	17.60%
Daventry Town Council	299%	17.60%
Grange Park Parish Council	299%	17.60%
Irthlingborough Town Council	276%	16.10%
Moulton Parish Council	299%	17.60%
Oundle Town Council	299%	17.60%
Raunds Town Council	299%	17.60%
Rushden Town Council	299%	17.60%
Stanwick Parish Council	299%	17.60%
Towcester Town Council	299%	17.60%
Wooton Parish Council	299%	17.60%
Wollaston Parish Council	299%	17.60%

ADMITTED BODIES

Amey PLC	267%	15.80%
Carillion	252%	14.90%
North Northamptonshire Development Corporation	299%	18.00%
Daventry & District Housing	215%	12.70%
DC Wellingborough Leisure	220%	13.00%
EMLC	307%	18.40%
East Northants Cultural Trust	131%	7.80%
NCP Services Ltd	232%	13.70%
Northampton Connexions Partnership	219%	13.10%
Northampton Enterprise Ltd	170%	10.00%
Northampton High School	207%	12.40%
Northampton Theatres Trust	199%	11.90%
Shaw Healthcare	300%	17.70%
Spire Homes Limited	378%	21.60%
The Castle (Wellingborough) Limited	201%	11.80%
The Stationery Office	308%	18.20%
West Northants Development Corporation	275%	16.30%
United Learning Trust	160%	9.50%

SMALL ADMITTED BODIES

Age Concern (Northampton and County)	324%	24.50%

EMPLOYERS WHOSE ACTIVE MEMBERSHIP CEASED DURING THE FINANCIAL YEAR ENDING MARCH 2008

Society of County Archivists	N/A

Employers with no Active members

AWA EX WNRA	
Former Health Pensioners	N/A
Former Licensing Pensioners	N/A
Gretton PC	N/A
Magistrates	N/A
Nene Valley Waste	N/A
Northampton Borough Council Ex-Transport	N/A
Northampton Development Corporation	N/A
Northampton Joint Valuation Panel	N/A
Northampton Kingsley Park Middle School	N/A
Northampton Transport Ltd	N/A
Npton & City Blind Association	N/A
Pest Express	N/A
Stanion C of E Primary School	N/A
Wicksteed	N/A
Corby Develop Corp	N/A
Derngate Housing	N/A
Pytchley Town Council	N/A
Long Buckby Parish Council	N/A
Northamptonshire Chamber of Commerce, Training and Enterprise	N/A
Newton in the Willows Trust	N/A
Scholorest	N/A

Former Nene College Pensioners	N/A
Corby Woodnewton Junior School	N/A
Corby Beanfield Junior School	N/A
Well Hardwick Infants	N/A
Brambleside Primary	N/A
Bellinge Primary	N/A
Corby Queen Elizabeth School	N/A

MEMBERS AND ADVISERS AS AT 31 MARCH 2008 Appendix 5

Administering Authority	Northamptonshire County Council
Administrator	Mr J Neilson, Director for Business Support

Pension Committee and Investment Panel membership and advisors

County Council Members	Mr A Langley (Chair) Mrs P Cass (Deputy Chair) Mr B Parker Mr L Patterson Mr M Tye Mr C Lamb (substitute member) Mr B Scott (substitute member)
Borough Council Member	Mr M Ward (Wellingborough Borough Council)
Director for Business Support	Mr J Neilson
Head of Financial Operations & External Relations	Mr J Raisin
Employees Representatives	Mr P Cox
Actuary	Mercers Human Resource Consulting
Independent Investment Advisers	Mr P Meredith Mercer Investment Consulting
Auditor	KPMG LLP
Legal advisors	Sackers & Partners

Contacts:

Further Information regarding the accounts and investments can be obtained from:

Mr P Tysoe, Pension Fund Group Accountant – [See address below].
Enquiries: phtysoe@northamptonshire.gov.uk
Telephone: 01604 236481

Enquiries relating to benefit and administration should be directed to:

Mr I Gibbon, Pension Manager – [See address below].
Enquiries: igibbon@northamptonshire.gov.uk
Telephone: 01604 236527

Northamptonshire County Council
P.O Box 136
County Hall
Northampton
NN1 1AT

Registered Pension Scheme Number: 00329946RE

Glossary of Terms

Terms used in this report and general terms used in financial markets.

Accruals
Income and expenditure which is due but will not be received or paid until after the end of the financial year.

Actuary
An independent company which advises on the assets and liabilities of the Fund with the aim to ensure that the payment of pensions and future benefits are met.

Admitted Bodies
Voluntary and charitable bodies whose staff can become members of the Local Government Pension Scheme subject to certain terms and conditions and other organisations to whom Local Government employees have been transferred under the outsourcing of Local Government services.

All Share Index
Properly the FTSE All Share index which summarises the state of the UK equity market. It covers some 900 of the major UK industrial, commercial and financial companies.

Arbitrage
Buying and selling securities (usually in different markets) to take advantage of small pricing anomalies.

At Best
An instruction to deal at the best price ruling in the market at the time, i.e. The highest price (selling) or lowest (buying).

Authorised Unit Trusts
A unit trust which is approved by the Financial Services Authority (FSA) to be sold to members of the public.

Bargain
Another name for a trade or transaction of the Stock Exchange.

Bear
Someone who believes prices will fall in the future

Bearer
Securities which are legally owned by the Bearer of the document. No registration of ownership.

Beneficial Owner
The true owner of a security regardless of the name in which it is registered.

Bid Price
The price at which securities are purchased by market makers.

Bond
Security issued by a corporate or government body borrowing in the capital markets. Bonds promise to pay interest (coupons) during the life of the bond plus the principal sum borrowed on the redemption date. Bonds may be secured over assets of the firm or be unsecured. [See also Fixed Assets].

Bonus issue
Bonds, scrip or free issue are equivalent in terms. Free shares are issued to existing shareholders out of company reserves.

Bull
Someone who believes prices will rise in the future.

Certificate of Deposit
Certificate evidencing deposit of cash with a commercial bank.

Clean Price
The price of a bond which is quoted without accrued interest.

Commercial paper
Short term loan stock issued by corporates as part of a funding programme. Unsecured, Bearer securities.

Contract note
The documentary record of a trade which is sent from the broker to the investor

Convertible

Unsecured loan stock (bond) which converts into equity of the issuing company. The UK Government also issues convertible gilts which convert into other government stock.

Coupon
The regular payment made on bonds.

Debenture
Fixed loan stock (bond) secured against the company's fixed assets. First in the event of the company going into liquidation.

Distribution dates
The date when interest or dividends are distributed to investors. Also called Payment Date.

Dividend
The distribution of profits by a company to its shareholders. The dividend may be passed or cut if profits fall. {See also Equities]

Deferred Pension Benefit
A pension benefit which a member has accrued but is not yet entitled to receive.

Earnings per share (Eps]
The net (after tax) profits of a company divided by the number of ordinary shares in issue. This is used as the 'E' term in the P/E ratio to value shares.

Equities
Shares representing the capital of a company issued to shareholders usually with voting rights on the way the company runs the business. Equity holders rank last in the event of the winding up of a company.

Exercise Price
The price at which the holder of an option or warrant can buy/sell the underlying asset.

Expiry
The date on which an option or warrant expires.

Financial Services Authority (FSA)
The lead UK regulator. A designated agency which is not a government department.

Fixed Interest
Corporate Bond – A certificate of debt issued by a company or institution in return for a fixed rate interest with a promise of redemption to repay the original sum.

Gilt – Similar to Corporate Bonds by way of interest and redemption but these are issued by Government and are a loan to the Government.

FTSE-100 Index
The main UK index used to represent the approximate price movements of the top 100 shares.

Futures
Instruments which give a buyer the right to purchase a commodity at a future date.

Gearing
The amount of borrowing versus debt on a company's Balance Sheet (Net debt/Ordinary shareholders' funds). Warrants and options also exhibit gearing, i.e. a small move in the price of the underlying asset can be magnified in the move in the price of the option.

Hedge
To protect a fund from a fall in prices. This is usually accomplished by the selling of futures.

Hedge Fund
A limited partnership with very little restriction on the scope of its investment. Usually quoted in Luxembourg or Dublin. Hedge funds often use borrowing to gear up exposure to markets.

IMRO
Investment Management Regulatory Organisation. Fund Manager Regulator.

Index Linked

Stock whose value is related directly to an index, usually the Retail price Index and therefore provides a hedge against inflation.

Interest Yield
The annual coupon on a bond divided by the clean price.

Loan Stock
Unsecured bonds, which may be convertible if they have a warrant attached.

Longs
Long dated gilts with time frame to maturity of more than 15 years.

Market Capitalisation
For an individual stock it is the value of all shares held in the equity of the company. For a market or index it is the total of all the market caps of the constituent companies.

Mediums
Medium-dated Gilts with time to maturity of 5-15 years.

Nominee
A firm which acts on behalf of the underlying beneficial owner of the securities and in whose name the securities are registered.

Offer Price
The price at which market makers will sell stock.

Ordinary Shares
'A' Shares which confer full voting and dividend rights to the Owner.

Rights Issue
A new issue of shares offered to existing shareholders in proportion to their existing holdings. Usually offered at a discount to entice take-up, which causes the existing shares to fall in value to the theoretical ex-rights price.

Scheduled Bodies
Local Authorities and similar bodies whose staff are entitled automatically to become members of the local Authority Pension Fund.

Scrip Issue
Issue of free shares to current shareholders. Often used instead of a cash dividend (scrip dividend alternative).

Short
Selling more of an asset than the investor owns.

Spread
The difference between the bid and offer prices.

Stag
A person who applies for a new issue in the hope of selling quickly to make a profit.

Stock
Shares (e.g. Common stock). However, UK Gilts are more correctly described as stock.

Transfer Values
Sums which are paid either to or received from other pension schemes and relate to new and former members' periods of pensionable employment with employers participating in the scheme.

Trust
Investments are owned by trustees for the underlying beneficial owners. A unit trust is a trust, incorporated under a trust deed. An investment trust is a company, not a trust.

Underwriter
A firm which agrees to underwrite a new issue, for a fee, thereby guaranteeing the securities will be sold.

Unit trust
An open-ended trust investing in a wide spread of stocks, shares and cash (subject to FSA limits). Investors buy units directly from the fund manager to participate in a diversified portfolio. Unit trusts are subject to FSA investment and borrowing regulations.

Warrants
Long dated options warrants give the holder the right to buy/sell a specified quantity of a particular stock, or any other asset, at a fixed price on or before a specified date.

Yield Gap
Spread between gilt yields and yields on the stock market.

Zero coupon bond
A bond which is issued at a discount to par and does not pay coupons but is redeemed at par.

For more information or to download a copy of the
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