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If you would like this report in large print, audio, Braille, alternative format or in a different language please contact John Allison on 01603 222 842 (minicom 01603 223 833).
General
Foreword

I am very pleased to be able to write the foreword to the 2002/03 accounts for our pension fund.

This has been a hard year for pension funds, with markets behaving disappointingly. Over the year good performance often hasn’t meant making money, but rather just holding on to what we already have.

This is a hard concept to come to terms with, but pension funds rarely have to touch their capital – they are dependent upon the contributions we receive and the investment returns we make. The capital won’t be required for many years to come and our role is as guardians for the future with priority on placing our money well for recovery and future growth.

Short-term fluctuations are not an immediate concern for the Norfolk Pension Fund as our liabilities are very long-term. There has been a marked recovery in the markets over the last quarter with many of the losses of 2002/03 already regained over the 6 months since these accounts were produced.

During the year, the Government commenced its review of the Local Government Pension Scheme. The results of their ‘stocktake’ are still awaited, but all indications are that the scheme will continue, albeit with modifications to reduce the financial strain on the employers who take part.

It is when times are hard that the value of the fund is most apparent and the strong way we weathered recent market fluctuations is the best example of the reliability of our fund.

Bob Summers
Director of Finance and Fund Administrator

September 2003
## Management Structure

| ADMINISTERING AUTHORITY | Norfolk County Council  
County Hall  
Martineau Lane  
NORWICH  
NR1 2DW |
|------------------------|--------------------------------------------------|
| INVESTMENT COMMITTEE   | **Elected Members**  
Mr AJ Gunson  
Mrs B Hacker (Spokesperson)  
Mr JA Holmes (Spokesperson)  
Mrs AL King (Chairman)  
Mr DAW Turnbull (Vice-Chairman)  
**Co-opted Local Government Association Members**  
Mr CR Jordan  
Mr D Smith  
**Staff Representative Observer (UNISON)**  
Mr PH Baker |
| COUNCIL OFFICERS      | **Director of Finance**  
Mr RD Summers  
**Head of Client Financial Services and Pension Fund**  
Mrs N Mark  
**Pension Fund & Treasury Finance Manager**  
Mr G Cossey |
| PENSIONS ADMINISTRATION | Capita Business Services Ltd  
Charles House  
Prince of Wales Road  
Norwich  
NR1 1DJ  
**Pensions Manager**  
Mr M R Alexander |
| FUND MANAGERS          | Deutsche Asset Management  
Fidelity Pensions Management  
Henderson Global Investors  
Morley Fund Management  
Société Générale Asset Management |
| OTHER SERVICES PROVIDED BY | **Fund Custodian**  
The Northern Trust Company  
**Fund Actuary and Investment Adviser**  
Mr R S Bowie, Hymans Robertson & Co  
**Fund Auditor**  
The Audit Commission  
**Performance Measurement**  
WM Company Ltd |
Disclosure Regulations

The Government introduced Disclosure of Information Regulations as a step towards protecting the interests of pension fund members after the occurrence of a few well-known cases of misuse of pension fund assets. These regulations extended the items of basic information to be disclosed and introduced fixed time limits for their disclosure.

Pensions Registry
There is a registry of all schemes and information about this Scheme has been passed to:

The Pensions Registry
PO Box 1NN
Newcastle-Upon -Tyne
NE99 1NN

http://www.opra.gov.uk/registry/regmenu.shtml

Statement of Investment Principles
The Norfolk Pension Fund has a published Statement of Investment Principles. This includes details of our compliance with recognised good investment practices and can be found on the Internet at the following location:


Alternatively a copy can be obtained from the Norfolk Pension Fund:

Norfolk Pension Fund
County Hall
Martineau Lane
Norwich
NR1 2DW

01603 222 842
Complaints Procedure

In accordance with Legislation the fund operates an Internal Dispute Resolution Procedure.

Internal Dispute Resolution Procedure
Decisions regarding membership of the Pension Scheme will initially be made by your employer with regard to matters such as pensionable earnings, date of Scheme entry, etc.

Norfolk County Council as administrator of the Pension Scheme will determine other matters regarding membership.

What you should do if you are unhappy with any aspect of your Pension Scheme membership.
Initially you should contact Capita Pension Services at Charles House (see Management Structure) who should be able to give you an explanation. If you have not been provided with an explanation, or are unhappy with the explanation, you may refer the matter to a Local Referee. You must make any referral to the Local Referee within 6 months of being notified of the decision, which is the cause of your complaint.

Who is the Local Referee?
The appointed person in respect of the Norfolk Pension Fund is: -

Mr C G Harding
Clerk, Solicitor and Monitoring Officer
Norfolk and Cambridgeshire Police Authorities
Jubilee House
Falconers Chase
Wymondham
Norfolk
NR18 0WW

When referring your complaint to Mr. Harding you must do so in writing, stating exactly why you are aggrieved and providing any relevant information. Include in your letter:-

- your full name and address,
- your date of birth,
- the name of your employer and the nature of your employment.
- Also please give the name and address of anyone who may be representing you and, if so, whether correspondence should be sent to you or your representative.

What happens next?
Within 2 months of receiving your complaint Mr. Harding must reach a decision and notify you of his findings. If he is unable to reach a decision within 2 months, he must inform you and give an estimated date when he is likely to reach a decision.

What you should do if you are not satisfied with the findings of the Local Referee.
Within 6 months of Mr. Harding’s decision you may refer the matter to the Secretary of State for the Environment, Office of the Deputy Prime Minister, Local Government Pensions Division, Ashdown House, 123 Victoria Street, London SW1E 6DE.
If you are still unhappy or feel that there has been some form of maladministration you may then refer the matter to the Occupational Pensions Advisory Service (OPAS) (www.opas.org.uk) for assistance or ultimately to the Pensions Ombudsman (www.pensions-ombudsman.org.uk). Both OPAS and the Pensions Ombudsman can be contacted at 11 Belgrave Road, London, SW1V 1RB.
Fund Management
**Fund Managers’ Reports**

**Introduction**
The County Council invests the Fund in compliance with the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999.

During 2002-03 five external managers managed the Fund’s investments. They were:

- Deutsche Asset Management ("balanced fund" manager)
- Fidelity Pensions Management (for Global Equities),
- Henderson Investors (for Global Bonds),
- Morley Fund Management Limited (for Property Unit Trusts and Index-Linked Gilts),
- Société Générale Asset Management (for UK Equities).

A small number of stocks are managed internally.

Reports by the Fund Managers on the state of the markets over the 2002/3 year follow.
Economic outlook
Recently, the markets have become gloomier over the prospects for the world economy. There is no shortage of explanations for why growth may have faltered: high oil prices, worries over Iraq and weak stock markets all provide ready explanations. We share the general view that world growth this year will be at a modest rate and broadly below trend but feel that worries about a return to recession are overdone. The oil price remains a critical factor and we believe that a year from now prices should be closer to $20 a barrel. This would be a huge boost to the global economy.

The US economy has been bolstered by stronger than expected consumer spending. This largely reflects favourable demographic influences and aggressive monetary easing by the FOMC which has depressed mortgage rates. Overall, we expect economic growth in the US to rise from around 2% or so in Q1 and Q2 to finish the year at something closer to trend, 3% or even a little higher.

Growth in continental Europe has been a big disappointment over the last year, companies have been slow to adjust employment and investment. With well-recognised structural weaknesses and the Growth and Stability Pact constraining fiscal policy, concerns over Europe’s economic prospects have intensified. We think this pessimistic background may be somewhat overdone. We do not expect vigorous growth in Europe, merely that it will outperform rather pessimistic expectations.

Japan remains beset by substantial structural problems in the form of weak demographics, problems in the banking system and fiscal policy which has led to a bloated budget deficit and huge national debt, combined with monetary policy which has run out of potency. However, the economy seems set to muddle through another year producing little economic growth but avoiding the kind of precipitous collapse that so many commentators fear.

Global equities
The end of 2002 marks the third consecutive year of negative equity returns which has led to the worst performance by stocks versus bonds since the 1930s.

Gains made in the first quarter of 2002 were reversed through the spring and summer months. The bear market downtrend resumed as earnings estimates for the second half of the year came under pressure. In addition to the ‘quantity’ of earnings, quality also became an issue following accounting scandals at Enron and WorldCom.

July and then October saw tactical bounces in equities, although in each case as soon as the oversold condition had been resolved, the market’s downward trend resumed.

The major influence on equities during the first quarter of 2003 has been the war in Iraq. Once the decision to go to war had been taken and reports of quick progress were broadcast, the equity markets rallied before falling back once more as coalition troops appeared to get bogged down in guerrilla-like combat. The tentative Asian economic recovery was also threatened by the long-term impact of SARS.
Emerging markets were the best performers over the period, the MSCI EM Free Index returning –23.8%. Their more developed counterparts fared poorly with the US at -24.7%, Europe (ex UK) at –41.4% and the UK at –29.8%.

(All returns are total returns in local currency unless otherwise stated.)

**UK equities**

At the start of the period the UK stock market traded within a range. However, as economic and geopolitical concerns mounted in the second quarter of 2002, March saw a fall that was to continue throughout most of the period.

Unsurprisingly, geopolitical developments dictated the direction of the market, and weak economic data added to the malaise. Towards the end of the period, tensions in the Gulf escalated, as it became apparent that diplomatic efforts were failing, not just to avert war, but to build a broad-based coalition, the market declined. Once the decision to go to war had been taken and reports of quick progress were broadcast, the market rallied before falling back once more as coalition troops appeared to get bogged down in guerrilla-like combat.

The FTSE All Share Index fell by –29.8% slightly outperforming the FTSE Mid 250 (–33.8%) and FTSE SmallCap Index (–33.6%). On a sector level, steel and other metals was the worst hit, as during the first quarter, one of the major steel makers disclosed that major job losses may see the closure of its Teeside plant. IT hardware and electronics and electrical equipment were two of the other worst performers. The best performing sector was tobacco, as investors sought defensive areas of the market.

**US equities**

US equities fell over the period, the S&P 500 Index falling 24.7%. The period started with profit-taking after the previous quarter’s gains. Earnings came under scrutiny following accounting scandals at Enron and later WorldCom which led to US$3.85bn of undeclared expenses being disclosed.

Overall, poor equity performance continued into the third quarter of 2002, with the US market showing a broad-based fall across all sectors. During the final few months of the year, there were positive signals that the economy may have avoided the feared double-dip recession. Expanding manufacturing activity, a rise in orders for durable goods and a drop in weekly jobless figures all helped to push equity markets higher.

Reporting season for the fourth quarter of 2002 proved less disappointing than in previous quarters however while this gave some comfort, it took a backseat to geopolitical concerns.

Investors became less and less focused on economic and financial trends over the first quarter of 2003 as equity markets moved with the course of developments in Iraq. Economic news also tailed off, despite a new fiscal stimulus proposal from the government early in the period. Weakening data in March included weekly jobless claims, regional manufacturing activity and the Conference Board’s index of leading economic indicators. Many sectors ended the period in negative territory with aerospace & defence a notable casualty as the airline industry was hurt once again by the public’s fear of travelling.
Europe (ex UK) equities
European equities are seeing one of the largest bear markets in history. The start of the period saw them underperforming in a global context as earnings expectations were slashed on the back of weak economic fundamentals and a resurgent euro. Accounting scandals in the US exacerbated the worries as did fears of deflation in Germany. These themes have continued to dominate investor sentiment throughout the period.

There was a brief rally in the fourth quarter of 2002 when economic worries were alleviated somewhat as the European Central Bank cut interest rates. This proved short lived however. At the beginning of 2003, geopolitical and economic unease were again the dominating influences on investor sentiment. European bourses, especially the Dutch AEX index, were then hit further as a new accounting scandal unravelled when Ahold, the world's third largest food retailer, disclosed that earnings in its US division had been overstated by $500m (£315m).

Markets started 2003 poorly. The Iraq situation coupled with strained relations between several European countries and the UN contributed to this, as growth forecasts for 2003 were revised downwards. As the war broke out towards the end of the first quarter of 2003, stocks rallied sharply, but began to fall as expectations of a quick resolution to the conflict faded.

Japan
Despite a small bounce at the start of the period, the market fell over concerns about the depth of economic recession and the stability of the banking system. The downtrend continued throughout the period. Japanese banks accelerated sales of cross-shareholdings, evoking a policy response from the Bank of Japan, which announced a plan to purchase stocks directly from banks. The government disappointed investor expectations on resolving banks' bad loan issues and despite first half earnings in line with expectations, full year forecasts fell, prompting fears of a new recession.

Investors became more nervous as expectations for a short war in Iraq were lowered and concerns grew for the impact of the war on the global economy. In addition, the release of weaker industrial production data for February further worsened investor sentiment. The banking reform has lost much of its momentum and the appointment of Toshihiko Fukui as new governor of the Bank of Japan, was generally considered a disappointment to hopes of radical reform.

Pacific basin (ex-Japan) equities
Asian markets started the period with strong performance in most markets, with the exception of Hong Kong which was plagued by a weak economy, persistent deflation and limited flexibility in policy changes.

Although markets fell later in the year they still outperformed other global markets significantly and throughout the year were in the most part dependant on the outlook for the US economy, liquidity and the weakness of the US dollar. Despite a period when war on terrorism dominated the media, most Asian markets ended the year flat.

In the first two months of 2003, the market was largely range bound, given a lack of significantly domestic newsflow. In March, the market was negatively impacted by the outbreak of SARS, which threatens to derail the tentative Asian economic recovery.
Our sense is that the recent heightened awareness of the illness should contain the spread within the coming month, although risks remain.

**Emerging markets**
During the period, the markets of Emerging Europe, the Middle East and Africa provided a diverse mix of investment opportunities, but overall ongoing tensions in the Middle East and the prospect of further action in Iraq remained.

The final few months of 2002 saw a respite from the meltdown that had characterised the second and third quarters, as positive returns were achieved across global markets, with emerging markets again outperforming their developed counterparts.

Argentina and Brazil both performed well during the first quarter of 2003. Foreign investors took advantage of the cheap peso in Argentina, while better economic data was responsible for Brazil’s strong performance. A lot of the focus in Emerging Europe was centred on Turkey. The market performed strongly in January and February as the market anticipated US troops being allowed to base themselves in the country in return for considerable financial assistance. However, the Turkish parliament’s rejection of the government’s proposal prompted the market to shed a quarter of its value in March.

**UK bonds**
UK bonds performed well over the past 12 months supported by a neutral to dovish interest rate policy and extremely weak equity markets. As the year progressed, the negative correlation between bonds and equities strengthened further and as equities struggled, bonds outperformed. Insurance companies’ exposure to falling equity markets gave rise to questions about solvency levels and led many life companies to switch from equities to bonds.

Investor worries over the economy, the geopolitical situation in the Middle East and equity weakness continued towards the end of the period and allowed bonds to continue their rally. The short end produced stronger returns while the long end suffered, due to possible further issuance coupled with evidence of switching from long-dated UK to long-dated European bonds.

In February 2003 the Bank of England surprised markets with a 0.25% cut in interest rates, the effects of which persisted for the rest of the month. The commencement of the war led to a relief rally in equities and a sell-off in bonds. However, the majority of this sell-off had been reversed by the end of the period, as economic concerns resurfaced and bonds yields fell further.

**Global bonds**
US bonds performed well over the period, as the Federal Reserve maintained an easing bias on interest rate policy. While equity and credit markets gained some composure, the treasury market was supported by the Federal Reserve cutting interest rates by 50 basis points in response to the weaker economy. US bonds continue to look for further rate cuts from the Fed, or a ‘quantitative easing’, and continued improvements in corporate cashflow have led to a US corporate bond rally.

European bonds started the period disappointingly as the market waited for the European Central Bank’s response to the economic climate, even pricing in summer hikes in rates. A surge in equity confidence, albeit short-lived, also triggered a more aggressive bond sell-off. This was reversed as European central banks cut rates in
response to downgrades in the outlook for growth and inflation in 2003. Core inflation has fallen decisively below the ECB’s 2% target ceiling and we expect further interest rate cuts.

Japanese domestic bonds also performed well driven by equity uncertainty. Investors continued to chip away at the longer-end of the curve in 2003, taking yield levels down to historical lows. The Japanese appetite for ‘safe’ assets seems insatiable with continued strong inflows into Japanese Government Bonds (JGBs).

UK bonds performed well over the past 12 months supported by a neutral to dovish interest rate policy and extremely weak equity markets. As the year progressed, the negative correlation between bonds and equities strengthened further and as equities struggled, bonds outperformed. UK gilts have been supported by the possibility of further rate cuts, although inflation has moved above the 2.5% target, which may limit the Bank of England’s ability to cut interest rates in the near future.

Deutsche Asset Management Limited
Investment Strategy
The aim of the fund is to return 1.5% per annum above its benchmark over a three-year period. The fund manager’s strategy is to select stocks to add value to the portfolio by investing in companies where expected future earnings are not reflected in the share price.

Within the portfolio, the percentage of the fund invested in the UK increased bringing it into line with the benchmark. The UK, has held up relatively well compared with other countries in Europe, supported by solid consumer spending. Sentiment has been underpinned by low unemployment and rising house prices. However, a rise in National Insurance contributions could undermine spending.

In overseas markets, the fund’s exposure to Continental Europe was reduced, as the outlook for corporate earnings appeared poor and supply/demand conditions for equities seemed weak. The position in Japan remained broadly in line with the benchmark. Although Japanese equities appeared attractively valued, this appeal was somewhat negated by poor supply/demand conditions. Holdings in Pacific (ex Japan) companies were reduced slightly, because some economies in the region were showing signs of slowing. The exposure to US companies was increased slightly amid signs of stabilising economic fundamentals. The fund remained slightly overweight in Emerging Markets where many exchanges looked attractively valued.

Market Background
Most stock exchanges declined over the year in often volatile trading. The biggest declines took place between May and July, when serious accounting scandals in the US undermined investors’ faith in reported company results. During the second half of the period, the growing inevitability of a war in Iraq and increasing indications of deteriorating economic conditions in many countries undermined investor sentiment. The US Federal Reserve cut its benchmark Fed Funds rate from 1.75% to 1.25% in November, the European Central Bank reduced its key repo rate to 2.75% in December, then to 2.50% in March, and the Bank of England trimmed its base rate from 4.00% to 3.75% in February. These steps were taken to try and stimulate economic growth, as business and consumer sentiment worsened. Disappointing company announcements often met with a severe reaction, as investors reduced earnings forecasts.

Performance
Over the twelve months to the end of March, the portfolio outperformed, returning –28.1% compared with the benchmark return of –29.1%. The strength of holdings in Continental Europe and Japan boosted performance. However, elsewhere holdings in the UK, the Pacific (ex Japan) and Emerging Markets detracted from returns.

Since the fund’s inception on 30 September 1998, the portfolio has outperformed returning on average 2.3% per year compared with the average benchmark return of 0.2% per year.

NB: all returns quoted are total returns expressed in sterling terms unless otherwise stated.

Data source: WM Company.
Economic & Market Activity
Economic data proved erratic through 2002, but the background was consistent with a sub-par recovery. The industrial side of the world economy appeared to hit an air pocket in late summer that extended through the autumn. The US economy also hit a soft spot, and the Federal Reserve responded with a 0.5% cut in the Fed Funds target rate, taking it down to the lowest level since 1961 at 1.25%. Tentative signs of a pick-up were coming through again towards the end of 2002, but the early months of 2003 saw further weakness in economic data as concerns over the conflict with Iraq undermined consumer and business confidence.

The UK economy was supported for much of the year by a robust consumer sector and a buoyant housing market, while the industrial sector struggled against a weak global backdrop. Having left base rates unchanged through 2002, the Bank of England cut rates by 0.25% in early February 2003 to 3.75%, their lowest level since 1955. The slowing economy hit tax revenues and led to significantly higher estimates for the Public Sector Borrowing Requirement in 2003 and beyond, confirmed in the Chancellor Gordon Brown’s Budget statement shortly after the end of the period.

European GDP growth was close to zero for 2002, undermined by a weak German economy. The European Central Bank cut interest rates twice over the period to boost activity, taking them down to 2.5%. Domestic demand is likely to be curbed by cuts in public spending and higher taxes in 2003 as several countries, notably Germany, tackle growing deficits. This leaves Europe heavily dependent on external demand.

There were erratic signs of improved demand in Japan, but the economy has all but stagnated. Deflation remains an issue with household spending down by 3.5% year-on-year in 2002.

A string of accounting scandals in the US in spring 2002, concerns over the health of the US economy and the build up to military action against Iraq all contributed to a climate of uncertainty in financial markets. Global bond markets benefited from their safe haven status, with positive returns in all of the major markets. More recently, concerns have emerged over burgeoning government deficits notably in the US, Germany and the UK. The implications for supply leave government bonds looking vulnerable once investors regain their appetite for risk.

In the UK, the FTA Government All Stocks Index was up by 11.3%, while the 5 to 15 Years Index was up by 12.4%. The shorter end of the gilt market was hit by concerns over inflation during the period and the Up to 5 Years Index rose by a more modest 8.1% on the year.

Index-linked gilts performed well in the first half of the year, but gave back their outperformance relative to gilts as issuance concerns came to the fore. Over the year, the FTA British Government Index-Linked All Stocks Index was up by 10.4% in total return terms.

Corporate bonds were up by 10.9% over the year. This overall return masked a volatile year for corporates. Some sectors, notably telecoms, were badly hit by the high profile failures of Enron and WorldCom. The response from ratings agencies was to mete out
severe downgrades to any company that disappointed. The subsequent decline in investors’ appetite for risk is reflected in the fact that AAA corporates were up 12.5% on the year, while BBB issues were up a more modest 6.6%.

Currency moves had a marked impact on returns in overseas markets, with the US dollar losing ground against the major currencies. The euro moved back above parity against the dollar. Sterling rallied by over 10% relative to the dollar, while returns for sterling investors in Europe were enhanced by the 12% appreciation of the euro against sterling. Sterling was broadly flat relative to the Japanese yen over the year.

**Strategy & Performance**

We were anticipating a synchronised if ‘soggy’ recovery in the global economy in 2002, which we expected to lift equity markets and help corporate bond performance. This belief guided our defensive short duration position in government bond portfolios, as well as our overweight in corporate bonds and the bias away from AAA rated issues. Towards the end of 2002, we increased interest rate sensitivity in your portfolio to neutral relative to the benchmark. Given increased volatility in markets we have retained this stance.

For the quarter to 31 March 2003, the Fund return was +2.32%, measured against a benchmark return of +2.40%. For the twelve months to 31 March 2003, the Fund return was +11.89%, measured against a benchmark return of +12.22%.
Report by Deutsche Asset Management

Performance
The returns achieved for your scheme against the benchmark for the one, three and five year periods ending 31 March 2003 are given in the table below.

<table>
<thead>
<tr>
<th>Period ending 31/03/03</th>
<th>Scheme %pa</th>
<th>Benchmark %pa</th>
<th>Difference %pa</th>
</tr>
</thead>
<tbody>
<tr>
<td>One year</td>
<td>-22.3</td>
<td>-21.7</td>
<td>-0.6</td>
</tr>
<tr>
<td>Three year</td>
<td>-11.6</td>
<td>-10.9</td>
<td>-0.7</td>
</tr>
<tr>
<td>Five year</td>
<td>-2.0</td>
<td>-2.7</td>
<td>+0.7</td>
</tr>
</tbody>
</table>

Economic outlook
The end of 2002 marks the third consecutive year of negative equity returns, which has led to the worst performance by stocks versus bonds since the 1930s.

Recently, the markets have become gloomier over the prospects for the world economy. There is no shortage of explanations for why growth may have faltered: high oil prices, worries over Iraq and weak stock markets all provide ready explanations. We share the general view that world growth this year will be at a modest rate and broadly below trend but feel that worries about a return to recession are overdone.

UK equities
At the start of the period the UK stock market traded within a range. Unsurprisingly, geopolitical developments dictated the direction of the market, and weak economic data added to the malaise.

With the market focussing on short-term issues, the Fund took the opportunity to take a longer-term perspective. The Fund reversed the underweight Shell /overweight BP positions. BP has been on a very long-term recovery track, but with that phase in the company’s history now nearing completion, Shell offers superior quality assets and a more attractive valuation.

The Fund also reduced positions in two key turnaround situations, namely M & S and Reckitt Benckiser. New management has rejuvenated both companies, but now the recovery is nearing completion, valuations are looking stretched and the required rates of asset growth implied in the stock prices will be difficult to achieve. The proceeds were re-deployed into Astrazeneca where cashflow returns are similar but long-term growth rates should be higher.

US equities
The period started with profit taking after the previous quarter’s gains. Overall, however, poor market performance dominated into the third quarter of 2002, with the US market showing a broad-based fall across all sectors. During the final few months of the year, there were positive signals that the economy may have avoided the feared double-dip recession. Expanding manufacturing activity, a rise in orders for durable goods and a drop in weekly jobless figures all helped to push equity markets higher.
During this period the market rotated away from previous strong performers, where we had remained overweight, into depressed speculative names. Our overweight positions in Tenet Healthcare and Tyco, both falling heavily on bad news flow, were key negative contributors for the year.

**Europe (ex UK) equities**

European equities are seeing one of the largest bear markets in history. The start of the period saw them underperforming in a global context as earnings expectations were slashed on the back of weak economic fundamentals and a resurgent euro.

There was a brief rally in the fourth quarter of 2002 when economic worries were alleviated somewhat as the European Central Bank cut interest rates. As in the US, this strong market reversal saw highly leveraged companies, such as Alcatel and Ericsson, post impressive returns. The European portfolio did not own these financially distressed stocks, which contributed significantly to the underperformance over the period.

**UK bonds**

UK bonds performed well over the past 12 months supported by a neutral to dovish interest rate policy and extremely weak equity markets. As the year progressed, the negative correlation between bonds and equities strengthened further and as equities struggled, bonds outperformed. Insurance companies’ exposure to falling equity markets gave rise to questions about solvency levels and led many life companies to switch from equities to bonds.

**Deutsche Asset Management Limited**
Investment Strategy

The twelve months leading up to 31 March 2003 proved to be another bull market year for fixed income, as a combination of economic weakness, collapsing equity prices and geopolitical tension drove bond yields ever lower. The corporate bond market was hit hard by accounting malpractice at some of the leading corporations in the US. The prime effect of which was to undermine confidence in companies’ accounts as well as contributing to a wave of downgrades and defaults. Despite this, strong investor demand led UK corporate bonds to outperform gilts.

Commercial property has continued to offer attractive absolute returns to investors over the twelve-month period to 31 March 2003, underpinned by high income yields and strong investment demand. Property’s attractions have continued to appeal to investors wary of more risk-orientated assets against a background of global economic and geopolitical uncertainty. The IPD Monthly Index gave a total return of 10.6% over the period compared with 12.4% for gilts and a fall of 29.8% in UK equities.

Retail property, particularly the retail warehouse sector, has outperformed significantly with total returns of 15.3% over the year to March. Despite some talk of possible consumer retrenchment if house prices were to fall sharply we are not anticipating a significant cutback in spending and believe that this sector continues to offer good prospects going forward. The office sector has shown the weakest performance due mainly to issues in Central London offices and a sharp weakening in occupational demand. It is likely to be some time before this sector recovers. In the industrial sector, rents have edged higher, however there has been a substantial increase in the availability of space and demand from manufacturers is likely to remain depressed.

Going forward, investor demand is likely to be strong for properties with long terms to lease expiry but weak for office properties with short terms to lease expiry. Overall, capital values are likely to fall slightly in 2003 and 2004, but over the next five years we are anticipating total returns of c8.5%pa.

Performance

Over the financial year to 31 March 2003, the fund overall achieved a total return of 10.1%, outperforming the benchmark return of 10.0%. The property portfolio returned 9.7% over the 12 month period, versus the CAPS median return of 9.3%, with the strongest contribution coming from the Morley Pooled Pension Fund. The bond component of the fund returned 10.9%, slightly underperforming the benchmark return of 11.3%.

T. Charlwood, Public Sector Marketing Director, Morley Fund Management Limited, No 1 Poultry, London EC2R 8EJ
Report by Société Générale Asset Management

UK Market
The year to 31 March 2003 was a very poor one for the UK market. The aftershock of the attack on the World Trade Centre in 2001 was long lived and the market lost over 25% of its value by the end of September. The three months leading up to Christmas saw a solid attempt at a rally, but this was curtailed by the invasion of Iraq in the first quarter of 2003. The net effect was that by March the FTSE All-Share index had produced a return of –29.8% for the year. Predictably in such an environment the more blue chip FTSE 100 (-29.1%) outperformed the more economically sensitive FTSE Mid 250 (-33.8%) and the FTSE Small Cap (-33.6%). The outperforming sectors tended to be defensives such as Household Goods (+52%), Tobacco (+45%) and Electricity (+35%). Steel (-89%) and the two IT sectors Hardware (-66%) and Software (-43%) were the worst performers.

Investment Strategy
The geopolitical events of 2001 and 2002 clearly profoundly shocked investors causing them to question even the most longstanding of valuation tools and delayed, by some way, their willingness to look through the uncertainty to the world economic recovery beyond. These uncertainties were starkly expressed in share prices. Valuations of economically sensitive stocks had fallen significantly - too far in our opinion - and negative sentiment had become completely dominant. Furthermore equity valuations were at extreme historical lows against other asset classes. These factors, allied to prompt monetary easing by the authorities in the wake of September 11 and subsequently encouraged us to look through the uncertainty and position the portfolio to benefit from a recovery by buying those stocks that we considered to have become excessively undervalued. For the first half of the year to March this stance was premature. Leading up to Christmas, it seemed that the market had finally shaken off its fears and had started to price in a return to more normal conditions but the dampening effect of the invasion of Iraq and the initial apparent lack of success in that campaign meant that the Christmas rally was unable to persist into the New Year and the market once again fell back.

As a result our market recovery investment strategy proved too early although we remain confident that it will be vindicated. Indeed subsequent to the year end and with the successful prosecution of the Iraq war now behind it, the market has rallied very sharply and the fund has significantly outperformed its benchmark. We expect this to continue.

Performance
For the year to 31 March 2003, the Norfolk Pension Fund delivered a return of –30.9% compared to a return of –29.8% from the FTSE All-Share Index.
Actuarial Statement by Hymans Robertson

Actuarial statement for the purpose of Regulation 77 of the Local Government Pension Scheme Regulations 1997.

As required by regulations, an actuarial valuation of the Fund’s assets and liabilities was carried out as at 31 March 2001.

Security of Prospective Rights
In my opinion, the resources of the Scheme are likely in the normal course of events to meet the liabilities of the Scheme, as required by the Regulations. In giving this opinion I have assumed that the following amounts will be paid to the Scheme: -

Contributions by the members in accordance with the Local Government Pension Scheme Regulations 1997.

Contributions, for the three years commencing 1 April 2002, paid by the employers are as specified in our certificate dated February 2002 contained in our report on the valuation of the Fund as at 31 March 2001.

Summary of Methods and Assumptions Used
Full details of the method and assumptions are described in our valuation report dated February 2002.

My opinion on the security of the prospective rights is based on the projected unit valuation method. This assesses the cost of benefits accruing to existing members during the year following the valuation, allowing for future salary increases. The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities (allowing for future salary increases) and the assessed value of assets.

Like the previous (1998) valuation, a “market related” valuation method has been used. The market related method derives the financial assumptions by considering various average yields in the twelve month period leading up to the valuation date and values the assets of the Fund based on the average market value in this same period. Using average yields and market values builds in an element of smoothing and stability for the future.

The key financial assumptions adopted for this valuation are as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Return</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equities</td>
<td>6.25-6.75%</td>
<td>3.45-3.95%</td>
</tr>
<tr>
<td>Bonds</td>
<td>5.25-5.75%</td>
<td>2.45-2.95%</td>
</tr>
<tr>
<td>75% Equities / 25% Bonds</td>
<td>6.00-6.50%</td>
<td>3.20-3.70%</td>
</tr>
<tr>
<td>Pay Increases</td>
<td>4.80%</td>
<td>2.00%</td>
</tr>
<tr>
<td>Price Inflation/Pension Increases</td>
<td>2.80%</td>
<td>-</td>
</tr>
</tbody>
</table>

For liabilities which will accrue in respect of service after the valuation date we have adopted a discount rate which is initially the expected return from the existing assets at
current market conditions but which in the longer term reverts to our longer term assumptions.

The 2001 valuation revealed that the Fund’s assets, which at 31 March 2001 were valued at £1,202 million, were sufficient to meet approximately 103% of the liabilities accrued up to that date. Assets were valued at their market value smoothed over the 12 months to the valuation date.

Post Valuation Events
A significant fall in equities has occurred since the valuation as at 31 March 2001. I estimate that the funding level of the Scheme will have fallen by around 25% since that date. A number of employers within the Fund are paying increased contributions from 31 March 2003 as a means of starting to offset this fall. I will take the full extent of the fall into account in the 2004 actuarial valuation.

Copies of this report are available on request from the Finance Department of Norfolk County Council.

The next valuation of the Fund will be carried out as at 31 March 2004.

Donald Fleming
Fellow of the Faculty of Actuaries
Partner
June 2003
Statement of Responsibilities

The Authority’s Responsibilities

The Authority is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance;
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the statement of accounts.

The Director of Finance’s Responsibilities

The Director of Finance is responsible for the preparation of the Pension Fund statement of accounts in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) and Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code of Practice on Local Authority Accounting in Great Britain (“the Code”).

In preparing this statement of accounts, the Director of Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code.

The Director of Finance has also:

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

Certificate by the Director of Finance

I certify that the statement of accounts set out on pages 33 to 50 present fairly the financial position of the Norfolk Pension Fund at the accounting date and its income and expenditure for the year ended 31 March 2003.

Signature: R.D. Summers
Director of Finance and Fund Administrator

Date: 29 October 2003
Auditor’s Report

I have audited the financial statements on pages 42 to 50 which have been prepared in accordance with the accounting policies applicable to the Pension Fund accounts set out on pages 40 to 41.

This report is made solely to the Norfolk Pension Fund in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

Respective Responsibilities of the Director of Finance and Auditor

As described on page 1 the Director of Finance is responsible for the preparation of the financial statements in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2002 and ensuring that contributions are made to the Pension Fund in accordance with the rates and adjustment certificate. My responsibilities, as independent auditor, are established by statute, the Code of Audit Practice issued by the Audit Commission and my profession's ethical guidance.

I report to you my opinion as to whether:

- the financial statements present fairly the financial transactions of its Pension Fund during the year and the amount and disposition of the Fund’s assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year
- the contributions under the scheme during the year have been paid in accordance with the rates and adjustments certificate dated January 2002 prepared under the Local Government Pension Scheme Regulations 1997.

I read the other information published with the statement of accounts and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the council's circumstances, consistently applied and adequately disclosed. The work that I carried out also included examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme and timing of those payments.
Because custody of the Fund’s investments, which amounted to £913 million at 31 March 2003 has been delegated by the Fund to Northern Trust, my work relating to those investments has been determined by the arrangements made by the Fund to monitor the work by Northern Trust on their behalf. My audit has included a review of the contractual arrangements between Northern Trust and the Fund, an assessment of the reports received by the Fund from its auditors concerning the adequacy of its systems of controls and a review of the returns received from Northern Trust concerning the Fund’s investments.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error and that contributions have been paid in accordance with the rates and adjustments certificate dated January 2002 prepared in accordance with the scheme rules and recommendations of the actuary.

In forming my opinion, I evaluated the overall adequacy of the presentation of the information in the financial statements.

**Opinion on the pension fund accounts**

In my opinion the financial statements present fairly the financial transactions of Norfolk Pension Fund during the year ended 31 March 2003, and the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

In my opinion the contributions under the scheme during the year ended 31 March 2003 have been paid in accordance with the rates and adjustments certificate dated January 2002 prepared under the Local Government Pension Scheme Regulations 1997.

**Certificate**

I certify that I 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.

Signature: ___________________________ Date: 29 October 2003

Name: K Matthews

Audit Commission
Springvale Court
Hadleigh Road
Sproughton
Ipswich
Suffolk IP8 3AS
Membership

Membership of the Scheme is voluntary and eligible employees are free to choose whether to join the Scheme, remain in the Scheme or make their own personal pension arrangements outside the Scheme.

Details of eligibility are contained in the booklet “Local Government Pension Scheme”, a copy of which is given to each new member on joining the Scheme. If an employee is in any doubt about membership they should contact the Pensions Manager, Capita Business Services Limited, Charles House, Prince of Wales Road, Norwich, NR1 1DJ.

The membership statistics shown below relate to the County, the seven District Councils and the 83 other organisations that participated in the Scheme in 2002-2003.

<table>
<thead>
<tr>
<th></th>
<th>31 March 2002</th>
<th>31 March 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Employers with Active Members: -</td>
<td>89</td>
<td>91</td>
</tr>
<tr>
<td>Number of Employees in Scheme: -</td>
<td></td>
<td></td>
</tr>
<tr>
<td>County Council</td>
<td>13,505</td>
<td>12,194</td>
</tr>
<tr>
<td>Other Employing Authorities</td>
<td>7,200</td>
<td>9,433</td>
</tr>
<tr>
<td>Total</td>
<td>20,705</td>
<td>21,627</td>
</tr>
<tr>
<td>Number in Receipt of Pension: -</td>
<td></td>
<td></td>
</tr>
<tr>
<td>County Council</td>
<td>5,999</td>
<td>6,003</td>
</tr>
<tr>
<td>Other Employing Authorities</td>
<td>5,439</td>
<td>5,824</td>
</tr>
<tr>
<td>Total</td>
<td>11,438</td>
<td>11,827</td>
</tr>
<tr>
<td>Deferred Pensioners: -</td>
<td>7,329</td>
<td>8,167</td>
</tr>
</tbody>
</table>

Employing authorities, other than the County Council, are either Scheduled Bodies or Admitted Bodies. A Scheduled Body is an organisation, which is listed in the Pension Scheme Regulations, and its employees are able to join the Scheme as of right. An Admitted Body is an organisation, which, under the Pension Scheme Regulations, is able to apply to the County Council to join the Scheme. Upon acceptance, an Admission Agreement is prepared admitting the organisation and allowing its employees to join.

A full list of participating employers is shown in appendix 1.
Actuarial Valuation

Hymans Robertson, the Fund’s Actuary, carried out an actuarial valuation at 31 March 2001. In completing this valuation they have used a market related method which derives the financial assumptions by considering various yields in the 12 months leading to the valuation date which builds in an element of smoothing and stability for the future.

The key financial assumptions adopted at this valuation are set out below:

<table>
<thead>
<tr>
<th>Nominal % p.a.</th>
<th>Real % p.a.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Returns</td>
<td></td>
</tr>
<tr>
<td>Equities</td>
<td>6.25%</td>
</tr>
<tr>
<td>Bonds</td>
<td>5.25%</td>
</tr>
<tr>
<td>Pay Increases (excluding increments)</td>
<td>4.8%</td>
</tr>
<tr>
<td>Price Inflation/Pension Increases</td>
<td>2.8%</td>
</tr>
</tbody>
</table>

*(Nominal is a rate of return expressed only in monetary terms i.e. not adjusted for inflation. Real is a return adjusted for inflation).*

As in previous years, the increase in the contribution rate has been phased in over the inter-valuation period as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Employer Contribution (% of payroll)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 April 2002 to 31 March 2003</td>
<td>Range from 9.1% to 17.6%</td>
</tr>
<tr>
<td>1 April 2003 to 31 March 2004</td>
<td>Range from 10.0% to 19.2%</td>
</tr>
<tr>
<td>1 April 2004 to 31 March 2005</td>
<td>Range from 10.1% to 20.8%</td>
</tr>
</tbody>
</table>

*(For the period 1 April 1999 to 31 March 2002 the rates payable ranged from 6.1% to 18.0%).

The contribution rates as described are calculated to be sufficient to cover 100% of the Fund’s liabilities. They comprise of a Common Rate of Contribution of 13.5% (previously 12%) of payroll. The contribution required from each employer is then the Common Rate of Contribution plus or minus an individual adjustment, if appropriate, reflecting the circumstances of each employer.

In conjunction with the Director of Finance and his staff, the Fund’s Actuary monitors the progress of the Fund during the inter-valuation period. This resulted in an interim valuation based on investment performance being carried out in September 2002. As a result of this valuation employers were recommended to increase their contributions by a further 1% with effect from 1 April 2003 (in addition to the stepped increase already planned). This increase will therefore be reflected in next years accounts.
The next actuarial valuation will be as at 31 March 2004, with any revised levels of contributions being payable from 1 April 2005.
Contributions

Employees and employers contribute to the scheme.

Employees: -

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

From 1 April 1998: - The new scheme introduced a common employee’s contribution rate of 6% of Pensionable Pay for all classes of future employee.

Manual and craft workers employed on 31 March 1998 will continue to pay 5% as long as theyremain in continuous employment.

Employee contribution rates are prescribed by the governing regulations, and cannot be varied.

Employers:-

The contribution rates paid by employers are variable and are determined by the Pension Fund’s Actuary. Details of employer contribution rates are shown on the previous page.
Statement of Accounting Policies

1. General Policies
These accounts have been prepared in accordance with the 1996 SORP “Financial Reports of Pension Schemes”, and the 2000 SORP ‘A Code of Practice on Local Authority Accounting in Great Britain’.

Investments are included in the statement of net assets at their market values, in accordance with the policies shown below. Otherwise these accounts are prepared under the historic cost convention.

The accounts summarise the transactions and net assets of the Scheme. They do not, however, take account of liabilities to pay pensions and other benefits in the future.

2. Accruals Basis of Accounting
The accounts have been prepared on the normal accruals basis of accounting.

3. Basis of Valuation of Investments
Investments are shown in the accounts at market value, which has been determined as follows:-

   a) All UK investments traded within SET’s are valued using the last SET’s traded price using FT Information – Extel feed. All other UK investments are valued on the basis of middle market prices using Telekurs-Realtime feed.

   b) All non-UK investments (with the exception of Denmark and Hong Kong) which are traded on Exchange are valued using the Last Trade price. Investments traded in Denmark are valued using the volume weighted average price and in Hong Kong using the official close price. If the Last Trade price is not available an alternative price is used for selected markets. For Germany or Austria this is the Kassa (official close) price. For Thailand Foreign board securities, if no trade price is registered for 10 days then the Domestic board price is used.

   c) Non exchange traded bonds are primarily valued using a mid price sourced from ISMA (for Eurobonds) or contributors from the Bloomberg and Reuters services.

4. Foreign Currency Translation
Assets, including investments, denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the end of the accounting year (the 16.00 WM/Reuters rates). Profits and losses on exchange arising from movements in current assets and liabilities are included in the Revenue Account for the year.
5. **External Fund Manager Fees**
The External Fund Managers fees are paid in accordance with the terms of each individual Management Agreement. Fees are based on the market value of the portfolio managed. Any performance fee is paid after investment performance has been measured against a bespoke benchmark. See note 4 of the accounts.

6. **Acquisition Costs**
Acquisition costs of investments are added to book cost at the time of purchase.

7. **Property**
The Fund holds no direct property investments, only Property Unit Trusts.
# Revenue and Fund Account

## For the Year Ended 31 March 2003

<table>
<thead>
<tr>
<th>2001-02</th>
<th>2002-03</th>
<th>Note</th>
<th>Ref</th>
</tr>
</thead>
<tbody>
<tr>
<td>£'000's</td>
<td>£'000's</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CONTRIBUTIONS AND BENEFITS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16,332</td>
<td>Employees</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>30,838</td>
<td>Employers</td>
<td>34,513</td>
<td>1</td>
</tr>
<tr>
<td>697</td>
<td>Employers Re: Augmentation</td>
<td>689</td>
<td></td>
</tr>
<tr>
<td>1,766</td>
<td>Employers Re: Strain on Fund Reimbursement</td>
<td>2,062</td>
<td></td>
</tr>
<tr>
<td>12,581</td>
<td>Transfer Values In</td>
<td>12,155</td>
<td></td>
</tr>
<tr>
<td><strong>62,214</strong></td>
<td></td>
<td><strong>66,940</strong></td>
<td></td>
</tr>
<tr>
<td><strong>BENEFITS PAYABLE</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>39,263</td>
<td>Pensioners and Dependents - Benefits</td>
<td>41,556</td>
<td>2</td>
</tr>
<tr>
<td>7,434</td>
<td>Lump Sums</td>
<td>6,875</td>
<td></td>
</tr>
<tr>
<td>910</td>
<td>Death Grants</td>
<td>688</td>
<td></td>
</tr>
<tr>
<td><strong>(47,607)</strong></td>
<td></td>
<td><strong>(49,119)</strong></td>
<td></td>
</tr>
<tr>
<td><strong>PAYMENTS TO AND ON ACCOUNT OF LEAVERS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6,783</td>
<td>Transfer of Values Out</td>
<td>4,940</td>
<td></td>
</tr>
<tr>
<td>208</td>
<td>Refunds of Contributions</td>
<td>165</td>
<td></td>
</tr>
<tr>
<td>152</td>
<td>Contributions Equivalent Premiums</td>
<td>298</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(N.I. Adjustments on refunded premiums)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>(7,143)</strong></td>
<td></td>
<td><strong>(5,403)</strong></td>
<td></td>
</tr>
<tr>
<td><strong>ADMINISTRATIVE AND OTHER EXPENDITURE</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>73</td>
<td>Actuarial Fees</td>
<td>115</td>
<td>4</td>
</tr>
<tr>
<td>950</td>
<td>Administration Expenses</td>
<td>1,036</td>
<td>5</td>
</tr>
<tr>
<td><strong>(1,023)</strong></td>
<td></td>
<td><strong>(1,151)</strong></td>
<td></td>
</tr>
<tr>
<td><strong>NET ADDITIONS/(WITHDRAWALS)</strong></td>
<td>FROM DEALINGS WITH MEMBERS</td>
<td><strong>11,267</strong></td>
<td></td>
</tr>
<tr>
<td>6,441</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NET RETURNS ON INVESTMENTS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>30,109</td>
<td>Investment Income</td>
<td>31,106</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Change in Market Value of Investments</td>
<td>(236,905)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Investment Expenses</td>
<td>(3,236)</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td><strong>(9,071)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NET INCREASE/DECREASE IN THE FUND DURING</strong></td>
<td>THE YEAR</td>
<td>(197,768)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>OPENING NET ASSETS OF THE SCHEME</td>
<td>1,137,378</td>
<td></td>
</tr>
<tr>
<td></td>
<td>CLOSING NET ASSETS OF THE SCHEME</td>
<td>939,610</td>
<td></td>
</tr>
</tbody>
</table>
## Net Assets Statement

**As at 31 March 2003**

<table>
<thead>
<tr>
<th>2001-02 £'000's</th>
<th>2002-03 £'000's</th>
<th>Note Ref</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,118,623</td>
<td>TOTAL INVESTMENTS</td>
<td>912,902</td>
</tr>
</tbody>
</table>

### Current Assets

<table>
<thead>
<tr>
<th></th>
<th>2001-02 £'000's</th>
<th>2002-03 £'000's</th>
<th>Note Ref</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtors</td>
<td>14,139</td>
<td>13,340</td>
<td>8</td>
</tr>
<tr>
<td>Cash in Hand</td>
<td>7,177</td>
<td>15,618</td>
<td></td>
</tr>
<tr>
<td></td>
<td>21,316</td>
<td>28,958</td>
<td></td>
</tr>
</tbody>
</table>

### Current Liabilities

<table>
<thead>
<tr>
<th></th>
<th>2001-02 £'000's</th>
<th>2002-03 £'000's</th>
<th>Note Ref</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creditors</td>
<td>2,561</td>
<td>2,250</td>
<td>9</td>
</tr>
</tbody>
</table>

### 18,755 NET CURRENT ASSETS 26,708

### 1,137,378 NET ASSETS OF THE FUND 939,610

---

The market value of the assets held by each manager, at balance sheet date, are shown below:-

<table>
<thead>
<tr>
<th>Manager</th>
<th>£m</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deutsche Asset Management</td>
<td>422.8</td>
<td>46.3</td>
</tr>
<tr>
<td>Societe Generale Asset Management</td>
<td>134.4</td>
<td>14.7</td>
</tr>
<tr>
<td>Fidelity Pensions Management</td>
<td>127.8</td>
<td>14.0</td>
</tr>
<tr>
<td>Henderson Global Investors</td>
<td>121.1</td>
<td>13.3</td>
</tr>
<tr>
<td>Morley Fund Management</td>
<td>105.9</td>
<td>11.6</td>
</tr>
<tr>
<td>Internally Managed (venture capital and district council bo</td>
<td>0.9</td>
<td>0.1</td>
</tr>
</tbody>
</table>

**912.9 100.0**

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**Signature:**

R.D. Summers  
Director of Finance and Fund Administrator

**Date:** 29 October 2003
## Statement of Movements in Investments for the Year Ended 31 March 2003

<table>
<thead>
<tr>
<th></th>
<th>Market Value</th>
<th>Purchases During Year</th>
<th>Sales During Year</th>
<th>Change in Market Value</th>
<th>Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31.3.02 £'000's</td>
<td>During Year £'000's</td>
<td>During Year £'000's</td>
<td></td>
<td>31.3.03 £'000's</td>
</tr>
<tr>
<td><strong>UNITED KINGDOM</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gilts</td>
<td>57,352</td>
<td>62,656</td>
<td>71,489</td>
<td>3,332</td>
<td>51,851</td>
</tr>
<tr>
<td>Index-Linked Gilts</td>
<td>45,646</td>
<td>44,640</td>
<td>24,600</td>
<td>4,017</td>
<td>69,703</td>
</tr>
<tr>
<td>Other Bonds</td>
<td>18,767</td>
<td>649</td>
<td>3,461</td>
<td>1,124</td>
<td>17,079</td>
</tr>
<tr>
<td>Equities (inc Convert)</td>
<td>435,527</td>
<td>153,877</td>
<td>139,491</td>
<td>(141,819)</td>
<td>308,094</td>
</tr>
<tr>
<td>Property Unit Trusts</td>
<td>104,161</td>
<td>26,571</td>
<td>26,281</td>
<td>8,203</td>
<td>112,654</td>
</tr>
<tr>
<td>Other Unit Trusts and Funds</td>
<td>61,829</td>
<td>8,327</td>
<td>1,919</td>
<td>(12,576)</td>
<td>55,661</td>
</tr>
<tr>
<td>Other Loans and Mortgages (unquoted)</td>
<td>26</td>
<td>0</td>
<td>29</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td><strong>OVERSEAS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Sector Fixed Interest Stocks</td>
<td>30,458</td>
<td>56,319</td>
<td>61,905</td>
<td>3,230</td>
<td>28,102</td>
</tr>
<tr>
<td>Other Fixed Interest</td>
<td>1,183</td>
<td>2,026</td>
<td>3,353</td>
<td>144</td>
<td>0</td>
</tr>
<tr>
<td>International Bond Fund</td>
<td>18,287</td>
<td>2,138</td>
<td>5,360</td>
<td>766</td>
<td>15,831</td>
</tr>
<tr>
<td>Equities (inc Convert)</td>
<td>130,785</td>
<td>112,464</td>
<td>100,267</td>
<td>(46,686)</td>
<td>96,296</td>
</tr>
<tr>
<td>Other Unit Trusts</td>
<td>202,507</td>
<td>12,764</td>
<td>10,873</td>
<td>(56,643)</td>
<td>147,755</td>
</tr>
<tr>
<td><strong>OTHER</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>15,013</td>
<td>0</td>
<td>1,776</td>
<td>0</td>
<td>13,237</td>
</tr>
<tr>
<td>Net Amount Receivable/(Payable)</td>
<td>(2,918)</td>
<td>0</td>
<td>443</td>
<td>0</td>
<td>(3,361)</td>
</tr>
<tr>
<td></td>
<td>12,095</td>
<td>0</td>
<td>2,219</td>
<td>0</td>
<td>9,876</td>
</tr>
<tr>
<td><strong>TOTAL INVESTMENTS</strong></td>
<td>1,118,623</td>
<td>482,431</td>
<td>451,247</td>
<td>(236,905)</td>
<td>912,902</td>
</tr>
<tr>
<td>Totals for year ended 31 March 2002</td>
<td>1,130,377</td>
<td>580,705</td>
<td>557,173</td>
<td>(35,286)</td>
<td>1,118,623</td>
</tr>
</tbody>
</table>
Notes to the Accounts

5. Administration Expenses
The Local Government Pension Scheme Regulations 1997 enables administration expenses to be charged to the Fund. These regulations came into effect on 1 April 1998.

In 2002-2003 £1,035,657 has been charged to the Fund (£950,200 in 2001-2002).
Stock Lending

Stock Lending is a program of lending eligible securities, such as U.S. and non–U.S. equities, corporate bonds, and government securities, from the portfolios of participating clients to approved borrowers in return for a fee. No more than 25% of the funds value is on loan at any one time.

The primary reasons for borrowing securities are market making, hedging, and arbitrage trading purposes.

All loans are fully collateralised with government securities, bank letters of credit, certificates of deposit or UK equities settled in CREST.

<p>| 2001-02 | 2002-03 |</p>
<table>
<thead>
<tr>
<th>£'000's</th>
<th>£'000's</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>6. Investment Income</strong></td>
<td></td>
</tr>
<tr>
<td>(a) Arising from Securities</td>
<td></td>
</tr>
<tr>
<td>4,018</td>
<td>2,833</td>
</tr>
<tr>
<td>1,800</td>
<td>1,193</td>
</tr>
<tr>
<td>490</td>
<td>943</td>
</tr>
<tr>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total Arising from Securities</strong></td>
<td><strong>27,178</strong></td>
</tr>
<tr>
<td><strong>Total Arising from Securities</strong></td>
<td><strong>26,220</strong></td>
</tr>
<tr>
<td>(b) Arising from non dealing activities</td>
<td></td>
</tr>
<tr>
<td>893</td>
<td>869</td>
</tr>
<tr>
<td>0</td>
<td>2,479</td>
</tr>
<tr>
<td>1,891</td>
<td>1,409</td>
</tr>
<tr>
<td>100</td>
<td>82</td>
</tr>
<tr>
<td>44</td>
<td>35</td>
</tr>
<tr>
<td>3</td>
<td>12</td>
</tr>
<tr>
<td><strong>Total Arising from non dealing activities</strong></td>
<td><strong>4,886</strong></td>
</tr>
<tr>
<td><strong>Total Investment Income</strong></td>
<td><strong>31,106</strong></td>
</tr>
</tbody>
</table>
The value of stock on loan at the balance sheet date was valued at £78.8m, this equated to 8.6% of the total investments.

7. Investment Assets
A full analysis of investments is provided in the Statement of Movements in Investments, shown on page 45.

a) Traded Options.
Traded Options are used by Fund Managers to anticipate market movements.
The Fund held no traded options at 31 March 2003.

b) Currency Hedging.
At 31 March 2003 the Fund had no forward currency transactions.

c) Net Amounts Receivable / (Payable) for the Purchase and Sale of Investments.
The (£3,361,000) shown in the Statement of Movements in Investments is made up as follows: -

<table>
<thead>
<tr>
<th>31 March 2003</th>
<th>£'000's</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts receivable in respect of sale of investments</td>
<td>6,270</td>
</tr>
<tr>
<td>Amounts payable in respect of purchase of investments</td>
<td>(9,631)</td>
</tr>
<tr>
<td></td>
<td>(3,361)</td>
</tr>
</tbody>
</table>
### 8. Debtors

An analysis of debtors shown in the Net Asset Statement is given below:

<table>
<thead>
<tr>
<th>Description</th>
<th>2001-02 £’000’s</th>
<th>2002-03 £’000’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mgmt Performance Fee Rebate</td>
<td>0</td>
<td>2,479</td>
</tr>
<tr>
<td>Pooled Funds Fee Rebate Due</td>
<td>1,139</td>
<td>310</td>
</tr>
<tr>
<td>Dividend Income</td>
<td>6,326</td>
<td>5,000</td>
</tr>
<tr>
<td>Overseas Tax Receivable</td>
<td>147</td>
<td>116</td>
</tr>
<tr>
<td>UK Tax Receivable</td>
<td>479</td>
<td>233</td>
</tr>
<tr>
<td>Contributions Due</td>
<td>4,079</td>
<td>4,361</td>
</tr>
<tr>
<td>Interest Due</td>
<td>219</td>
<td>152</td>
</tr>
<tr>
<td>Transfer Values Due</td>
<td>973</td>
<td>38</td>
</tr>
<tr>
<td>Pension Charges</td>
<td>167</td>
<td>8</td>
</tr>
<tr>
<td>VAT Refund Due</td>
<td>203</td>
<td>103</td>
</tr>
<tr>
<td>Stock Lending/Commission Recapture</td>
<td>25</td>
<td>27</td>
</tr>
<tr>
<td>Added Years / Augmentation</td>
<td>360</td>
<td>435</td>
</tr>
<tr>
<td>Sundry Debtors</td>
<td>22</td>
<td>78</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>14,139</strong></td>
<td><strong>13,340</strong></td>
</tr>
</tbody>
</table>

### 9. Creditors

An analysis of creditors shown in the Net Asset Statement is given below:

<table>
<thead>
<tr>
<th>Description</th>
<th>2001-02 £’000’s</th>
<th>2002-03 £’000’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managers Fees</td>
<td>1,552</td>
<td>798</td>
</tr>
<tr>
<td>Other Fees &amp; Charges</td>
<td>255</td>
<td>961</td>
</tr>
<tr>
<td>Lump Sum</td>
<td>263</td>
<td>0</td>
</tr>
<tr>
<td>Pensions Due</td>
<td>37</td>
<td>46</td>
</tr>
<tr>
<td>UK Tax</td>
<td>343</td>
<td>392</td>
</tr>
<tr>
<td>Sundry Creditors</td>
<td>111</td>
<td>53</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,561</strong></td>
<td><strong>2,250</strong></td>
</tr>
</tbody>
</table>

### 10. Related Party Transactions

The 1996 SORP – The Financial Reports of Pension Schemes – requires the disclosure of all material transactions between the pension fund and related parties in accordance with the principles of FRS8. Related party transactions already disclosed in the body of the accounts do not need to be repeated here. The other related party transactions during the year, which requires disclosure, is noted below:

Surplus pension fund cash holdings are invested on the money market by Norfolk County Council. During the 2002/03 financial year, the Pension Fund had an average investment balance of £10.3M earning interest of £405,368.
11. Additional Voluntary Contributions (AVC’s)
The fund has three AVC providers; Prudential, Clerical Medical and Equitable Life. The value of AVC investments is shown below.

<table>
<thead>
<tr>
<th></th>
<th>£'000's</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value at 01/04/02</td>
<td>3,218</td>
</tr>
<tr>
<td>Contributions</td>
<td>978</td>
</tr>
<tr>
<td>Investment Return</td>
<td>(128)</td>
</tr>
<tr>
<td>Paid Out</td>
<td>(712)</td>
</tr>
<tr>
<td>Value at 31/03/03</td>
<td>3,356</td>
</tr>
</tbody>
</table>

12. Employers Strain / Augmentation

**Strain Costs**
Pension benefits are funded to be paid from normal retirement age. If any employee is allowed to take their pension benefits early this places an additional cost (strain) on the Pension Fund. Employers are required to reimburse the Pension Fund in respect of the “strain costs” arising from an employee taking early retirement. The cost can be paid in full at the date of retirement or by instalment over 3 or 5 years in which case interest is added.

**Augmentation**
The LGPS provides scope for employers to award additional years of membership on retirement. If an employer opts to award augmented membership he is required to purchase the additional period from the Pension Fund. Again the cost can be paid in one instalment or over 3 or 5 years.

The outstanding instalments due at 31 March 2003 where:

- Strain Costs: £2,546,301
- Augmentation: £1,472,340

13. Statement of Investment Principles
The government announced that from July 2000 Local Authority Pension Funds should be brought into line with private sector funds and be required to publish a Statement of Investment Principles (SIP). This statement is available on the NCC intranet and on the NCC website [http://www.norfolk.gov.uk](http://www.norfolk.gov.uk).

14. Post Balance Sheet Event
Due to fluctuations on the Stock Market since 31 March 2003 the market value of the fund has increased, this having a positive effect on the overall funding level.

15. Fund Manager Changes
During the year the UK Equity brief held by Société Générale was reviewed and put out to tender. As a result, in June 2003 the Investment Committee decided to appoint two managers, Alliance Bernstein and Baillie Gifford, to replace Société Générale.

Each will manage a portfolio of £100m, at March 2003 prices to be revalued. The investment target and benchmark continues to be performance of 1.25% above the FTSE all share index.
Appendices
APPENDIX I

Participating Employers

(employers with active members during the year)

Major Scheduled Bodies

- Breckland Council
- Broadland District Council
- Great Yarmouth Borough Council
- King’s Lynn & West Norfolk B C
- Norfolk County Council
- Norfolk County Council (Education)
- Norfolk Magistrates Courts Committee
- Norfolk Police Authority
- Norfolk Probation Service
- North Norfolk District Council
- Norwich City Council
- South Norfolk District Council

Scheduled Bodies

- Acle Parish Council
- Aylsham Town Council
- Bradwell Parish Council
- Broads Authority
- Brundall Parish Council
- Buxton With Lamas Parish Council
- Cawston Parish Council
- City College, Norwich
- College of West Anglia
- Costessey Parish Council
- Cringleford Parish Council
- Cromer Town Council
- Dereham Town Council
- Dersingham Parish Council
- Diss Town Council
- Downham & Stow Bardolph I D B
- Downham Market Town Council
- East Norfolk Sixth Form College
- East of Ouse, Polver & Nar I D B
- Eastern Sea Fisheries Joint Committee
- Easton College
- Fakenham Town Council
- Great Yarmouth College of F. E.
- Hellesdon Parish Council
- Hethersett Parish Council
- Loddon parish Council
- Lower Bure IDB
- Marham Parish Council
- Mundesley Parish Council
- Norfolk Valuation Tribunal
- North Walsham Town Council
- Norwich School of Art & Design
- Old Catton Parish Council
- Paston College
- Poringland Parish Council
- Redenhall with Harleston Town Council
- River Wensum I D B
- South Walsham Parish Council
- South Walsham Parish Council
- Thetford Town Council
- Thorpe St Andrew Parish Council
- Thetford Town Council
- Upton with Fishley P C
- West of Ouse I D B
- Wymondham Town Council
<table>
<thead>
<tr>
<th>Admitted Bodies</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Age Concern (Norwich)</td>
</tr>
<tr>
<td>• Age Concern Norfolk Ltd</td>
</tr>
<tr>
<td>• Air BP</td>
</tr>
<tr>
<td>• Anglia Housing Group</td>
</tr>
<tr>
<td>• Anglia Maintenance Services</td>
</tr>
<tr>
<td>• Ashfords Grounds Maintenance</td>
</tr>
<tr>
<td>• CityCare</td>
</tr>
<tr>
<td>• Dereham &amp; Watton CAB</td>
</tr>
<tr>
<td>• Flagship Housing Group</td>
</tr>
<tr>
<td>• Further Education National Consortium</td>
</tr>
<tr>
<td>• Great Yarmouth Port Authority</td>
</tr>
<tr>
<td>• Great Yarmouth Racecourse Ltd</td>
</tr>
<tr>
<td>• Green Quay Trust</td>
</tr>
<tr>
<td>• NCS Ltd</td>
</tr>
<tr>
<td>• NORCAS</td>
</tr>
<tr>
<td>• Norfolk Careers Services</td>
</tr>
<tr>
<td>• Norfolk County Assoc. of Parish &amp; Town Councils</td>
</tr>
<tr>
<td>• Norfolk Heritage Fleet Trust</td>
</tr>
<tr>
<td>• Norfolk Rural Community Council</td>
</tr>
<tr>
<td>• Norman Recreation Centre</td>
</tr>
<tr>
<td>• North Norfolk Community Transport Partnership</td>
</tr>
<tr>
<td>• Norwich Airport Ltd</td>
</tr>
<tr>
<td>• NPS Property Consultants Ltd</td>
</tr>
<tr>
<td>• Peddars Way Housing Association</td>
</tr>
<tr>
<td>• Peper Harow (East Anglia) Ltd</td>
</tr>
<tr>
<td>• Riversdale Multi-Purpose Centre</td>
</tr>
<tr>
<td>• S L F Group Ltd</td>
</tr>
<tr>
<td>• South Norfolk Crossroads Care Attendant Scheme</td>
</tr>
<tr>
<td>• West Norwich Partnership</td>
</tr>
<tr>
<td>• Wymondham &amp; District Citizens Advice Bureau</td>
</tr>
</tbody>
</table>
Summary of Scheme Benefits

Introduction
The Local Government Pension Scheme administered by Norfolk County Council is a final salary scheme, which is contracted-out of SERPS (State Earnings Related Pension Scheme) and provides a pension and lump sum based on members’ period of total membership and final pay. This summary provides a guide to the benefits of the Scheme.

Each employer, together with the administrating authority, are required to produce a policy statement setting out how they have resolved to exercise their discretions as allowed under the Local Government Pension Scheme. These discretions include early retirement, returning to employment after retirement and shared cost AVC arrangements.

Normal Retirement Date and benefits
This is the day before a member’s 65th birthday, however, if the member was in the scheme before 1 April 1998 it is :-

- a member’s 60th birthday if they have, or would have, accrued 25 years total membership by that birthday,
- or the day after the date between a member’s 60th and 65th birthdays when they have or would have accrued 25 years total membership, 
- or their 65th birthday.

On retirement, a member of the Scheme will receive :-

- A Scheme Pension, which will be increased each year in line with the cost of living index under present statutory requirements, and
- A Scheme Cash Lump Sum (Tax-Free), and
- at State Retirement Age any Basic State Pension entitlement.

Scheme Pension
The Scheme Pension paid is based on final pay and how long the member has been in the Scheme. The pension will be based on 1/80th of final pay and period of total membership.

Example:-

Final pay of £16,200 and period of total membership of 30 years and 204 days. Take final pay and divide by 80:

\[ \frac{16,200}{80} = 202.50 \]

Multiply period of total membership in years and days:

\[ 202.50 \times (30 + \frac{204}{365}) = 6,188.18 \]
**Lump Sum**
This is a one-off tax-free payment, which is based on final pay and period of total membership. The lump sum is based on 3/80ths of final pay.

**Example:-**

<table>
<thead>
<tr>
<th>Description</th>
<th>Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Final pay of £16,200 and period of total membership of 30 years and 204 days.</td>
<td>£16,200 / 80 = £202.50</td>
</tr>
<tr>
<td>Take final pay and divide by 80:</td>
<td>£202.50 x 3 = £607.50</td>
</tr>
<tr>
<td>Multiply this figure by 3:</td>
<td>£607.50 x ( 30 + ( 204/365 ) ) = £18,564.53</td>
</tr>
</tbody>
</table>

**Exchanging Lump Sum to increase Pension**
If a member is aged 50 or over and entitled to a pension, it is possible to elect to convert all or part of the lump sum to increase the pension and the potential widow or widower’s and children’s pensions.

**or**

**Exchanging Pension to increase Lump Sum**
If a member has continuous membership since before 17 March 1987, it is possible to elect to convert some of the pension to increase the lump sum payable, subject to the maximum level permitted under Inland Revenue Rules.

**Exchanging Pension for additional Dependants’ Pensions**
A member can apply to give up part of their pension to provide extra pensions to wife, husband or dependants in the event of the member predeceasing them.

These options, together with the circumstances relating to both early and late retirement, are given in more detail in the Local Government Pension Scheme booklet.

Circumstances other than age retirement occur and a summary of benefits that may be applicable follow.

**Ill Health Retirement Benefits**
If a member retires early through permanent ill-health and has at least 2 years total membership, a pension and lump sum are payable immediately. Benefits are calculated in the same way as a normal retirement, except the total membership used in the calculation will be increased provided the member’s total membership is five years or more.
For members who have between 1 and 2 years total membership, an ill-health grant is payable. This will be equal to 1/12th of the member's final pay per year of total membership, or a refund of contributions can be taken if this is higher.

Members with less than 1 year total membership will receive a refund of contributions.

**Redundancy and “Interests of the Service” Retirement Benefits**
If a member is aged 50 or over and their employer terminates their employment, providing the member has a minimum of 2 years service their benefits would become payable immediately. Any enhancement of benefits would be paid by and at the discretion of the employing authority.

**Early Leaver Benefits**
Members leaving their employment or opting out of the Scheme, with 2 or more years total membership, will have their benefits preserved until retirement or transferred to another pension arrangement.
Members with less than 2 years total membership can opt for a refund of contributions, or have a transfer of an amount equal to the cash equivalent to another pension arrangement, or defer making a decision until they join a new pension scheme or want to take a refund of contributions.

**Dependant's Benefits**
These benefits comprise of two elements:

**(i) A Short-Term Pension**
This is payable for the first three months to a widow/widower who has no children. It is payable for the first six months to a widow/widower who has dependant children.

The short-term pension is equal to the pension the member had been receiving or would have received had it not been paid as a lump sum due to exceptional ill health, or,

if the member died in service at an annual rate equal to final pay no matter how long the deceased has been a member of the Scheme.

**(ii) A Long-Term Pension.**
After (i), a long-term pension is payable.

This equates to half of the pension the member had been receiving or would have received but for a reduction as a result of early retirement or had it not been paid as a lump sum due to exceptional ill health, or,

if the member died in service it equates to half the pension the member would have received if they had retired due to ill health on the day they died, provided the member had accrued two years total membership. (Where the member has less than two years total membership, the long term pension will be calculated as 1/160th of final pay for each year of total membership).

The widower's pension is accrued only in respect of service from 6 April 1988 unless the female scheme member has opted for previous service to count.
(iii) Children's Pensions.
Any child, of a deceased member, under the age of 17 or in full-time education is entitled to a children's pension.

Death in Service (Death Grant)
If a member dies before retirement, a lump sum is paid to the member's estate. This Death Grant will be equal to twice final pay. Members can nominate a beneficiary to receive the Death Grant by completing an expression of wish form.

Pensions Increase
After age 55, the Local Government Pension will increase each year in line with the Retail Prices Index (RPI). If a member retires before age 55, the accumulated effect of inflation since retirement will be added to the pension when the member reaches 55 years of age.
(Ill health pensions are increased each year in line with the RPI regardless of age).

Additional Information
All employees joining the Scheme are provided with a booklet called “Local Government Pension Scheme” which details benefits more fully. All active members also receive an individual Benefits Statement annually.

If members require further information they should contact Capita Pension Services (see Management Structure on page 8).
APPENDIX III

Major Holdings

At the 31 March 2003 the Fund held over 400 different securities. Listed below are the ten largest holdings, which equate to 30.97% of the total valuation.

<table>
<thead>
<tr>
<th>Security</th>
<th>% of Market Value</th>
<th>£ Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. NORWICH UNION L&amp;P PROPERTY GROUP POOLED PENS 4</td>
<td>3.98</td>
<td>£36,343,974.29</td>
</tr>
<tr>
<td>2. DEUTSCHE MANAGED PROPERTY FUND A</td>
<td>3.68</td>
<td>£33,608,928.28</td>
</tr>
<tr>
<td>3. FIDELITY INV SVCS INSTITUTIONAL AMERICA</td>
<td>3.46</td>
<td>£31,579,231.32</td>
</tr>
<tr>
<td>4. FIDELITY INV SVCS INSTITUTIONAL EUROPE</td>
<td>3.09</td>
<td>£28,201,604.01</td>
</tr>
<tr>
<td>5. DEUTSCHE PROFUNDS PACIFIC FUND A GBP</td>
<td>2.96</td>
<td>£27,061,572.04</td>
</tr>
<tr>
<td>6. GLAXOSMITHKLINE ORD GBP0.25</td>
<td>2.87</td>
<td>£26,235,124.02</td>
</tr>
<tr>
<td>7. VODAFONE GROUP ORD USD0.10</td>
<td>2.87</td>
<td>£26,171,690.44</td>
</tr>
<tr>
<td>8. HENDERSON GBL INVS L/DATED CORP/BOND I ACC NAV</td>
<td>2.72</td>
<td>£24,864,117.77</td>
</tr>
<tr>
<td>9. BP ORD USD0.25</td>
<td>2.70</td>
<td>£24,635,847.19</td>
</tr>
<tr>
<td>10. HSBC HLDGS ORD USD0.50(UK REG)</td>
<td>2.64</td>
<td>£24,068,152.02</td>
</tr>
<tr>
<td>Total of Top Ten Securities</td>
<td>30.97</td>
<td>£282,770,241.38</td>
</tr>
<tr>
<td>Total Market Value of all Equities</td>
<td></td>
<td>£912,901,995.70</td>
</tr>
</tbody>
</table>
Glossary

Active Management
A style of investment management which seeks to provide outperformance of a relevant benchmark through either asset allocation, market timing or stock selection (or a combination of these). Directly contrasted with Indexation or Passive Management.

Active Money
The sum of the absolute differences between the benchmark weight and the fund weight. Active money is consequently a measure of the ‘risk’ implicit in, for example, sector weightings within an equity portfolio. A higher active money corresponds to a more aggressive, higher, risk.

Active Risk (also see Risk)
The extent to which the performance of a fund can be expected to deviate from the performance of a chosen index or benchmark due to “bets” taken in asset allocation or stock selection.

Actuarial Valuation
A review of the Pension Fund, which takes place, every three years to ensure that employers contributions are sufficient to maintain the solvency of the Fund. The two methods most commonly used are the Projected Unit method and the Market Related method.

Actuarial Value of Assets
The value placed on the assets by the actuary. This may be market value, present value of estimated income and proceeds of sales or redemptions, or some other value.

Actuary
An independent consultant who carries out the Actuarial Valuation and advises on new investment strategies or changes to the benefit structure.

Admitted Bodies
These organisations are funded by Local or Central Government and perform services not provided by the Scheduled Bodies. They have been admitted to the Scheme after agreement with Norfolk County Council.

Aggressive Portfolio / Aggressive Management
A portfolio designed to outperform its benchmark by a significant amount. Aggressive management may involve the fund having fewer stocks (a concentrated portfolio) than normal or taking bigger asset allocation “bets”.

Asset Allocation / Asset Mix
The apportionment of a fund’s assets between asset classes and/or markets (also see “bet”). Asset allocation may be either strategic i.e. long-term, or Tactical i.e. short-term, aiming to take advantage of relative market movements.
Asset / Liability Modelling
A statistical tool designed to help establish the most appropriate asset mix for a pension fund, in the context of its liabilities.

Auditor
An independent qualified accountant who is required to verify and agree the Pension Fund Accounts and issue an opinion on their accuracy.

Average Fund
The “Average” fund usually refers to the median or weighted average figure from funds in the CAPS or WM Universes.

Balanced Fund Manager
A Manager who seeks to obtain a balance across all investment sectors.

Basis points
One hundredth of 1% i.e. (0.01%).

Benchmark
A “notional” fund or model portfolio which is developed to provide a standard against which a manager’s performance is measured e.g. for a global equity fund the benchmark against which it will be measured could be made up 70%/30% by UK equities / overseas equities. A target return is generally expressed as some margin over the benchmark.

“Bet”
Where a fund manager adopts a weighting which is different from the “average fund”, or from the “index”, if appropriate. An asset allocation bet would involve a manager being overweight or underweight in a particular asset class compared to the average manager. A “bet” could also be taken on individual stocks or industrial sectors within a particular market.

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

Book Value
The total cost of acquiring an investment including commission, stamp duty and any other charges incurred.

Brief
Definition of parameters governing the management of a particular portfolio (generally incorporating clear target and benchmark). (also see Mandate).

“Clean” Fees
Fund management fees which are all inclusive, to which there will be no extra charges added (e.g. for custody, overseas transactions, administration etc). Note – the exact definition of “clean” will differ from one investment management house to another. Contrasts with “Dirty” Fees.
**Consensus Indexation**
An approach to investment management where the aim is to match or exceed the performance of the average pension fund, at relatively low risk. The fund's asset allocation is based solely on consensus asset allocation of a universe of pension funds (as supplied by CAPS or WM), then the portion of the fund within each asset class is invested in an index fund designed to track the appropriate index.

**Contra-Cyclical Manager**
A Fund manager who goes against the general trend in investment cycles or against the “herd” e.g. buying stocks which are out of favour in the belief that they are at the bottom of a trough from which their prices will recover.

**Core Portfolio**
A portfolio generally representing the bulk of a fund’s assets. The core portfolio will normally be invested in a controlled manner, to provide stable, predictable results (possibly as an indexed fund). The remainder of the fund’s assets (often called the satellite portfolio) can then be managed in a more aggressive way, in search of higher returns. This arrangement is called a core/satellite approach.

**Corporate Governance**
Shareholders’ right to vote on issues relating to the governance of publicly quoted companies (usually at the AGM).

**Cumulative Rate of Return**
A compounded rate of return, normally for a period of more than one year; often expressed in terms of a “per annum,” equivalent return. This is called an annualised return.

**Currency Hedge**
A transaction undertaken in order to take advantage of the difference in short term interest rates in the respective economies and offset the effect of any currency movement on the sterling value of overseas investments held.

**Custody/Custodian**
Safe-keeping of securities by a financial institution. The custodian keeps a register of holdings and will collect income and distribute monies according to client instructions.

**Derivatives / Derivative Instruments**
Securities which derive their value from other securities e.g. financial futures and options – where no physical security is held.

**“Dirty” Fees**
Fund management fees to which “extras” (often not explicit) are added e.g. for custody, overseas transactions etc. Contrasts with “clean” fees.

**Diversification**
The spreading of a fund’s investments among different asset classes, markets and geographical areas in order to reduce risk – not “putting all your eggs in one basket”. Diversification is a basic principle of multi-asset management.
**Equities**  
Ordinary shares in U.K. and overseas companies.

**Final Pay**  
This is the figure used to calculate most of a member’s pension benefits and is normally their pay in the last year before they retire, or one of the previous two years’ pay if that amount is higher. For a part-time employee, the figure used is normally the pay they would have received had they worked whole time.

**Fixed Interest Securities**  
Investments in stocks mainly issued by governments, which guarantee a fixed rate of interest.

**FTSE Stocks**  
Any one of the top 100 UK companies (ranked by size).

**Fund Managers**  
Appointed by the Investment Committee to carry out day to day investment decisions for the Fund within the terms of their Management Agreement.

**Gilts**  
See Fixed Interest Securities and Index-Linked Securities.

**Growth Manager**  
A fund manager specialising in stocks which he believes will achieve an above average future growth rate of profits.

**Hedging**  
A strategy which aims to eliminate the possibility of loss in an investment transaction. Often used in the context of overseas investments to eliminate any potential currency loss.

**Indexation / Index Tracking (also called Passive Management)**  
A style of investment management which aims to construct a portfolio in such a way as to provide the same return as that of a chosen index i.e. stocks are purchased to be as representative as possible of the make-up of the index. Contrasts with active management. (also see consensus indexation).

**Index-Linked Securities**  
U.K. Government issue stocks on which the interest, and eventual repayment of the loan, are based on movements in the Retail Price Index.

**Investment Advisor**  
A professionally qualified individual or company whose main livelihood is derived from providing objective, impartial investment advice to companies, pension funds or individuals, for a stated fee.

**Investment Philosophy**  
The set of principles or systems used by Investment Managers to govern the way in which they manage funds. May also refer to the Manager’s style – e.g. are they growth or value managers, contra-cyclical managers or equity-orientated managers?
**Mandate**
A set of instructions given to the fund manager by the client as to how a fund is to be managed (e.g. targets for performance against a benchmark may be set or the manager may be prohibited from investing in certain stocks or sectors, e.g. “no tobacco investments”). (Also see brief).

**Market Value**
The “on paper” value of a security at a specific point in time. It is calculated by multiplying the number of shares held by market price of that share in sterling terms.

**Matching**
The policy of selecting investments of a nature, term or currency similar to that of the expected outgoings.

**Mid-Cap Stocks**
A mid-cap company is a “medium sized” company, one that is neither a FTSE nor smaller company.

**Multi-Asset Management**
A method of fund management where investments are diversified across a range of asset classes e.g. equities, bonds, property and cash. A fund using this style of management is called a balanced fund. Contrasts with specialist management.

**Objectives**
Objectives for a pension fund may be expressed in several ways – in terms of performance against the “average”, against a specified benchmark or as a target real rate of return. For example, a reasonable objective for a UK equity fund might be to outperform the WM/median return for UK equities by 1% per annum over rolling 3-year periods.

**Open-Ended Funds (e.g. a Unit Trust)**
A fund (generally unitised) where additional units can be created or existing units can be cancelled at the request of new investors or of existing investors respectively. (Contrasts with a Closed-Ended Fund, e.g. an investment trust).

**Option**
An agreement giving the holder the right to buy or sell a specific security at a specified price within a specified period of time.

**Outperformance/underperformance**
The difference in returns gained by a particular fund against the “average” fund or an index over a specified time period i.e. a target for a fund may be outperformance of a benchmark over a 3-year period.

**Performance**
A measure, usually expressed in percentage terms, of how well a fund has done over a particular time period – either in absolute terms or as measured against the “average” fund of a particular benchmark.
**Period of Total Membership**
The service accrued from the day of entering the Scheme to the day of retirement (together with any transferred-in service or purchase of additional service). It is used for calculating the amount of Local Government Pension Scheme benefits or when they may be paid. For a part-time employee, the period of total membership is reduced to its whole-time equivalent length.

**Pooled Fund (also called a Co-mingled Fund)**
A fund managed by a fund manager in which investors hold units. Stocks, bonds, properties etc. are not held directly by each client, but as part of a “pool”. Contrasts with a segregated fund.

**Portfolio**
Term used to describe all investments held.

**Property Unit Trusts**
A method which allows a number of investors money to be pooled and used by fund managers to buy a selection of properties.

**Regulations**
The Scheme is based around official Regulations which came in to force on 1 April 1998 (Local Government Pension Scheme Regulations 1997). Necessary amendments are made to these Regulations by means of a Statutory Instrument.

**Risk**
Generally taken to mean the variability of returns. Investments with greater risk must usually promise higher returns than more “stable” investments before investors will buy them.

**Risk/Reward Profile or Risk/Reward Trade-Off**
The balance maintained (or tolerated) between the expected return on an investment or portfolio and the risk which has to be taken in order to achieve that return. Generally, the higher the potential return the higher the associated risk.

**Satellite Portfolio**
Part of a fund (generally a relatively small proportion of the total value) often managed in an aggressive way to gain high returns, while the larger proportion of the fund’s assets is in a more conservatively managed core portfolio. This arrangement is called a core/satellite approach and it can apply to the whole fund or to a single asset class (e.g. UK equities) within the fund.

**Scheduled Bodies**
These are organisations as listed in the Local Government Pension Scheme Regulations 1997 (Schedule B1, Part 1) such as County Councils, District Councils, Town Councils, Magistrates Courts Committee, etc.

**Securities**
Investment in company shares, fixed interest or index-linked stocks.
Segregated Fund
Where the investments of a particular pension fund are managed independently of other funds under the fund manager’s control. Asset allocation can then be tailored to the fund’s specific requirements. Contrasts with a pooled fund.

Smaller Company Stocks
A smaller company is a company with a market capitalisation of c. £250M or less.

Smoothed Market Value
The market value of the investments changes constantly. In order to build in an element of stability, market values may be averaged over a period of time. Smoothing out the peaks and troughs of market values is commonly used as part of the actuarial valuation where long-term factors are more important than short-term fluctuations.

Socially Responsible Investment (SRI)
Investment where social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investment, and the responsible use of rights (such as voting rights) attaching to investments.

Statement of Investment Principles
Requirement, arising from the Pensions Act 1995, that all occupational pension plan trustees must prepare and maintain a written Statement of Investment Principles outlining policy on various investment matters (e.g. risk, balance between real and monetary assets, realisability of assets etc).

Stock Lending
Additional income generated by lending stock to market makers against collateral.

Transfer Values
Capital value transferred to or from a scheme in respect of a contributors previous periods of pensionable employment.

Volatility/Variability
Variability about an “average” over time. Usually referred to in terms of volatility of fund returns relative to the “average” returns or to a particular benchmark, as measured by the standard deviation of returns.

Unit Trusts
A method which allows investors money to be pooled and used by fund managers to buy a variety of securities.

Valuation
Produced to show the market value of a portfolio at a specific point in time, usually at each month end.

Value Manager
An investment manager specialising in stocks which he perceives to have some measure of value as yet “undiscovered” or “unrecognised” by other investment managers.
The Fund

Norfolk County Council administers a Pension Fund to provide retirement benefits for all its employees who are members of the Local Government Pension Scheme. Also included in the Fund are employees of the seven District Councils in Norfolk and the 83 other bodies who actively participate in the Scheme.

Teachers and fire-fighters have their own pension schemes and are not included in the Fund.

The County Council has delegated to its Investment Committee responsibility for deciding upon the best way in which the Pension Fund is invested. The Committee consists of 7 members, 5 appointed by the County Council plus 2 co-opted members representing the District Councils and other employing bodies. The Director of Finance, the external Investment Managers, the Fund’s Actuary and an employee representative also attend. This Committee meets quarterly.

The Director of Finance, together with the Head of Client Financial Services and Pension Fund and other staff, control the investment administration and accounting functions relating to the Fund. The investment performance of the Fund is monitored throughout the year in conjunction with the Fund’s Actuary. The Director of Finance also decides matters relating to policy on benefits.

Partnership for Payment of Fund Benefits

On 1 August 1999 the County Council awarded a ten year contract to Capita Business Services Limited to supply Information Technology and Exchequer services, including fund administration. This partnership arrangement does not effect the investment management of the Fund, only the pension administration.

Scheme Members with benefit or pension queries should contact the Pensions Manager, Capita Business Services Limited (see Management Structure).