WARWICKSHIRE PENSION FUND

ANNUAL REPORT & FINANCIAL STATEMENTS 2020-2021

WARWICKSHIRE pension fund

Warwickshire County Council

BORDER TO COAST PENSIONS PARTNERSHIP

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Introduction

2020/21 was a very eventful and challenging year for the Warwickshire Pension Fund, dominated by the many differing impacts of the Covid-19 pandemic. By the start of the year the virus had spread worldwide and the UK was experiencing the first lockdown.

Governance

The governance and oversight of the Fund continued to operate successfully through the year with the Staff and Pensions Committee, Pension Fund Investment Sub-Committee, and Local Pension Board meeting remotely. The Fund has benefited from the robust and flexible IT facilities and flexible working policies operated by the County Council, providing staff with the right tools and right arrangements to be able to carry on working effectively.

The Fund continued taking reports to the Local Pension Board, providing oversight of the governance of all aspects of the Fund including administration, investment, and general governance. This included setting up a separate bespoke risk register having regard to Covid risks and the associated actions.

Governance is an important priority for the Fund, and we welcome the sentiment and recommendations of the "Good Governance in the LGPS" report. We will be looking at the recommendations in detail and seeking to make further improvements.

The County Council's organisational restructure, implemented in 2019/20, has continued to provide positive benefits to the Fund, with the additional capacity and expertise enabling the Fund to make a number of improvements.

Pension Fund staff have generally worked from home since March 2020 other than where being in an office has been absolutely necessary, for example in dealing with physical post coming into the office. The majority of Fund activity can and has been delivered remotely including the operation of an Annual General Meeting and an employer engagement day which were delivered in November.

Administration

The administration service has had to manage a number of new complexities introduced to the LGPS (Local Government Pension Scheme) by Government regulation and legislation. Two examples are the impact of McCloud judgement, to remove age discrimination, which is now being developed, and the £95k public sector exit cap requirement that was introduced and subsequently scrapped by Government. Initiatives of this nature cause a significant administrative burden and the Fund has taken care to consider what resources are required to deliver the changes and ensure those resources are made available to the administration team.

The administration service has also been making good progress implementing a new system (i-Connect) to improve the transfer of data from employers to the fund which will in turn improve data quality and provide efficiency gains for all employers and the Fund. Our longer-term ambition is to subsequently introduce online scheme member self-service.

Administration performance has been reported to the Local Pension Board and to the Staff and Pensions Committee quarterly with the service prioritising the most essential functions where necessary (for example paying pensions due now).

Investments

Covid-19 had an incredibly significant adverse impact on investment values; however, subsequent to a sharp initial drop in asset values, there has since been a recovery and by the end of the 2020/21 financial year the Fund's investment assets were valued at the highest figure they have ever been in the history of the Fund (£2.50bn). The Fund considers risk in its planning process and the impacts experienced as a result of Covid were within the boundaries of the scenarios modelled by the Fund in the last valuation. The Fund takes a long-term view and is therefore able to cope with significant volatility over a short timescale.

The funding level at the end of the financial year was 91%, meaning that the value of assets held by the Fund is equal to 91% of the liabilities. This is a strong position and an improvement on previous years. The Fund will be reviewing its investment strategy, and this will have regard to the change in funding level, with the Fund aiming to reach a 100%+ funding position in a managed way over time.

The Fund continues to invest further into pooled funds managed via the Border to Coast Pension Partnership, in particular by joining the Investment Grade Credit fund (£150m) and by allocating further amounts to alternative funds including private credit, private equity, and infrastructure. You will notice in the accounts a significant presence in Border to Coast managed funds which also includes over £700m in equities.

The Fund continues to work with the Border to Coast Pension Partnership and 10 other partner funds on developing further investment products to meet the needs of partner funds. The Warwickshire Pension Fund is committed to joining the Multi Asset Credit fund at 10% of the Fund's asset allocation, and this fund is due for launch in 2021/22.

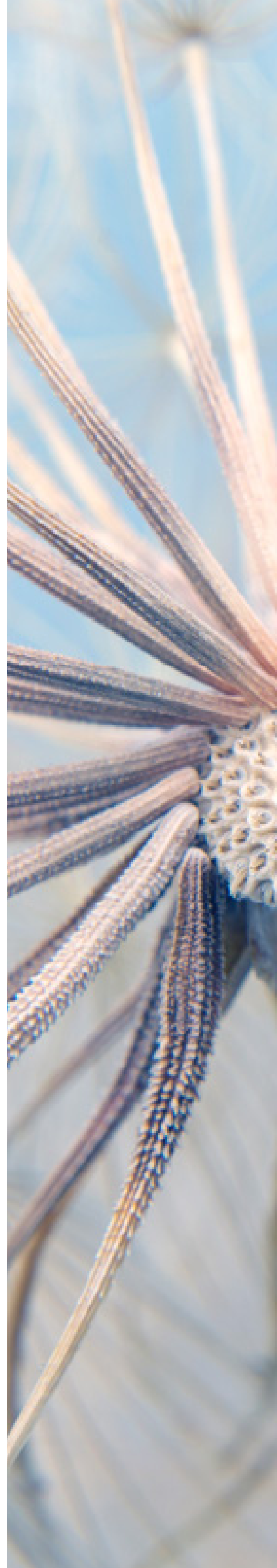
A key area of work this year has been in respect of responsible investment. The Fund has been working in partnership with other funds to develop a response to the 2020 UK Stewardship Code and plans to have a statement prepared covering this code during 2021/22. In addition, climate change has been an area of significant interest with activity undertaken to understand the risks and opportunities. The Fund will be seeking to develop more tangible and specific ways of monitoring its climate impact and exploring specific options and opportunities for investments that may improve sustainability.

We would like to say thank you to the Fund's Committee members, Board members, staff and advisers for their efforts over the last year to keep to the Fund's operations running effectively. It has not been an easy year and we are aware of the many efforts individuals have made to overcome challenges and keep the service going. This has been greatly appreciated.

Thank you for taking the time to read this Annual Report, we hope you find it helpful.

Cllr John Horner
Chair of the Pension Fund Investment Sub Committee

Rob Powell
Strategic Director for Resources, Warwickshire County Council



1. Pensions Administration Performance Indicators

In 2020 a review of the Key Performance indicators (KPI) was undertaken and brought into line CIPFA benchmarking, the table below shows the performance from 1st April 2020 to 31st March 2021:

Key Performance Indicator	Fund Target	%
Target performance	95%	
Letter detailing transfer in quote	10 days	67.07%
Letter detailing transfer out quote	10 days	97.73%
Process and pay a refund	10 days	87.91%
Letter notifying estimate of retirement benefits (Active)	15 days	92.07%
Letter notifying actual retirement benefits (Active)	15 days	98.97%
Process and pay lump sum (Active)	10 days	97.01%
Process and pay death grant	10 days	94.75%
Initial letter notifying death of a member	5 days	92.86%
Letter notifying amount of dependent benefits	10 days	71.95%
Divorce quote letter	45 days	96.97%
Divorce settlement letter	15 days	100.00%
Send notification of joining scheme to member	40 days	99.27%
Deferred benefits into payment	15 days	97.45%
Calculate and notify deferred benefits	30 days	84.85%

2. Pensions Administration Full Time Equivalent Staff

The breakdown of work for the pension team is taken from the CIPA benchmarking survey, these have been updated since last year's return to reflect the following:

Pensions Admin total	23.19
Benefit Processing *	6.88
Employer engagement *	7.4
IT/Systems	0.3
Pensioner Payroll *	0.7
Membership engagement *	6.07
Management	1.03
Governance	0.8

* FTE staff time spent

3. Workflow processes completed through the year

For April 2020 to 31st March 2021 the team processed **57,424** tasks.
This includes the following but is not limited to:

2131 new starters

457 deaths

978 pensions into payment

1049 retirement estimates

251 transfer out to other pension arrangements

347 transfers in from other pension arrangements

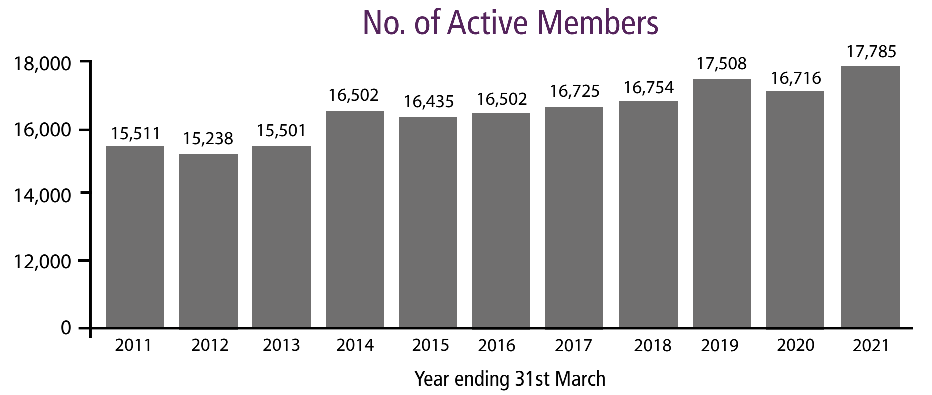
335 refunds

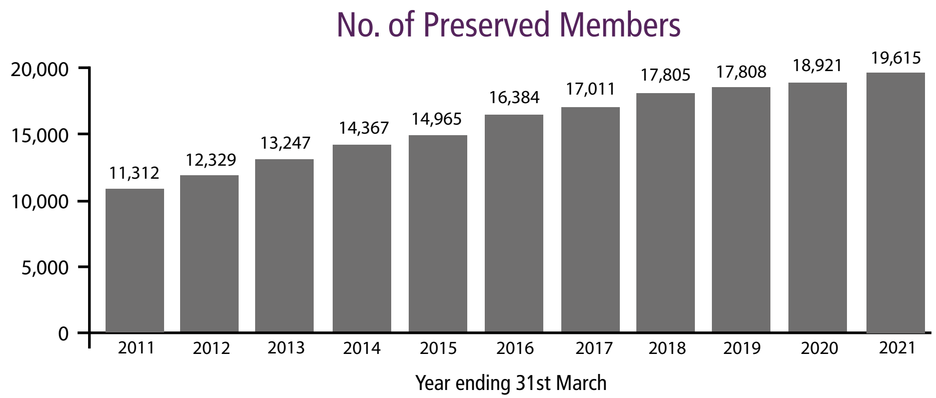
The volume of the activity within the Fund continues to increase. We are still experiencing growth in employers and scheme members. Throughout 2020, the Administration Service has increased its capacity, taking on more resources. The focus on delivering a service which prioritises cases with financial payments remains. From April 2020, the service adopted industry standard performance indicators and the team are committed to achieving these targets.

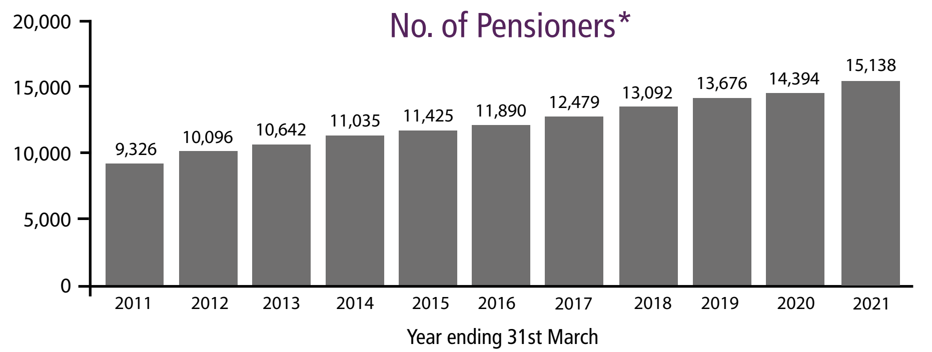
Warwickshire Pension Fund

	31 March 2020	31 March 2021
*Number of employers with active members	190	189
Number of employees in scheme		
County Council	7,930	8,434
Other employers	8,786	9,351
Total	**16,716**	**17,785**
Number of pensioners in scheme		
County Council	8,039	8,446
Other employers	6,355	6,692
Total	**14,394**	**15,138**
Deferred Pensioners		
County Council	11,262	11,477
Other employers	7,659	8,138
Total	**18,921**	**19,615**
Total	**50,031**	**52,538**

* We are still experiencing growth in employers and scheme members, the numbers quoted above are purely for employers who have members currently contributing to the scheme, these are known as active employers. We do also have employers who do not have active members but do have deferred (benefits due at a later date) and pensioner (benefits in payment) members. The total number of all employers who have liabilities in the fund as at 31st March 2021 was 230.

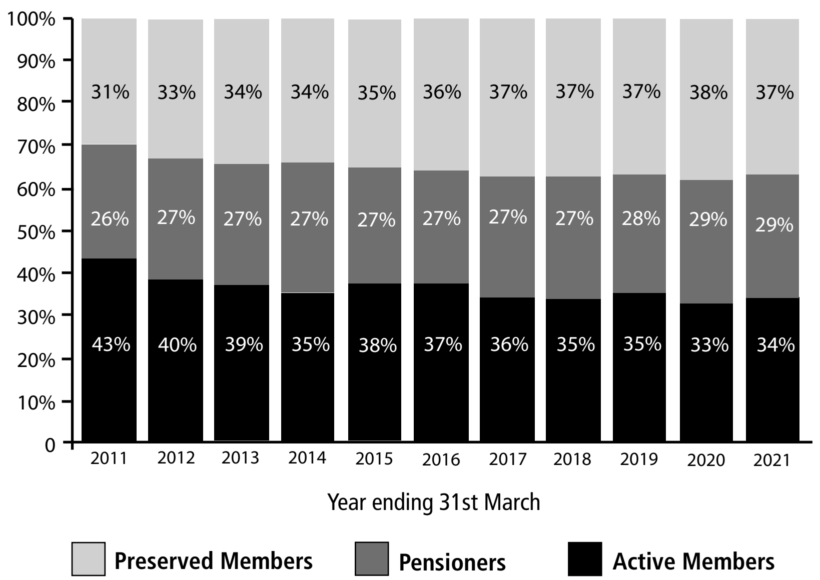




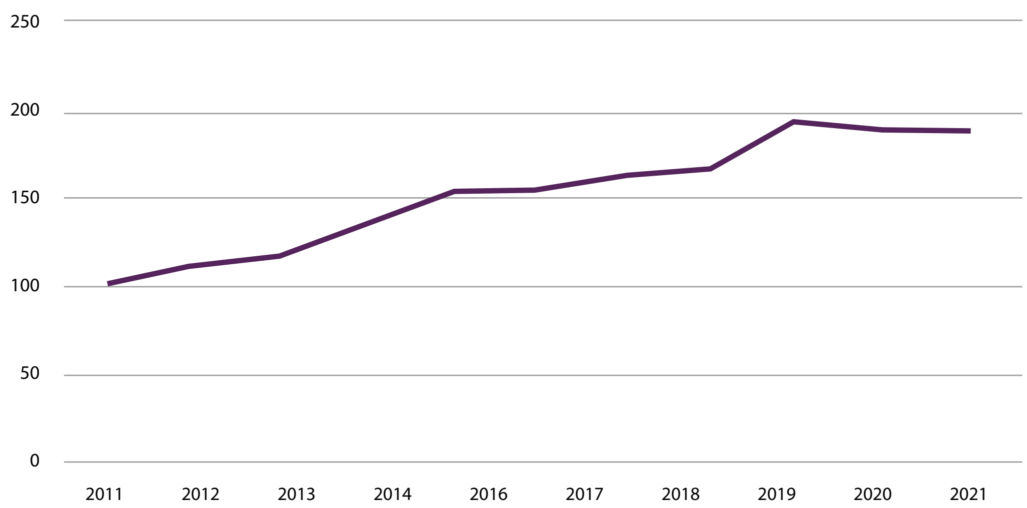


* These figures include dependants

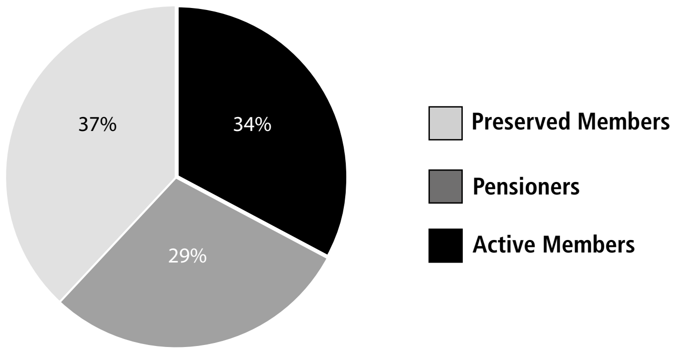
Scheme Membership profile over the last 10 years



Change in Number of Active Employers



Membership profile as at 31 March 2021



Contributions Paid 2020/21

Employers' Contributions

> £25m
Warwickshire County Council

< £10m
Rugby Borough Council
Warwick District Council

> £1m
Warwickshire Police and Crime Commission
Nuneaton & Bedworth Borough Council
Stratford-On-Avon District Council
North Warwickshire Borough Council
Warwickshire College
North Warwickshire & Hinckley College
Educaterers Ltd

< £500k
Unity Mat (Woodlands)
Oak Wood Primary and Secondary Academy
Unity MAT (Brooke)
North Leamington Academy
Stratford upon Avon School
Myton Academy
Warwick Schools
Ashlawn Academy
The Griffin Trust (Nicholas Chamberlaine)
Kenilworth Academy
Higham Lane Academy
Avon Valley School
South Warks AT Welcome Hills
Community Academies Trust The Polesworth Sch
Campion School Academy
Stowe Valley MAT (Southam Col)
BFMAT (King Ed VI College Nun)
MacIntyre Academies (Discovery)
Coventry Diocese (Harris High)
Coleshill School Academy
Coventry Diocese (St Michaels)
Aylesford Academy
MacIntyre Acadamies (Quest)
Alcester Grammar Academy
Stowe Valley MAT (Bilton)
Ash Green Academy
Studley High Academy
Lawrence Sheriff School
Inspire Education Trust (Stockingford Primary)
Stratford On Avon Grammar Academy
Balfour Beatty (new)
Midland Academies Trust (George Eliot)
Holy Family Catholic MAC - St. Benedict's High (Alcester)
Castle Phoenix Trust (Kingsbury Academy)
Midland Academies Trust (Hartshill)
Rugby Free Secondary School
Stowe Valley MAT (Kineton High)
The Griffin Trust (Park Lane)
Rugby High Academy
Central MAT (Admin Centre)
Holy Spirit Academy Trust St Joseph's Catholic Junior School
Midland Academies Trust (Nuneaton)
Cawston Grange Primary Academy
Arden MAT (Henley High Academy)
Community Academies Trust Admin Centre
Alcester High Academy
Stratford upon Avon King Edward VI Academy

< £100k
ATT (Queen Elizabeth Academy)
Shipston on Stour High School Academy
Holy Spirit Academy Trust St Thomas More Catholic School
SLM (Warwick District)
Alcester St Nicholas Academy
Ashlawn Central
Matrix Academy Trust
Stour Federation (Shipston Primary)
Reach2 Academy (Oakfield)
BDMAT - Coleshill Primary
Dunchurch Infant School
Coventry Diocese (St Nicolas)
Community Academies Trust Woodloes Primary Sch
BDMAT - Polesworth Nethersole Academy
Tanworth in Arden Academy
Coventry Diocese (Queens Middle School)
Community Academies Trust Birchwood Primary Sch
Rugby Free Primary School
Stowe Valley MAT (Central)
Reach2 (Newbold Riverside)
Heart of England MENCAP
Middlemarch Middle School
Reach2 (RaceMeadow)
Holy Spirit Academy Trust St Anne's Catholic Primary School
BDMAT - Warton Nethersole
Stratford-Upon-Avon Town Council

< £50k
The Griffin Trust (Race Leys)
Futures Trust (Keresley Newland)
Community Academies Trust Stratford Primary Sch

Stowe Valley MAT (Rokeby)
Trinity (Our Lady of Lourdes)
South Warks AT Arden Fields
Midland Acadamies Trust (Admin)
Everyone Active (SLM)
Community Academy Trust Heathcote
Stowe Valley MAT (Southam Primary)
Coventry Diocese (St James)
Stowe Valley MAT (Bishops Itchington)
Henry Hinde Academy (Infants)
Heart of England Housing & Care Ltd
BDMAT - Woodside
Coventry Diocese (St Oswalds)
Coventry Diocese (Studley St Marys)
Holy Spirit Academy Trust St Francis Catholic Primary School
Chartwells (Compass Group) re Queen Elizabeth
St Gabriels C of E Academy
Community Academies Trust Budbrooke Primary Sch
Transforming Lives Education Trust (Henry Hinde Junior School)
Community Academies Trust Dordon Community Primary Sch
Stratford-Upon-Avon Town Trust Co. Ltd
Arden Forest MAT (Henley Primary Academy)
Holy Spirit Academy Trust St Benedicts Catholic Primary School
Coventry Diocese (Long Itchington)
Coleshill Town Council
Arden Forest MAT (Coughton)
Curdworth Primary (ATLP)
People in Action
Stowe Valley MAT (Temple Herdewyke)
Holy Family Catholic MAC - St. Gregory's Primary (Stratford)
Community Academies Trust Wood End Primary Sch
The Brandon Trust (North Warwicks)
Arden Forest MAT (Temple Grafton)
Coventry Diocese (Burton Green) MAT
Coventry Diocese (Southam St James)
Coventry Diocese (All Saints Leek Wooton) MAT
Mappleborough Green School
BDMAT - Newton Regis
Royal Leamington Spa Town Council
Moreton Morrell Church of England School
Dunnington C of E Junior & Infant School
The Priors Free School Academy
Stowe Valley MAT (Stockton Primary)
Chartwells (Compass) Polesworth
Barnardo's Children & Family Centre
Holy Spirit Academy Trust - Central Team
Holy Family Catholic MAC - Our Lady's Primary (Alcester)
Stour Federation (Acorns)
Reach2 (Lower Farm Academy)
Holy Family Catholic MAC - St. Mary's Primary (Henley)
Wolverton Junior & Infant School
BDMAT - Austrey
Chartwells (Compass Group) re catering for Coventry Diocese
Southam Town Council
Community Academy Trust (Kingsway)
Coventry Diocese (Leamington Hastings C of E Academy)
Coventry Diocese (Salford Priors)
Tudor Grange Academy Trust (Meon Vale)
Atherstone Town Council
Coventry Diocese (All Saints Bedworth)
Lillington Academy

< £10k

Long Lawford Parish Council
Studley Parish Council
The Brandon Trust (Rugby)
Shipston Town Council
Rugby Town Centre Company Ltd
Alcester Town Council
Vinshire Plumbing and Heating Ltd
Bidford-On-Avon Parish Council
Tudor Grange Academy Trust (Haselor)
Long Itchington Parish Council
Wellesbourne Parish Council
Crystal Services (St Thomas)
Whitnash Town Council
ABM (North Leamington)
Accuro FM Ltd
Alliance in Partnership (St Edwards RC)
Bishops Itchington Parish Council
Harbury Parish Council
Tanworth in Arden Parish Council
Superclean (RBC Benn Hall)
Wolston Parish Council
Kingsbury Parish Council
Alliance in Partnership (Myton)
Mancetter Parish Council
Ryton on Dunsmore Parish Council
Class Catering (St Mary Immaculate)
Cubbington Parish Council
ABM (King Edward)
Alliance in Partnership (Henley Primary Academy)
Warwick Association for the Blind
ABM (St Paul's)
Napton Parish Council
Clifton upon Dunsmore Parish Council
Ettington Parish Council
Curdworth Parish Council
Lawrence Cleaning
Class Catering (Thomas Jolyffe)
Burton Dassett Parish Council
Burton Green Parish Coucil
Class Catering (The Willows)
Avon Dassett Parish Council

< £1k

Class Catering - Shrubland St
Tenon FM
Class Catering (SoA Primary Sch)
Baileys Catering Ltd
Fenny Compton Parish Council
Holy Spirit Academy Trust Our Lady of the Angels

Contributions Paid 2020/21

>£1m
Warwickshire County Council
Warwickshire Police and Crime Commission

<£1m
Warwick District Council
Nuneaton & Bedworth Borough Council
Rugby Borough Council
Stratford-On-Avon District Council
North Warwickshire Borough Council

<£500k
Warwickshire College
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Shipston on Stour High School Academy

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Whitnash Town Council
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Accuro FM Ltd
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Harbury Parish Council

<£1k

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Wolston Parish Council
Alliance in Partnership (Myton)
Kingsbury Parish Council
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Cubbington Parish Council
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Curdworth Parish Council
Lawrence Cleaning
Class Catering (Thomas Jolyffe)
Clifton upon Dunsmore Parish Council
Burton Green Parish Coucil
Burton Dassett Parish Council
Class Catering (The Willows)
Avon Dassett Parish Council
Class Catering - Shrubland St
Tenon FM
Class Catering (SoA Primary Sch)
Westfield Community Development Association
Baileys Catering Ltd
Fenny Compton Parish Council

Receipt of contributions 2020/2021

on or before 19th of each month	97%
After	3%
Total	100%

31st March Committee and Board Membership

The Role of the Pension Fund Investment Sub-Committee

The Sub-Committee oversees the general framework within which the Fund is managed and sets the investment policy. The Sub Committee also monitors the work of the fund managers and the investment performance for which they are responsible.

Councillor John Horner
Chair

Councillor Bill Gifford
Vice Chair

Councillor Andy Jenns

Councillor Wallace Redford

Councillor Neil Dirveiks

The Role of the Local Pensions Board

The Local Pension Board assists the Fund in ensuring sound governance arrangements are in place, providing oversight and scrutiny to the Fund's activities and policies, and assisting the Fund in ensuring compliance with relevant regulations and codes of practice.

Keith Bray
Independent Member Chair

Sean McGovern
Member Representative

Alan Kidner
Member Representative

David Parsons
Member Representative

Cllr Parminder Birdi
Employer Representative

Mike Snow
Employer Representative

Keith Francis
Employer Representative

The Role of the Staff and Pensions Committee

The Staff and Pensions Committee has overall responsibility for functions relating to local government pensions and it established the Pension Fund Investment Sub-Committee to oversee the Pension Fund's investments and the management of the Fund.

Councillor Kam Kaur
Chair

Councillor Neil Dirveiks

Councillor Bill Gifford

Councillor John Horner

Councillor Bhagwant Singh Pandher

Councillor Andy Jenns

Staff, Advisors and Investment Managers

The management and administration of the Pension Fund is delegated to the Strategic Director for Resources.

The Pension and Investment Team within the Resources Group has responsibility for day-to-day management.

Management and Administration

Rob Powell Strategic Director for Resources

Andrew Felton Assistant Director (Finance)

Chris Norton Strategy and Commissioning Manager (Treasury, Pension, Audit, Risk & Insurance)

Liz Firmstone Service Manager (Transformation)

Neil Buxton Technical Specialist - Pensions

Vicky Jenks Pensions Administration Manager

Victoria Moffett Pensions and Investments Manager

Global Custodian

Bank of New York Mellon (BNY)

Investment Advisors

Independent Advisors: Peter Jones, Karen Shackleton, Bob Swarup

Actuary: Richard Warden, Hymans Robertson

External Consultants: Philip Pearson, Hymans Robertson

Investment Managers

Passive Index Tracker: Legal and General Investment Management

UK Equities, Global Equities, Investment Grade Credit, Private Equity, Private Debt and Infrastructure: Border to Coast Pensions Partnership (BCPP)

Property: Schroder Investment Management and Columbia Threadneedle Investments

Private Debt: Partners Group and Alcentra

Fund of Private Equity Funds: HarbourVest Partners

Absolute Return Bonds: JP Morgan Asset Management

Infrastructure: Aberdeen Standard Investments

The Local Government Pension Scheme

The Warwickshire Pension Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS is governed by statute, primarily the Superannuation Act 1972 and the Local Government Pension Scheme Regulations 2013 (as amended). The statutory responsibility for the LGPS falls under the remit of the Ministry for Housing, Communities and Local Government (MHCLG).

The Warwickshire Pension Fund is administered by the Director for Resources on behalf of Warwickshire County Council (the scheme manager), five district councils and other scheduled and admitted public service organisations and their contractors. The administration of the Fund is carried out through Warwickshire County Council's Staff and Pensions Committee, the Pension Fund Sub Committee and the Local Pension Board. The committees are comprised of elected County Council members whilst the Board is an equal mix of representatives of employers and scheme members with an independent chair.

At March 2021, the total membership of the Fund stood at 52,538 and the total value of assets amounted to over £2 billion. Of the total membership,17,785 are active members currently contributing to the Fund, 19,615 are members with a preserved benefit and 15,138 retired or dependant members are in receipt of a pension. All local government employees (except temporary and casual employees) are automatically entered into the scheme and must opt out if they do not wish to remain a member. Temporary and casual employees must make an election to join the scheme. Temporary employees on a contract of less than three months duration are not eligible for membership.

Benefits of the Pension Fund

Members of the LGPS belong to a scheme which provides high quality pension benefits based on career average related earnings. The scheme is a defined benefit scheme and members' benefits are determined strictly in accordance with the provisions of the Regulations and are not subject to changes affecting the Fund assets. For members contributing to the scheme before 1 April 2014, protections are in place for benefits to be based on accrued scheme membership and full-time equivalent pensionable pay at retirement.

In 2020-21 WCC has begun the implementation of i-Connect, a digital platform to transfer payroll data from fund employers directly into the Pensions administration software system. This is due to be completed by July 2021. The use of this reduces the need for manual input and will update member records on a monthly basis, improving data quality. In order to continue making improvements to our service for members, we will be looking to implement a member self service portal, so that members can check their pension records online and calculate retirement estimates. Annual Benefit Statements can also be published on-line reducing the need to send paper copies.

Enquiries and further information can be obtained from the Pension Administration Service.

www.warwickshirepensionfund.org.uk

pensions@warwickshire.gov.uk

Below is a brief summary of the benefits of the LGPS. It is not intended to provide details of all benefits provided or the specific conditions that must be met before these benefits can be awarded.

The core benefits of the scheme are:

- A guaranteed annual pension based on the pay received during the year and revalued in line with earnings.
- A tax free lump sum is available by commuting part of the pension.
- Life assurance of three times the member's yearly pay from the day they join the scheme.
- Pensions for spouses, civil registered partners, qualifying cohabiting partners and eligible children on the death of the member.
- An entitlement paid early if a member has to stop work permanently due to permanent ill health.
- Inflation proofed preserved pensions and pensions in payment.
- Pensions payable from age 55, including (with the employer's consent) flexible retirement and early retirement.
- The option to contribute a reduced contribution for a reduced benefit - the 50/50 option.

NB scheme members must have a minimum of two years' membership

Cost of membership

Employees pay on average approximately 6.1% of pensionable pay received (up from 6% at the 2016 valuation).

Employers also pay a contribution towards the pension costs. This amount is decided every three years following an independent actuarial evaluation by the Fund's Actuary. The average employer rate at the 2019 valuation is 20.1% (up from 20% at the 2016 valuation).

The next triennial valuation will be calculated as at 31 March 2022 and will set the contribution rates for the three years from 2023 / 2024.

Investment Report for year ending 31 March 2021

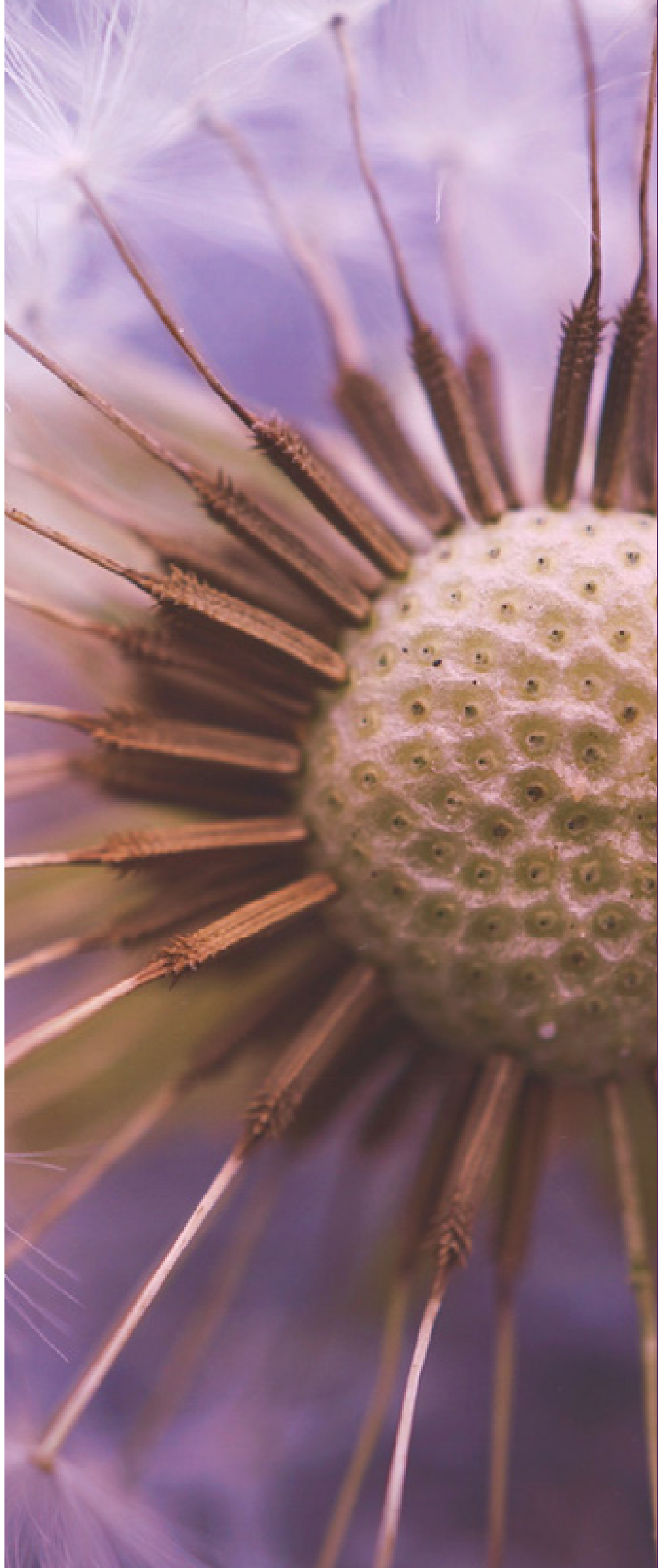
The year under review was a turbulent period in terms of both world events and financial-market movements. Following the sharp declines of March 2020, equities and industrial commodities rallied over subsequent months. In fixed income, yields on core government bonds (which move inversely to price) rebounded from historic lows to finish the year higher. Credit spreads (the yield premiums offered by corporate bonds over "risk-free" government bonds of the same maturity) tightened in the investment-grade and high-yield markets.

The unprecedented stimulus measures from central banks and governments helped risk assets rally from April until September. Declining coronavirus caseloads and the resulting easing of lockdown restrictions also boosted markets. After some shocking data releases in April, subsequent economic news tended to reinforce this sentiment and, although weak, was generally better than expected. Corporate earnings also beat generally low estimates. Despite the 'risk-on' tone, core government bond yields remained low until August, anchored by central-bank asset-purchase programmes and low interest rates. In August, the Federal Reserve announced a major shift in policy, announcing it would target an average inflation rate, allowing it to rise above 2% to make up for time spent below that level, and that it would no longer view the approach of full employment as a cue to hike rates.

In September, however, profit-taking in US tech stocks heralded a change of mood, as investors refocused on more worrying elements of the backdrop, including resurgent coronavirus infection rates in many countries and the reimposition of control measures to contain the virus. Meanwhile, political uncertainty also mounted, in relation to the US presidential election and Brexit. The mood turned markedly positive in the last two months of 2020. Investors welcomed Joe Biden's triumph in the US election, landmark results in coronavirus vaccine trials, and the subsequent approval of the first vaccines for use in Western democracies. These developments sparked a surge in oil prices and stocks in beaten-down sectors that were perceived to be major beneficiaries from a resumption of 'normal' economic activity. The risk-on rally received further impetus from the anticipation of another fiscal relief package in the US and further monetary stimulus in the eurozone. News of the last-minute trade agreement between the UK and the EU also bolstered sentiment as the year drew to a close.

The first quarter of 2021 was characterised by a sharp rise in core bond yields on expectations of higher US government spending, after the Democrats took control of the Senate. Yields also rose on anticipation that a vaccine-driven recovery in global growth would lead to increased inflation. This prompted some volatility in equity markets, though value-oriented sectors benefited. Corporate-bond markets were less impacted, and credit spreads tightened modestly over the first three months of 2021.

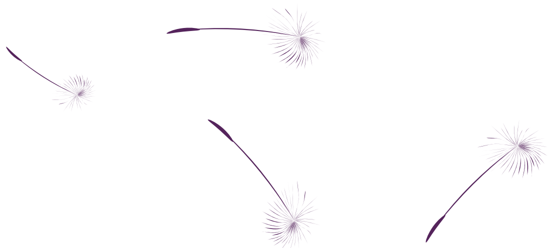
Over the 12 months to 31 March 2021, the MSCI All Country World index posted double-digit gains. At a sector level, returns were initially led by healthcare, as firms raced to develop tests, vaccines and medications for Covid-19, and technology, as the pandemic accelerated "the digitisation of everything".



However, the optimism around vaccines and US fiscal stimulus in November fuelled a rotation towards financials and energy, which ultimately outperformed over the year.

At a regional level, US equities were the top performers in local-currency terms, helped by the outperformance of the sizeable technology sector over the first half of the period. Emerging markets and Asia ex Japan also outperformed thanks to strong gains from China –one of the only major economies to report positive GDP growth over 2020. Asian countries in general proved more successful in containing the virus than their European and US counterparts. Meanwhile, emerging markets benefited from the dual tailwinds of a weaker US dollar and rising commodity prices over 2020. The export-heavy regions of continental Europe and Japan lagged slightly, amid concerns over the toll of the pandemic on global growth. UK equities brought up the rear, hurt by the market's high exposure to sectors perceived to be vulnerable to Covid, as well as jitters about a no-deal Brexit.

Within fixed income, core government bond yields dropped to historic lows in 2020, but rose sharply in 2021 and finished the review period higher.



Sovereign bonds issued by peripheral eurozone countries benefited from the European Central Bank's quantitative-easing programme, and the joint pandemic-relief fiscal stimulus. Italian bonds were boosted late in the period as former ECB president Mario Draghi.

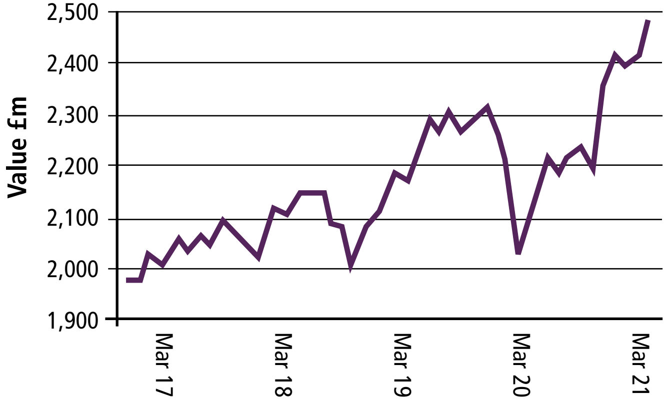
Following the sharp widening in March 2020, spreads in the investment-grade and high-yield markets tightened over the year under review. Meanwhile, emerging-market bonds posted positive returns, helped by the risk-on backdrop and investors' ongoing hunt for yield.

In commodities, oil and industrial metals rebounded strongly from the declines seen last March, aided by hopes of increased demand from a recovering global economy. Oil prices also benefited from OPEC-led production cuts. However, gold – a traditional safe haven –notched up only a modest gain.

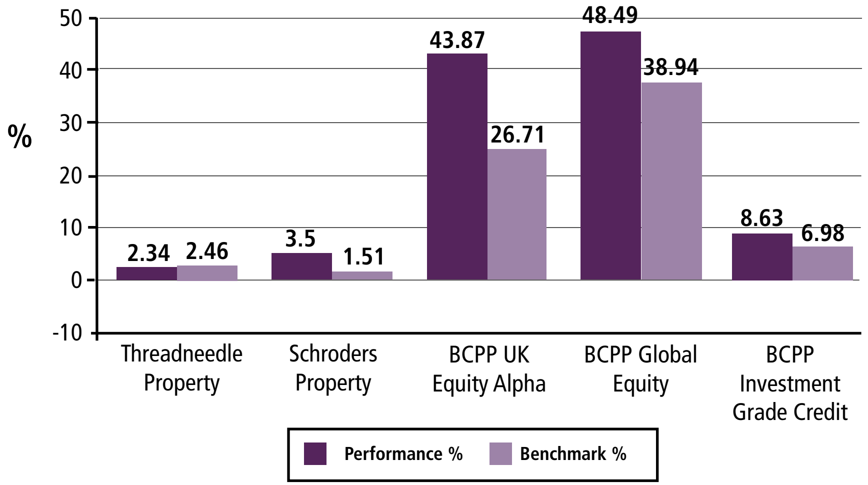
Top Ten Holdings at 31 March 2021

	Security Description	£ millions
1	BCPP Global Equity Fund	370.5
2	BCPP UK Equity Fund	286.2
3	LGIM FTSE RAFI AW 3000	264.3
4	BCPP Investment Grade Credit	184.0
5	LGIM European exc UK	175.4
6	LGIM UK Equity	133.9
7	LGIM Index-Linked Gilt	124.3
8	Threadneedle Property Fund	116.9
9	JPM STRATEGIC BOND FUND GROSS	114.6
10	LGIM Inv Grade Corporate Bonds	60.3

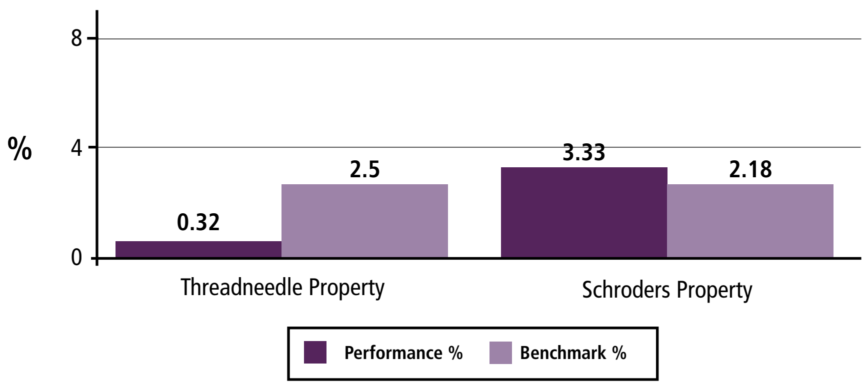
Total Fund Value since March 2017



Fund Manager Performance for the Year Ending 31 March 2021



Fund Manager Performance for Three Years Ending 31 March 2021



Investment Strategy Statement - March 2021

1. Introduction and background

This is the Investment Strategy Statement ("ISS") of the Warwickshire Pension Fund ("the Fund"), which is administered by Warwickshire County Council, ("the Administering Authority"). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the Regulations").

The ISS has been prepared by the Fund's Investment Sub Committee ("the Committee") having taken advice from the Fund's investment adviser, Hymans Robertson LLP. The Committee acts on the delegated authority of the Administering Authority.

The ISS, which was approved by the Committee on 8 March 2021, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate.

The Committee seeks to invest in accordance with the ISS any Fund money that is not immediately required to make payments from the Fund. The ISS should be read in conjunction with the Fund's Funding Strategy Statement, Responsible Investment and Climate Risk policies.

2. The suitability of particular investments and types of investments

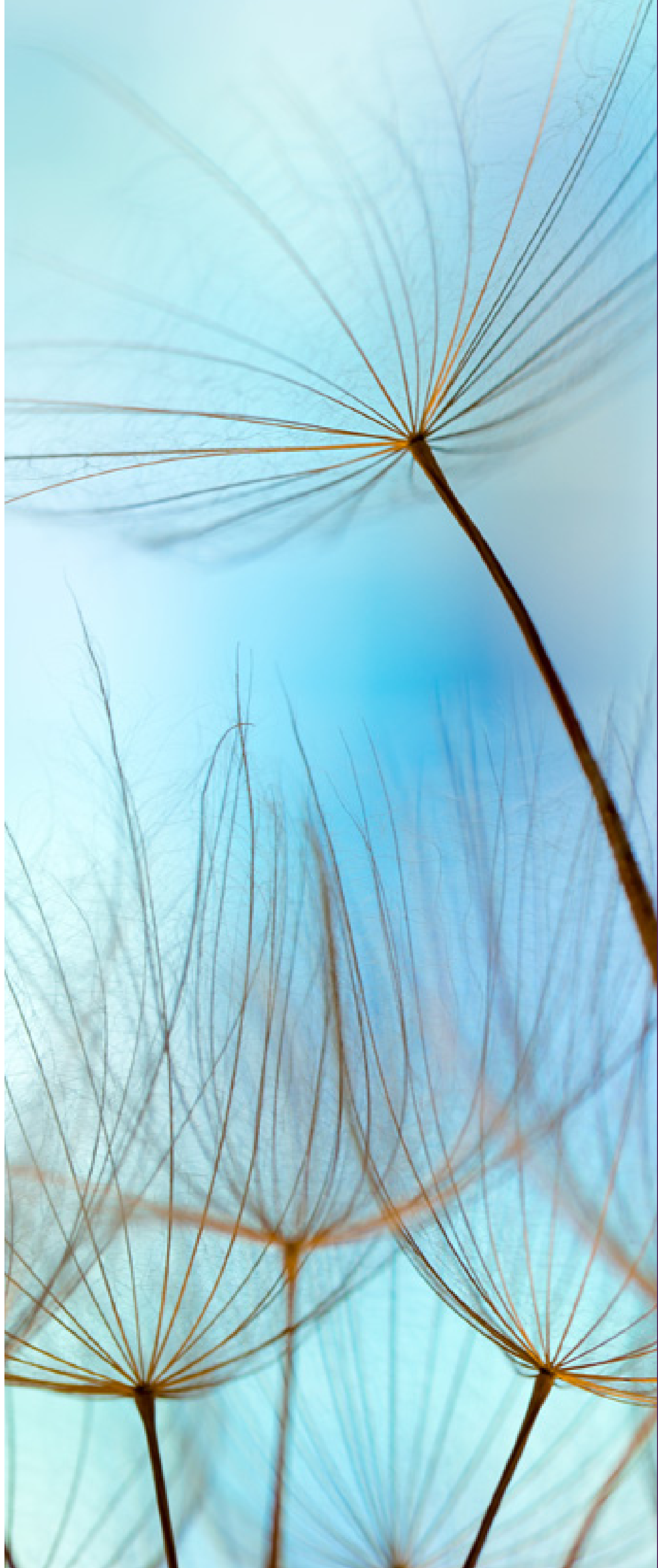
The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death for their dependants, on a defined benefits basis. The funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employers to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases.

The Committee has translated its objectives into a suitable strategic asset allocation ("SAA") benchmark for the Fund. This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

The broad approach that the Fund has taken to setting an appropriate investment strategy is as follows:

- In order to generate attractive long term returns on the portfolio, a proportion of the investments will be in growth assets such as equities.



- To help diversify equity risk and assist with cash flow, a proportion of the investments will also be in income assets, such as property and infrastructure, which are structured to deliver both capital growth and a regular income stream.
- To reduce the volatility of the Fund, and to help protect its capital value, the remaining portfolio will be invested in risk diversifying assets which are lower risk and have a low correlation with other growth markets.
- The Fund will maintain a sufficient level of liquidity in the investment portfolio such that it can facilitate the normal cash flow requirements of the scheme, such as paying pensions, without becoming a forced seller of assets.

It is intended that the Fund's investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.

In 2019, the Fund carried out an asset liability modelling exercise in conjunction with the 2019 actuarial valuation. The Fund's liability data from the valuation was used in the modelling, and the implications of adopting a range of alternative contribution and investment strategies were assessed. The implications for the future evolution of the Fund was considered under a wide range of different scenarios.

The Committee assessed the likelihood of achieving their long term funding target – which was defined at that time as achieving a fully funded position within the next 19 years. They also considered the level of downside risk associated with different strategies by identifying the impact on funding levels of a range of adverse economic/market scenarios.

A summary of the expected returns and volatility for each asset class included in the modelling from 2019 is included in Appendix 1.

This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

It is intended that a 'sense-check' of the current investment strategy will be carried out in 2021 to ensure that the strategy remains suitable in the current economic climate.

It is anticipated that a further detailed review of the investment strategy will be carried out during 2022/23 in conjunction with the then proximate actuarial valuation.

In addition, the Committee monitors the investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund's level of funding and liability profile
- The level of expected risk
- Outlook for asset returns
- Environmental, Social and Governance ("ESG") factors

The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not deviate inappropriately from the target allocation. The Committee has set ranges around the strategic asset allocation and will seek advice on re-balancing the portfolio if any individual asset class moves outside its agreed range.

3. Investment of money in a wide variety of asset classes

The Fund may invest in quoted and unquoted securities of UK and overseas markets including listed and private equities, fixed interest and index linked bonds issued by corporations and governments, loans, property, infrastructure, alternative credit and cash either directly or through pooled funds. The Fund may also make use of other derivatives either directly or in pooled funds, investing in these products for the purpose of efficient portfolio management or to hedge specific risks. Underlying investment managers may also use derivatives for other purposes such as leverage or to manage specific risks.

The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

The Fund's current investment strategy is set out below. The table also includes the control ranges agreed for re-balancing purposes and therefore the maximum percentage of total Fund assets that it will invest in these asset classes. In addition, the Committee have agreed a new long term strategic target asset allocation, reflecting the likely 'direction of travel' between now and the next actuarial valuation, the Fund will take incremental steps in implementing this strategy as suitable investment opportunities become available.

In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of Fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in

Health Act 2007. The Fund is open to considering local impact investing opportunities but any investments must be congruent with and support the overall investment objectives of the Fund.

Asset class	Current Target Asset Allocation (%)	Asset Allocation Range (%)	Target Allocation (%)
UK equities	16.0	+/-2.5	13.0
Overseas equities	25.5	+/-2.5	21.5
Fundamental global equity*	10.0	+/-2.5	10.0
Private equity	4.0	n/a	4.0
Total Growth	**58.5**		**48.5**
Property	10.0	n/a	12.5
Infrastructure	7.0	n/a	7.0
Private debt	5.0	n/a	7.0
Alternative Credit	7.5	n/a	10.0
Total Income	**29.5**		**36.5**
UK corporate bonds	10.0	+/-1.5	10.0
UK index linked bonds5.0	5.0	+/-5.0	5.0
Total Protection	**15.0**		**15.0**
Total	**100.0**		**100.0**

*Refers to passive global equities invested in line with the RAFI All World 3000 index, which weights underlying constituents by fundamental factors as opposed to traditional market capitalisation weightings.

4. Restrictions on investment

The Regulations have removed the previous restrictions that applied under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The Committee’s approach to setting its investment strategy and assessing the suitability of different types of investment takes account of the various risks involved and a re-balancing policy is applied to maintain the asset split close to the agreed asset allocation target. Therefore it is not felt necessary to set additional restrictions on investments.

5. Managers

The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

The individual investment manager mandates in which the Fund assets are currently invested are as follows:-

Investment Manager	Asset Class	Investment style
Legal and General	Equities/Bonds	Passive pooled
Legal and General	Fundamental Global Equity	Passive pooled
Border to Coast Pensions Partnership (BCPP)	UK Equities, Global Equities, Investment Grade Credit	Active pooled
Border to Coast Pensions Partnership Alternatives	Private Equity, Private Debt, Infrastructure	Active Fund of Funds
Schroders	UK Property	Active Fund of Funds
Threadneedle	UK Property	Active Direct Fund
Alcentra	Private Debt	Active Direct Fund
Partners Group	Private Debt	Active Direct Fund
JP Morgan	Bonds	Active pooled
Harbourvest	Private Equity	Fund of Funds
Standard Life	Infrastructure	Active Direct Fund
Partners Group	Infrastructure	Active Fund of Funds/Direct Fund

6. The approach to risk, including the ways in which risks are to be measured and managed

The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken. One of the Committee's overarching beliefs is to only take as much investment risk as is necessary to achieve its objectives.

The principal risks affecting the Fund are set out below. We also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

7. Funding risks

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics – The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities.
- Employer risk – The risk that employers cannot pay the required contributions either because employer financial viability reduces or because contribution requirements increase too quickly or too far.

The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

The Investment Strategy is complementary with the Fund's Funding Strategy and a managed approach to exposure to investment risk is taken in order to mitigate employer contribution volatility and to keep employer contribution levels manageable.

8. Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Market risk – the risk that the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and Alternatives, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets.
- Rate/duration risk – the risk that changes to rates on government bonds impact the value of the Fund's liabilities and hence the funding level.
- Counterparty risk - The possibility of default of a counterparty in meeting its obligations, e.g. a property tenant defaulting on rental payments.
- Currency risk – The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Real asset values – the extent to which estimated values placed on real assets are over or under valued.
- Environmental, Social and Governance ("ESG") risks – the extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations.
- Climate risk - The extent to which climate change causes a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Committee measure and manage asset risks as follows.

The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has put in place re-balancing arrangements to ensure the Fund's actual allocation does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, as well as property and other income assets, the Committee has recognised the need for access to liquidity in the short term.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Committee also assess the Fund's currency risk during their risk analysis. Details of the Fund's approach to managing ESG risks is set out later in this document.

The Committee has considered the risk of underperformance by any single investment manager and has attempted to reduce this risk by appointing more than one manager and having a proportion of the Scheme's assets managed on a passive basis. BCPP use a multi-manager process for it's UK Equity, Global Equity and Corporate Bond funds.

The Committee assess the Fund's managers' performances on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

9. Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.
- Stock-lending – The possibility of default and loss of economic rights to Fund assets.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist. A separate schedule of risks that the Fund monitors is set out in the Fund's Funding Strategy Statement.

10. The approach to pooling investments, including the use of collective investment vehicles and shared services

The Fund is a participating scheme in the Border to Coast Pensions Partnership (BCPP). The proposed structure and basis on which the BCPP pool will operate was set out in the July 2016 submission to Government.

11. Assets to be invested in the Pool

The Fund's intention is to invest its assets through the BCPP pool as and when suitable investment solutions become available. An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government. The key criteria for assessment of Pool solutions will be as follows:

1 That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund.

2 That there is financial benefit to the Fund in investing in the solution offered by the Pool.

BCPP launched their first sub-funds in 2018 and there is a timetable in place covering the proposed fund launches over the coming years. The Fund has invested assets in the UK Equity Alpha fund, the Global Equity Alpha fund, the Investment Grade Credit fund and the Alternatives sub-funds (private equity, infrastructure and private debt).

The Fund is intending to retain the following assets outside of the BCPP pool:

- Passive investments with Legal and General are currently held through life policies and these will continue to be directly held by the Fund. However, the Fund benefits from fee savings through joint fee negotiations with other partner funds within BCPP.

- The Fund has investments in a number of closed end funds as part of its private markets programme. These funds invest in underlying private equity, private debt and infrastructure investments. Each of the individual funds has a fixed life with all assets being returned to investors within a specified period. There is no liquid secondary market for these types of investment – and there is a risk that sales would only be possible at material discounts to net asset value. Therefore, the Committee believes that it is in the best interests of the Fund to retain these investments. However, new allocations to these asset classes have been and will continue to be made through BCPP.

The Fund also retains the option to undertake local impact investing either outside of the pool or inside the pool as best meets Fund objectives.

Any assets which are not invested in the BCPP pool will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money. The next such review will take place no later than 2023.

12. Structure and governance of the BCPP Pool

The July 2016 submission to Government of the BCPP Pool provided a statement addressing the structure and governance of the Pool, the mechanisms by which the Fund can hold the Pool to account and the services that will be shared or jointly procured. Government approved this approach on 12 December 2016.

A Financial Conduct Authority (FCA) regulated company has been established to manage the assets of BCPP Funds. The Board of Directors for the new company has been appointed and a senior management team put in place. Based on legal advice describing the options on holding shares in this company, BCPP Limited, the Fund holds all voting and non-voting shares rather than the Council. This is because the purpose of the company is to meet the needs of the BCPP Funds in complying with the regulations on pooling, rather than for a Council specific purpose.

Some sub-funds in which the Fund invests, such as Private Debt, are managed by Border to Coast Pensions Partnership Limited, which is set up as the authorised contractual scheme manager of an Authorised Contractual Scheme ("ACS"), and constituted as a Qualified Investor Scheme. These ACS structures are approved and regulated by the FCA. Oversight of the company is carried out by a Joint Governance Committee comprising representatives of each of the participating pension funds.

As the Pool develops, the Fund will include further information in future iterations of the ISS.

13. ESG Policy: How social, environmental or corporate governance ("ESG") considerations are taken into account in the selection, non-selection, retention and realisation of investments

It is recognised that ESG factors, including climate change, are financially material to the Fund's investments at all stages of the investment process as they have the potential to significantly affect long term investment performance and the ability to achieve long term sustainable returns. The Committee considers the Fund's approach to responsible investment in two key areas:

- Sustainable investment / ESG factors – considering the financial impact of environmental, social and governance (ESG) factors into account in investment decision making.
- Stewardship and governance – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

The Committee takes ESG matters, including climate change, seriously and regularly reviews its policies in this area and its investment managers' approach to ESG.

The Fund believes in collective engagement and is a member of the Local Authority Pension Fund Forum (LAPFF), through which it collectively exercises a voice across a range of corporate governance issues. The Fund will also engage collectively with partner funds through its relationship with BCPP.

The Fund has developed a separate more in-depth Responsible Investment Policy and Climate Risk Policy. These policies can both be found on the Fund's website. They outline how the Fund implements, monitors and discloses its approach to ESG related risks.

In Q1 2021, the Committee and officers undertook a dedicated training session on the risks climate change poses to the Fund. This included climate change scenario modelling which aimed to illustrate how the Fund's funding position could be impacted in the future by climate and ESG risks under a variety of scenarios. The Fund aims to take further action with regards to ESG governance and oversight, in conjunction with BCPP. Work is expected to include; ESG reporting, carbon footprinting, and setting measureable metrics and targets for driving change.

Investments made via BCPP are subject to its responsible investment policies that can be found here:

https://www.bordertocoast.org.uk/?dlm_download_category=download-responsibleinvestment-policy

The Committee maintains a set of Investment Guiding Principles and ESG beliefs which are set out in Appendix 3. It is intended that these principles and beliefs are further reviewed in 2021.

The Committee has reviewed BCPP's responsible investment policies and is satisfied they are consistent with the Fund's own policies. The Fund will regularly monitor BCPP's responsible investment policies and actively engage with the pool to facilitate change as required.

Historically the Fund's approach to Social investments has largely been to delegate this to their underlying investment managers as part of their overall ESG duties. The Fund's managers reported on this matter as part of the Fund's annual ESG review.

The Fund does not currently hold any assets which it deems to be social investments.

14. The exercise of rights (including voting rights) attaching to investments Voting rights

The Committee have approved its own voting policy with the objective of preserving and enhancing long term shareholder value.

Historically the Fund actively voted on the Fund's segregated equity holdings through a voting platform. The Funds segregated equities have now been transitioned into BCPP equity pooled funds. As a result, BCPP vote on behalf of the Fund in line with the BCPP voting and engagement policy. The BCPP voting and engagement policy has been reviewed by the Committee.

The funds past voting record can be found here:

http://www.warwickshire.gov.uk/pensionstatement

The voting record of assets invested via BCPP can be found on its website here:

https://www.bordertocoast.org.uk/sustainability/

Details of the Fund's managers' voting activity is reported to Committee on a quarterly basis and both the Fund and BCPP's voting policies, are reviewed on a regular basis.

15. Stewardship

As at March 2021 the Fund is a signatory to the UK Stewardship Code 2012 as published by the Financial Reporting Council. An enhanced UK Stewardship Code 2020 took effect on 1 January 2020. The Fund intends to become a signatory to the new code, and is working with BCPP and other partner funds to prepare a submission for approval by the end of 2021.

Under the UK Stewardship Code 2012, the Fund and BCPP were rated as tier 1 signatories. A copy of the Fund's statement of compliance with the UK Stewardship Code 2012 can be found in Appendix 2. This will be updated following submission to the FRC for approval to become signatories to the new 2020 code.

16. Appendices

Appendix 1 – Expected returns

Appendix 2 – Statement of compliance with UK Stewardship Code 2012

Appendix 3 – Investment Guiding Principles

Appendix 1 – Expected returns and volatilities

The table below shows the absolute expected returns (20 year geometric averages), net of fees, and the absolute volatilities (first year's standard deviations) used in the 2019 investment strategy review and asset liability modelling.

Asset Class	Expected return % p.a.	Volatility
UK Equities	5.9	17
Overseas Equities	6.0	18
Private Equity	7.0	28
UK Property	4.5	14
Corporate Bonds	1.9	10
Fixed Interest Gilts	1.2	10
Index Linked Gilts	0.5	7

Appendix 2 – Statement of compliance with UK Stewardship Code 2012

BCPP has become the manager for an increasing proportion of the Fund's investments and as a result has taken on responsibility for engagement with and monitoring of those investments and the underlying managers. All the active equity holdings of the Fund are now managed via BCPP.

BCPP have developed their own statement and appointed their own Head of Responsible Investing and Voting. BCPP's compliance statement can be found at:

https://www.bordertocoast.org.uk/sustainability/

The Fund's compliance statement to the UK Stewardship Code 2012 is given below. The FRC does not require 2012 Code signatories to update their statements, 2012 Code signatories are expected to focus on meeting the 2020 Code principles.

Principle 1	
Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.	The Fund has a long-standing commitment to responsible share ownership. The Fund views effective stewardship as an integral part of share ownership and therefore of the investment code, and requires the same commitment from its fund managers and the Border to Coast Pensions Partnership ("BCPP"). The practical application of the Fund's policy is achieved through a combination of activities including, but not limited to: dialogue and liaison with fund managers and BCPP on key issues and through membership of the Local Authority Pension Fund Forum (LAPFF). In addition to this Stewardship Code Statement, the Fund maintains an Investment Strategy Statement (ISS) and separate Responsible Investment and Climate Risk policies which explains the Committee's investment beliefs in more detail. These are made available on a public facing website. The Fund has a responsibility to its membership to regularly engage with fund managers including the BCPP on their stewardship and it forms part of their presentation(s) to the Fund subcommittee. Warwickshire Pension Fund believe that well managed companies provide long term value creation to the Fund and that the Fund's stakeholders will be beneficiaries, as strong investment returns improve the Fund's overall funding level which acts favourably in terms of employer contribution rates.

Principle 2	
Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.	The Fund encourages fund managers to have effective policies addressing potential conflicts of interest. In respect of conflicts of interest within the Fund, Investment Sub-Committee members are required to make declarations of interest prior to each quarterly meeting. External managers are assessed on potential conflicts of interests and their written policies at the evaluation and appointment stage. BCPP will be responsible for monitoring and appointing investment managers in the future and the Committee will periodically review BCPP's selection process and conflict management policies. Subsequent monitoring is undertaken by the Fund's investment consultant, independent advisor and BCPP where appropriate to protect the Fund's interests.

Principle 3	
Institutional investors should monitor their investee companies.	Day-to-day responsibility for managing the Fund's investments is delegated to Legal and General and BCPP. The Committee consider its investment managers to be best placed to engage with investee company management. This is due to the Fund being constrained in what decisions are available to them within pooled funds, as well as the resources and existing relationships with investee companies that are available to the Fund's investment managers. The Fund expects fund managers to incorporate responsible investment and stewardship issues into their regular reporting. This will include information on voting and engagement, as well as any actions they are taking in assessing and managing Environmental Social and Governance-related ("ESG") risks in relation to their mandates. The Fund is actively engaging with its managers to improve stewardship reporting. The Fund expects its managers to intervene where necessary, and report back regularly on activity undertaken. The Fund has regular meetings with its managers and BCPP and will assess their effectiveness in their monitoring in investee companies as part of formal portfolio reviews either amongst Fund officers or the investment sub-committee.

Principle 4	
Institutional investors should establish clear guidelines on where and how they will escalate their stewardship activities.	Responsibility for day-to-day interaction with companies is delegated to the Fund's fund managers and BCPP, including the escalation of engagement when necessary. The Fund expects managers to disclose their policies and procedures for escalation in their own Stewardship Code statement. However, the Fund could escalate through LAPFF by supporting a shareholder resolution. The Fund's investment managers can escalate through engagement with the company management team, collaboration with other institutional shareholders, filing shareholder resolutions or ultimately selling the holding of company shares. Ultimately the fund manager will seek to add value to their clients through improved company share performance following such escalation.

Principle 5	
Institutional investors should be willing to act collectively with other investors where appropriate.	The Fund seeks to work collaboratively with like-minded institutional shareholders in order to maximise the influence that it can have on individual companies and would engage if it was felt that the Fund and the wider Local Government Pension Scheme would benefit. This is achieved in a variety of ways including through our membership of the LAPFF and ad-hoc initiatives proposed by our fund managers or other advisors. The Fund's contact for any such issues is: Pensions and Investment Manager Finance Service Resources Directorate Tel: 01926 412227 Email: wpfinvestments@warwickshire.gov.uk

Principle 6	
Institutional investors should have a clear policy on voting and disclosure of voting activity.	The Fund's Investment managers will be expected to act as responsible and active owners through considered voting of shares, and engagement with company management when required. Engagement by its investment managers with investee companies on ESG issues to positively influence company behaviour and enhance shareholder value is strongly encouraged. The Fund no longer directly holds any equity assets. Since transitioning its segregated equity portfolios into BCPP the Fund's equity assets are entirely held within pooled funds. All voting activity is therefore delegated to its managers and BCPP. However, the fund has reviewed its managers voting policies and is satisfied they are consistent with the Fund's own views. The Fund will regularly monitor its managers voting polices and actively engage with them and BCPP to facilitate change as required. Historic Fund voting records can be found at: **http://www.warwickshire.gov.uk/pensionstatement** The BCPP voting records can be found at: **https://www.bordertocoast.org.uk/sustainability/** The Fund does take part in stock lending through its global custodian (Bank of New York Mellon). Stock is not routinely recalled in the event of a company meeting. BCPP permits stock lending in their active mandates. The manager of pooled funds may undertake a certain amount of stock lending on behalf of unitholders in the Fund. If a pooled fund engages in this activity, the extent to which it does so is disclosed by the manager. The Fund has no direct control over stock lending in pooled funds.

Principle 7	
Institutional investors should report periodically on their stewardship and voting activities.	The Fund reports annually on stewardship activity undertaken during the year in the report and accounts and a presentation is given to members who have the opportunity to ask questions about the Fund's stewardship activities. Details of voting activity is also included in the Fund's quarterly investment report produced by the Officers. In the event of significant engagements through any given year the voting activity of the Fund's managers will be made available with voting records published on the Fund's website for the benefit of the Fund's membership.

Appendix 3 – Investment Guiding Principles

The Fund adopts the following principles when considering investments and investment strategy.

1. The Pension Fund is a long term vehicle which must be sustainable in generating investment returns to pay pensions for scheme members.
2. It is appropriate to take a long term view when setting the investment strategy though the impact of short term volatility is also considered.
3. Strategic asset allocation is the most important component of decision making as it is here that the optimum risk and return profile is designed and monitored.
4. The Fund's high level investment strategy and asset allocation should be set by using asset liability modelling in conjunction with each actuarial valuation.
5. Appropriate diversification reduces the overall level of dependence on any particular market or asset class and helps manage volatility, particularly in respect of equity markets.
6. Effective governance not only ensures appropriate levels of control over the fund but can add value through correct resourcing and improved decision making.
7. Responsible ownership of companies benefits long term asset owners.
8. A balance of passive and active equity investment will, over the course of a market cycle provide the best mix of performance, diversification and cost.
9. Foreign currency exposure is part of managing a global portfolio of investments. There is no strategic hedging of currency exposure from volatile asset classes such as equities as the fund believes this to be of limited benefit to long term investment returns.
10. Investors are rewarded for illiquidity in private markets. Future liquidity needs must be assessed at each review of asset allocation combined with cash flow projections from the fund actuary.
11. There is a long term risk premium to be earned for investing in equities, credit and property relative to gilts.
12. Fees and costs incurred within investment manager mandates are important though the focus is on achieving the best returns net of fees.
13. The performance of any active managers should be assessed over suitably long periods.
14. Staff and members of the Pension Fund Investment Sub-Committee must have the correct level of skills and investment knowledge to understand the level of risk in the investment portfolio.
15. External advice from independent advisors and an investment consultant helps planning, risk management and decision making.
16. Pooling presents an opportunity to access best in class investments at a lower cost. Such opportunities should always be assessed alongside the strategic asset allocation of the fund for suitability.
17. The fund will work closely with BCPP who will be engaging with companies on the Fund's behalf on ESG issues and exercise its voting rights at company meetings.

ESG Investment Beliefs

18. As the Fund invests for the long-term, environmental, social and governance ("ESG") factors are expected to have a bearing on the Fund's expected levels of risk and return. The Fund's investment managers are therefore expected to embed ESG factors into their investment process and decision making.
19. The Committee should focus on meeting its financial obligations to pay benefits to members.
20. Long-term sustainable investment returns are an important consideration, even to the extent that the sustainability of returns extends beyond the expected investment horizon of the Committee.
21. The Committee believes there will be opportunities for investments which support and benefit from the transition to a low carbon economy, and will seek out these opportunities for the Fund.
22. Climate change and the expected transition to a low carbon economy is a long term financial risk to Fund outcomes and is considered to be part of our fiduciary duty.
23. The Committee believe that, in relation to ESG risks, ongoing engagement with investee companies is preferable to divestment. This engagement will be carried out by our managers or alongside other investors (e.g. LAPFF).
24. Where, over a considered period, however, there is no evidence of a company making visible progress towards carbon reduction, we believe that divestment should be actively considered.

25. The Fund's Investment managers' approach to Responsible Investment, including the integration of ESG into investment decision making and the use of engagement, must be assessed and monitored. This includes ongoing monitoring of the BCPP.

26. Responsible ownership of companies benefits long term asset owners. Asset owners, fund managers, and companies with a clear responsible investment policy are expected to outperform companies without a responsible investment policy, over the longer term.

27. The Fund's Investment managers should act as responsible and active owners through considered voting of shares, and engagement with company management when required. Engagement by its investment managers with investee companies on ESG issues to positively influence company behaviour and enhance shareholder value is strongly encouraged.

28. Passive and active managers should actively engage with companies and comply with the Financial Reporting Council's Stewardship Code.

Responsible Investment and Climate Risk Policy - March 2021

Responsible Investment Policy

Objectives

The Committee recognise that the primary goal of the Fund is to be a long-term investor that aims to deliver a sustainable pension fund to its members. This goal should ensure that it is affordable and delivers financially to meet the objectives of the Fund employers.

The Committee recognise that responsible investment and Environmental, Social and Governance considerations ("ESG") pose a financially material risk as well as an opportunity to the Fund. These considerations are relevant when it comes to the manner in which the assets are invested and in exercising of stewardship responsibilities.

As part of the 2019 investment strategy review, the Committee agreed a set of responsible investment principles which have been added to the Committee's broader investment principles in the Fund's Investment Strategy Statement. These principles strengthened the Committee's position in regard to ESG factors and provide a framework for their engagement with their Fund managers and for investment decision making (these principles are detailed in full in the appendix).

The Committee considers the Fund's approach to responsible investment in two key areas:

1. Sustainable investment / ESG factors – considering the financial impact of environmental, social and governance factors on its investments.

2. Effective Stewardship – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

The Committee expect the Fund's investment managers including the Border to Coast Pensions Partnership ("BCPP") to embed ESG factors into their investment process and decision making, with a focus on long-term sustainable returns.

The Committee has reviewed BCPP's responsible investment policies in relation to its own views and has satisfied itself that the principles underlying both are similar. The Committee will regularly monitor BCPP's responsible investment policies and actively engage with the pool to facilitate change as required.

Integration

The Committee recognise that Responsible Investment ("RI") considerations can be integrated into all stages of the investment decision-making process and have the potential to significantly affect long term investment performance and the ability to achieve long-term sustainable returns.

The Fund's Investment managers will be expected to act as responsible and active owners through considered voting of shares, and engagement with company management when required. Engagement by its investment managers with investee companies on ESG issues to positively influence company behaviour and enhance shareholder value is strongly encouraged.

The Committee will consider opportunities arising from a greater understanding of RI factors when setting its investment structure. However, these opportunities will be assessed with regard to the risk/return requirements of the Fund.

The Fund will incorporate RI and ESG considerations into its selection process for new investment managers. Potential managers' approaches to responsible investment and the extent to which they incorporate ESG issues into their investment processes will be a factor in the Committee's decision making.

The Committee will undertake regular formal training sessions that will include focused responsible investment training. This training will be sought from the Committee's investment advisors, investment managers, the Border to Coast Pensions Partnership, external specialists and/or other engaged pension funds to provide exposure to a range of opinions and approaches to effective governance.

The Committee recognises that climate change represents a risk which warrants more detailed scrutiny given the wide range of impacts on financial, economic and demographic outcomes and thus has drafted a separate Climate Risk policy.

Engagement

The Committee recognise that they can influence the behaviour and practices of their investment managers with regard to stewardship through engagement, even where assets are invested through pooled funds such as those offered by Border to Coast Pensions Partnership. The Committee believe that all engagements should have a clearly defined objective.

The Fund aims to achieve engagement through regular meetings with investment managers, with managers expected to address RI matters as part of these meetings. Managers will be challenged on their approach where this is not aligned to the Fund's RI and Climate Risk policies.

The Committee believe that successful engagement with its investment managers is preferable to divestment. The Committee is supportive of collaboration to achieve better engagement, as evidenced by the Fund's membership of the Local Authority Pension Fund Forum ("LAPFF"), through which it collectively exercises a voice across a range of corporate governance issues. Where, over a considered period, there is no evidence of a company responding to engagement, divestment may be considered.

The Committee consider its investment managers to be best placed to engage with investee company management. This is due to the Fund being constrained in what decisions are available to them within pooled funds, as well as the resources and existing relationships with investee companies that are available to the Fund's investment managers.

However, the Committee acknowledges that it can work with other Local Government Pension Scheme Funds within Border to Coast to enhance the level of engagement both with external managers and the underlying companies in which it invests.

The Committee expects passive and active managers to actively engage with companies and be signatories to the Financial Regulatory Council's UK Stewardship Code.

The Committee believe that their investment managers should be able to demonstrate the reasoning behind any engagement activity, the objectives of the engagement activity, the approach taken to achieve the objectives, the timeframe over which the engagement is expected to take place and the consequences should engagement be unsuccessful.

Monitoring

The Fund expects its investment managers to incorporate RI issues into their regular reporting. This will include information on voting and engagement, as well as any actions they are taking in assessing and managing ESG-related risks in relation to their mandates.

The Fund expects investment managers to provide them with regular statements on their corporate governance and voting policy.

The Fund will continue to monitor its investment managers, including BCPP, commitments and policies in this area to ensure that their investment process aligns with the Fund's RI and Climate Risk polices.

The Fund's investment managers are expected to report on the objectives of engagement activities, along with the consequent success or failure of any actions taken on, at least, an annual basis.

The Committee expects its investment consultant to provide input and analysis to assist the Committee in assessing their managers' performance on engagement activities.

The Committee will monitor the investment managers compliance with the UK Stewardship Code.

Disclosure

The Fund will report on its Stewardship and Governance activities, including voting and engagement undertaken on behalf of the Fund.

Both this policy and the Fund's Climate Risk Policy will be reviewed and updated regularly.

The Fund is committed to being transparent and accountable in terms of its responsible investment performance. As such the Fund will publish its RI and Climate Risk Policies online.

Funding Strategy Statement - March 2021

1. Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Warwickshire Pension Fund ("the Fund"), which is administered by Warwickshire County Council, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from March 2020.

1.2 What is the Warwickshire Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the Fund, in effect the LGPS for the Warwickshire area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles / Investment Strategy Statement (see Section 4)

1.4 How does the Fund and this FSS affect me?

This depends on who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, in what circumstances you might need to pay more and what happens if you cease to be an employer in the Fund. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. some more details about the actuarial calculations required,

E. the assumptions which the Fund actuary currently makes about the future,

F. a glossary explaining the technical terms occasionally used here.

If you have any queries please contact Neil Buxton in the first instance at wpfinvestments@warwickshire.gov.uk

2. Basic Funding Issues

(More detailed and extensive descriptions are given in Appendix D).

2.1 How does the actuary calculate the required contribution rate?

In essence this is a three-step process:

1. Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;

2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;

3. Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including an allowance for administration expenses. This is referred to as the "Primary rate", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary rate". In broad terms, payment of the Secondary rate is in respect of benefits already accrued at the valuation date. The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such academies (or Multi Academy Trusts), as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the MHCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as

'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – community admission bodies ("CAB") or those providing a service on behalf of a scheme employer – transferee admission bodies ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

2.4 How does the calculated contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). If an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;
2. The **time horizon** required is the period over which the funding target is achieved. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
3. The **likelihood of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker then the required likelihood will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6. Costs of ill-health early retirements are covered in 3.7 and 3.8.

2.5 How is a funding level calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex- employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's "deficit"; if it is more than 100% then the employer is said to be in "surplus". The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the funding level and deficit/surplus are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, funding levels and deficits are short term measures, whereas contribution-setting is a longer term issue.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost. Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions

tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;

- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Fund will make a risk based judgement of the employer. This judgement will have regard to the type of employer, its membership profile and funding position, any guarantors or other security provision, material changes anticipated, etc. This helps the Fund to establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower likelihood of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter time horizon relative to other employers, and/or a higher likelihood of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

2.7 What approach has the Fund taken to dealing with uncertainty arising from the McCloud court case and its potential impact on the LGPS benefit structure?

The LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed

(on 1 April 2014 in the case of the LGPS) were unlawful on the grounds of age discrimination. At the time of writing, the Ministry of Housing, Communities and Local Government (MHCLG) has not provided any details of changes as a result of the case. However it is expected that benefits changes will be required and they will likely increase the value of liabilities. At present, the scale and nature of any increase in liabilities are unknown, which limits the ability of the Fund to make an accurate allowance.

The LGPS Scheme Advisory Board (SAB) issued advice to LGPS funds in May 2019. As there was no finalised outcome of the McCloud case by 31 August 2019, the Fund Actuary has acted in line with SAB's advice and valued all member benefits in line with the current LGPS Regulations.

The Fund, in line with the advice in the SAB's note, has considered how to allow for this risk in the setting of employer contribution rates. The Fund has increased the prudence in employer funding plans by increasing the likelihood of success for all employers.

Once the outcome of the McCloud case is known, the Fund may revisit the contribution rates set to ensure they remain appropriate.

The Fund has also considered the McCloud judgement in its approach to cessation valuations. Please see note (j) to table 3.3 for further information.

2.8 When will the next actuarial valuation be?

On 8 May 2019 MHCLG issued a consultation seeking views on (among other things) proposals to amend the LGPS valuation cycle in England and Wales from a three year (triennial) valuation cycle to a four year

(quadrennial) valuation cycle.

On 7 October 2019 MHCLG confirmed the next LGPS valuation cycle in England and Wales will be 31 March 2022, regardless of the ongoing consultation. The Fund therefore instructed the Fund Actuary to certify contribution rates for employers for the period 1 April 2020 to 31 March 2023 as part of the 2019 valuation of the Fund.

3. Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What likelihood is required to reach that funding target? This will always be less than 100% as we cannot be certain of the future . Higher likelihood "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority reserves the right to direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required likelihood of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will result in a lower level of future investment returns on the employer's asset share. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	Local Authorities and Police	Colleges and other FE establishments	Academies	Open to new entrants	Closed to new entrants	(all)
Funding Target Basis used	Ongoing participation basis, assumes long-term Fund participation (see Appendix E)			Ongoing participation basis, but may move to "gilts exit basis" - see Note (a)		Contractor exit basis, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	(see Appendix D – D.2)					
Stabilised contribution rate?	Yes - see Note (b)	No	No	No	No	No
Maximum time horizon – Note (c)	19 years	19 years	19 years	19 years	Future Working Lifetime, subject to 19 years maximum	Outstanding contract term
Secondary rate – Note (d))	Monetary	Monetary	% of payroll	Monetary	Monetary	Monetary
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at Primary rate. Reductions may be permitted by the Admin. Authority				Reduce contributions by spreading the surplus over the remaining contract term
Likelihood of achieving target – Note (e)	70%	80%	70%	80%	80%	70%
Phasing of contribution changes	Covered by stabilisation arrangemen	None	None	None	None	None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations.					Particularly reviewed in last 3 years of contract
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to occur, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. Exit debt/credit will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Exit debt/surplus calculated on the contractor exit basis. Letting employer will be liable for future deficits and contributions arising. See Note (j) for further details.

* Where the Administering Authority recognises a fixed contribution rate agreement between a letting authority and a contractor, the certified employer contribution rate will be derived in line with the methodology specified in the risk sharing agreement. Additionally, in these cases, upon cessation the contractor's assets and liabilities will transfer back to the letting employer with no crystallisation of any deficit or surplus. Further detail on fixed contribution rate agreements is set out in note (i).

Note (a) (Gilts exit basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding.

the Administering Authority may set a higher funding target (e.g. based on the return from long-term gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the **Designating Employer alters its designation.**

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre- determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring), or changes in the security of the employer.

On the basis of extensive modelling carried out for the 2019 valuation exercise (see Section 4), the stabilised details are as follows:

Type of employer	"Standard" Council	"Mature" Council
Max cont increase	+0.75% of pay p.a.	+2.0% of pay p.a.
Max cont decrease	-0.75% of pay p.a.	-1.0% of pay p.a.

The stabilisation criteria and limits will be reviewed at the next formal valuation. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

The Administering Authority may review an employer's eligibility for stabilisation at any time in the event of significant changes in the employer's membership (due for example to redundancies or outsourcing) or if there is a significant change in the Administering Authority's assessment of an employer's security.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2020 for the 2019 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

Note (d) (Secondary rate)

The Secondary contribution for each employer covering the three year period until the next valuation will be collected as a monetary amount except for Academy Schools where it will be set as a percentage of pay.

Note (e) (Likelihood of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum likelihood. A higher required likelihood bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different likelihoods are set for different employers depending on their nature and circumstances: in broad terms, a higher likelihood will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or

- the employer is likely to cease participation in the Fund in the short or medium term.

The Administering Authority may review an employer's likelihood at any time in the event of significant changes in the Administering Authority's assessment of an employer's security.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy conversions)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with, for the purpose of setting contribution rates, those of the other academies in the MAT;

ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date faof academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The assets allocated to the academy will be limited if necessary so that its initial funding level is subject to a maximum of 100%. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

iv. The new academy's calculated contribution rate will be based on the time horizon and likelihood of achieving funding target outlined for Academies in the table in Section 3.3 above;

v. As an alternative to (iv), the academy will have the option to elect to pay contributions over the period to 31 March 2023 in line with the contribution rates detailed in the table below:

Year	Contribution rate (% of pay)
2020/21	23.2
2021/22	23.2
2022/23	23.2

vi. It is possible for an academy to leave one MAT and join another. If this occurs, all active, deferred and pensioner members of the academy transfer to the new MAT.

The Fund's policies on academies are subject to change in the light of any amendments to MHCLG and/or DfE guidance (or removal of the formal guarantee currently provided to academies by the DfE). Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (iii), (iv) and (v) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a greater than expected rise in liabilities;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also Note (i) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt.

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit (or entitled to any surplus) at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate throughout its participation in the Fund and on cessation does not pay any deficit or receive an exit credit. In other words, the pension risks "pass through" to the letting employer.

The Administering Authority's default approach is that a new TAB will participate in the Fund via a fixed contribution rate arrangement with the letting employer. The certified employer contribution rate will be set equal to the fixed contribution rate agreed between the letting authority and the contractor. The fixed rate that will be paid is at the discretion of the letting authority and contractor subject to a minimum of the letting authority's primary rate on the contract start date. Upon cessation the contractor's assets and liabilities will transfer back to the letting authority with no crystallisation of any deficit or surplus.

In order to avoid the Administering Authority becoming involved in any disputes relating to risk sharing and to protect the other participating employers, the Fund will not be party to any risk sharing agreement between any letting employer and a contractor. Accordingly any such arrangements will not be detailed in the admission agreement and the admission body will be required to follow the principles of the agreement as if no such risk sharing was in place. It is at the sole discretion of the Administering Authority as to whether any risk sharing agreement is recognised in the certified employer contribution rate. If the risk arrangement is not recognised, then the letting employer and the contractor will need to put in place separate steps to allow the risk sharing to be implemented (e.g. via the contract payments). Accordingly the contractor will be required to pay the certified employer contribution rate to the Fund and any other contributions required e.g. early retirement strain costs, regardless of the risk sharing arrangement in place.

Any risk sharing agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or

- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus, following the LGPS (Amendment) Regulations 2018 which came into effect on 14th May 2018, this will normally result in an exit credit payment to the Admission Body. If a risk-sharing agreement has been put in place (please see note (i) above) no cessation debt or exit credit may be payable, depending on the terms of the agreement.

As discussed in Section 2.7, the LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2014) are confirmed, the Fund's policy is that the actuary will apply a 1% loading to the ceasing employer's post 2014 benefit accrual value, as an estimate of the possible impact of resulting benefit changes.

The Fund Actuary charges a fee for carrying out an employer's cessation valuation, and there will be other Fund administration expenses associated with the cessation, both of which the Fund will recharge to the employer. For the purposes of the cessation valuation, this fee will be treated as an expense incurred by the employer and will be deducted from the employer's cessation surplus or added to the employer's cessation deficit, as appropriate. This process improves administrative efficiency as it reduces the number of transactions required to be made between the employer and the Fund following an employer's cessation.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

(a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit/surplus will normally be calculated using a "gilts exit basis", which is more prudent than the ongoing participation basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

(b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing participation basis or contractor exit basis as described in Appendix E;

(c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit or surplus. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund may spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit on the gilts exit basis, and would carry out the cessation valuation on the ongoing participation basis. Secondary contributions would be derived from this cessation debt. This approach would be monitored as part of each formal valuation and secondary contributions would be reassessed as required. The Admission Body may terminate the agreement only via payment of the outstanding debt assessed on the gilts exit basis. Furthermore, the Fund reserves the right to revert to the "gilts exit basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Admission Body would have no contributing members.

3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy.

The intention of the pool is to minimise contribution rate volatility which would otherwise occur when members join, leave, take early retirement, receive pay rises markedly different from expectations, etc. Such events can cause large changes in contribution rates for very small employers in particular, unless these are smoothed out for instance by pooling across a number of employers.

On the other hand it should be noted that the employers in the pool will still have their own individual funding positions tracked by the Actuary, so that some employers will be much better funded, and others much more poorly funded, than the pool average. This therefore means that if any given employer was funding on a stand- alone basis, as opposed to being in the pool, then its contribution rate could be much higher or lower than the pool contribution rate.

It should also be noted that, if an employer is considering ceasing from the Fund, its required contributions would be based on its own funding position (rather than the pool average), and the cessation terms would also apply: this would mean potentially very different (and in particular possibly much higher) contributions would be required from the employer in that situation.

With the advice of the Actuary the Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool. Transferee Admission Bodies are usually also ineligible for pooling.

Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Employers who are permitted to enter (or remain in) a pool at the 2019 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (NB the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014).

Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill- health.

With the agreement of the Administering Authority the payment can be spread as follows:

Major Employing bodies - up to 5 years

Community Admission Bodies and Designating Employers - payable immediately

Colleges and other FE establishments - payable immediately

Academies - payable immediately

Transferee Admission Bodies - payable immediately

3.7 Ill health early retirement costs

If a member retires early due to ill-health, an additional funding strain will usually arise, which can be very large. Such strain costs are the responsibility of the member's employer to pay.

To mitigate this risk, individual employers may elect to use external insurance (see 3.8 below).

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund may monitor each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer may be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

3.8 External Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and

- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt or receive an exit credit on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.

In exceptional circumstances the Fund may permit an employer with no remaining active members and a cessation deficit to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.10 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4. Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Investment Strategy Statement, which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The actuary's assumptions for future investment returns (described further in Appendix E) are based on the current benchmark investment strategy of the Fund. The future investment return assumptions underlying each of the Fund's three funding bases include a margin for prudence, and are therefore also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix A1).

In the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility in asset values. However, the actuary takes a long term view when assessing employer contribution rates and the contribution rate setting methodology takes into account this potential variability.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the regular Pensions Committee meetings, and also to employers through newsletters and the Annual General Meeting.

5. Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to the Ministry of Housing, Communities & Local Government (MHCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional MHCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, MHCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under "relative considerations" above compares to the estimated future return being targeted by the Fund's current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

MHCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds' actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

- *"to establish a* **clear and transparent fund-specific strategy** *which will identify how employers' pension liabilities are best met going forward;*
- *to support the regulatory framework to maintain* **as nearly constant employer contribution rates as possible;** *and*
- *to take a* **prudent longer-term view** *of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers in January / February 2020 for comment;

b) Comments were requested within 14 days;

c) Following the end of the consultation period the FSS was updated where required and then published, in March 2020.

A3 How is the FSS published?

The FSS is made available through the following routes:

Published on the website, at www.warwickshirepensionfund.org.uk ; A copy sent by e-mail to each participating employer in the Fund; A copy sent to the Local Pension Board;

A full copy included in the annual report and accounts of the Fund; Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation (which may move to every four years in future – see Section 2.8). This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Investment Sub-Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at
www.warwickshirepensionfund.org.uk

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Investment Strategy Statement (ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
11. prepare and maintain a FSS and an ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and ISS as necessary and appropriate.

B2 The Individual Employer should:-

1. deduct contributions from employees' pay correctly;
2. pay all contributions, including their own as determined by the actuary, promptly by the due date;
3. have a policy and exercise discretions within the regulatory framework;
4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
5. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.
6. In accordance with the Fund's Administration Strategy, scheme employers should pay due costs /charges imposed by the fund.

B3 The Fund Actuary should:-

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

1. investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS;

2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the ISS;

3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;

4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;

5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;

6. MHCLG (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

financial;

demographic;

regulatory; and

governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities and contribution rates over the long- term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/ scheduled bodies.	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund.	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).
Effect of possible asset underperformance as a result of climate change.	The Fund actively considers this risk when allocating assets and appointing Fund Managers.

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements.	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments.	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3).

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The Administering Authority is monitoring the progress on the McCloud court case and will consider an interim valuation or other appropriate action once more information is known. The government's long term preferred solution to GMP indexation and equalisation - conversion of GMPs to scheme benefits - was built into the 2019 valuation.
Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions are expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way.	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.

Risk	Summary of Control Mechanisms
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3) Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).
An employer ceasing to exist resulting in an exit credit being payable	The Administering Authority regularly monitors admission bodies coming up to cessation The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required.

Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

As discussed in Section 2, the actuary calculates the required contribution rate for each employer using a three- step process:

1. Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
3. Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See the table in 3.3 Note (e) for more details.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's assets, liabilities and membership. The whole Fund position, including that used in reporting to MHCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. MHCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' future service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,
2. within the determined time horizon (see note 3.3 Note (c) for further details),
3. with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller (the "Economic Scenario Service") developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. Further information about this model is included in Appendix E. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) is equal to the required likelihood.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

The Fund aims for the employer to have assets sufficient to meet 100% of its accrued liabilities at the end of its funding time horizon based on the employer's funding target assumptions (see Appendix E).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total contribution rate is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
2. at the end of the determined time horizon (see 3.3 Note (c) for further details)
3. with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller (the

"Economic Scenario Service") developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. Further information about this model is included in Appendix E. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target at the end of the time horizon is equal to the required likelihood.

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities at the end of the time horizon;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required likelihood of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not operate separate bank accounts or investment mandates for each employer. Therefore it cannot account for each employer's assets separately. Instead, the Fund Actuary must apportion the assets of the whole Fund between the individual employers. There are broadly two ways to do this:

1. A technique known as "analysis of surplus" in which the Fund actuary estimates the surplus/deficit of an employer at the current valuation date by analysing movements in the surplus/deficit from the previous actuarial valuation date. The estimated surplus/deficit is compared to the employer's liability value to calculate the employer's asset value. The actuary will quantify the impact of investment, membership and other experience to analyse the movement in the surplus/deficit. This technique makes a number of simplifying assumptions due to the unavailability of certain items of information. This leads to a balancing, or miscellaneous, item in the analysis of surplus, which is split between employers in proportion to their asset shares.
2. A 'cashflow approach' in which an employer's assets are tracked over time allowing for cashflows paid in (contributions, transfers in etc.), cashflows paid out (benefit payments, transfers out etc.) and investment returns on the employer's assets.

Until 31 March [2016] the Administering Authority used the 'analysis of surplus' approach to apportion the Fund's assets between individual employers.

Since then, the Fund has adopted a cashflow approach for tracking individual employer assets.

The Fund Actuary uses the Hymans Robertson's proprietary "HEAT" system to track employer assets on a monthly basis. Starting with each employer's assets from the previous month end, cashflows paid in/out and investment returns achieved on the Fund's assets over the course of the month are added to calculate an asset value at the month end.

The Fund is satisfied that this new approach provides the most accurate asset allocations between employers that is reasonably possible at present.

D6 How does the Fund adjust employer asset shares when an individual member moves from one employer in the Fund to another?

Under the cashflow approach for tracking employer asset shares, the Fund has allowed for any individual members transferring from one employer in the Fund to another, via the transfer of a sum from the ceding employer's asset share to the receiving employer's asset share. This sum is equal to the member's Cash Equivalent Transfer Value (CETV) as advised by the Fund's administrators.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions used to calculate employer contribution rates?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities") and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

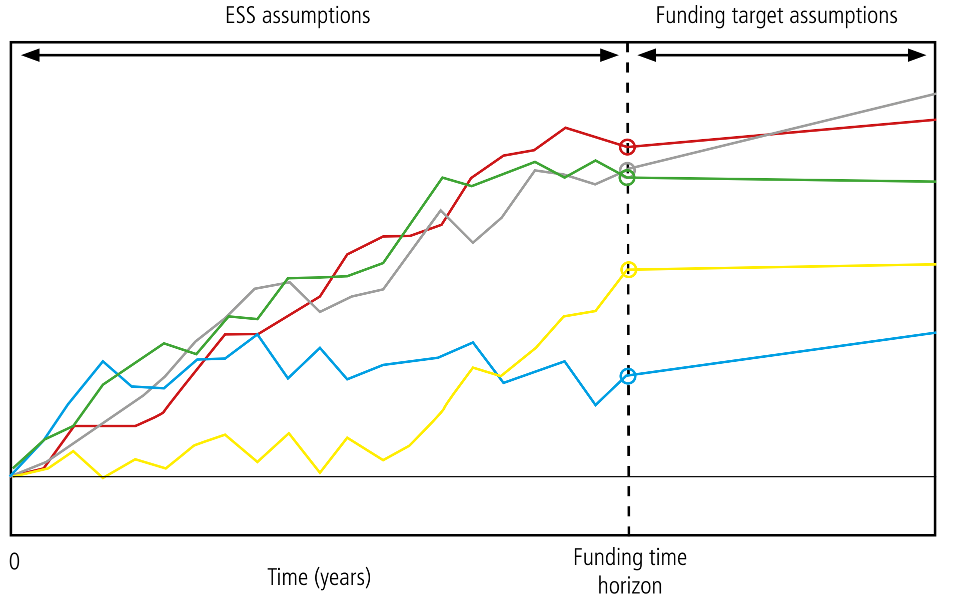
Changes in assumptions will affect the funding target and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The actuary's approach to calculating employer contribution rates involves the projection of each employer's future benefit payments, contributions and investment returns into the future under 5,000 possible economic scenarios. Future inflation (and therefore benefit payments) and investment returns for each asset class (and therefore employer asset values) are variables in the projections. By projecting the evolution of an employer's assets and benefit payments 5,000 times, a contribution rate can be set that results in a sufficient number of these future projections (determined by the employer's required likelihood) being successful at the end of the employer's time horizon. In this context, a successful contribution rate is one which results in the employer having met its funding target at the end of the time horizon.

Setting employer contribution rates therefore requires two types of assumptions to be made about the future:

1. Assumptions to project the employer's assets, benefits and cashflows to the end of the funding time horizon. For this purpose the actuary uses Hymans Robertson's proprietary stochastic economic model - the Economic Scenario Service ("ESS").
2. Assumptions to assess whether, for a given projection, the funding target is satisfied at the end of the time horizon. For this purpose, the Fund has three different funding bases.

Details on the ESS assumptions and funding target assumptions are included below (in E2 and E3 respectively).



E2 What assumptions are used in the ESS?

The actuary uses Hymans Robertson's ESS model to project a range of possible outcomes for the future behaviour of asset returns and economic variables. With this type of modelling, there is no single figure for an assumption about future inflation or investment returns. Instead, there is a range of what future inflation or returns will be which leads to likelihoods of the assumption being higher or lower than a certain value.

The ESS is a complex model to reflect the interactions and correlations between different asset classes and wider economic variables. The table below shows the calibration of the model as at 31 March 2019. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the simulated yields at that time horizon.

		Annualised total returns									
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property	A rated corporate bonds (medium)	RPI inflation expectation	17 year real govt bond yield	17 year govt bond yield
5 years	16th %'ile	-0.4%	-2.3%	-2.9%	-4.1%	-4.1%	-3.5%	-2.7%	1.9%	-2.5%	0.8%
	50th %'ile	0.7%	0.5%	0.3%	4.0%	4.1%	2.4%	0.8%	3.3%	-1.7%	2.1%
	84th %'ile	2.0%	3.3%	3.4%	12.7%	12.5%	8.8%	4.0%	4.9%	-0.8%	3.6%
10 years	16th %'ile	-0.2%	-1.8%	-1.3%	-1.5%	-1.4%	-1.5%	-0.9%	1.9%	-2.0%	1.2%
	50th %'ile	1.3%	0.0%	0.2%	4.6%	4.7%	3.1%	0.8%	3.3%	-0.8%	2.8%
	84th %'ile	2.9%	1.9%	1.7%	10.9%	10.8%	7.8%	2.5%	4.9%	0.4%	4.8%
20 years	16th %'ile	0.7%	-1.1%	0.1%	1.2%	1.3%	0.6%	0.7%	2.0%	-0.7%	2.2%
	50th %'ile	2.4%	0.3%	1.0%	5.7%	5.8%	4.3%	1.9%	3.2%	0.8%	4.0%
	84th %'ile	4.5%	2.0%	2.0%	10.3%	10.4%	8.1%	3.0%	4.7%	2.2%	6.3%
	Volatility (Disp) (1 yr)	1%	7%	10%	17%	17%	14%	11%	1%		

E3 What assumptions are used in the funding target?

At the end of an employer's funding time horizon, an assessment will be made – for each of the 5,000 projections – of how the assets held compare to the value of assets required to meet the future benefit payments (the funding target). Valuing the cost of future benefits requires the actuary to make assumptions about the following financial factors:

- Benefit increases and CARE revaluation
- Salary growth
- Investment returns (the "discount rate")

Each of the 5,000 projections represents a different prevailing economic environment at the end of the funding time horizon and so a single, fixed value for each assumption is unlikely to be appropriate for every projection. For example, a high assumed future investment return (discount rate) would not be prudent in projections with a weak outlook for economic growth. Therefore, instead of using a fixed value for each assumption, the actuary references economic indicators to ensure the assumptions remain appropriate for the prevailing economic environment in each projection. The economic indicators the actuary uses are: future inflation expectations and the prevailing risk free rate of return (the yield on long term UK government bonds is used as a proxy for this rate).

The Fund has three funding bases which will apply to different employers depending on their type. Each funding basis has a different assumption for future investment returns when determining the employer's funding target.

Funding basis	Ongoing participation basis	Contractor exit basis	Low risk exit basis
Employer type	All employers except Transferee Admission Bodies and closed Community Admission Bodies	Transferee Admission Bodies	Community Admission Bodies that are closed to new entrants
Investment return assumption underlying the employer's funding target (at the end of its time horizon)	Long term government bond yields plus an asset outperformance assumption (AOA) of 1.6% p.a.	Long term government bond yields plus an AOA equal to the AOA used to allocate assets to the employer on joining the Fund	Long term government bond yields with no allowance for outperformance on the Fund's assets

E4 What other assumptions apply?

The following assumptions are those of the most significance used in both the projection of the assets, benefits and cashflows and in the funding target.

a) Salary growth

The salary increase assumption at the 2019 valuation has been set to be a blended rate combined of:

1. 2% p.a. until 31 March 2021, followed by

2. 1.0% above the Consumer Prices Index (CPI) per annum p.a. thereafter.

This gives a single "blended" assumption of CPI plus 0.8%. This is a change from the previous valuation, which assumed a blended assumption of CPI plus 0.6% per annum. The change has led to an increase in the funding target (all other things being equal).

b) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

At this valuation, we have continued to assume that CPI inflation is 1.0% per annum lower than RPI inflation.

(Note that the reduction is applied in a geometric, not arithmetic, basis).

c) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

Allowance has been made in the ongoing valuation basis for future improvements in line with the 2018 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This updated allowance for future improvements will generally result in lower life expectancy assumptions and hence a reduced funding target (all other things being equal).

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

d) General

The same financial assumptions are adopted for most employers (on the ongoing participation basis identified above), in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Funding Basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target at the end of the employer's time horizon. The main assumptions will relate to the level of future investment returns, salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating	Employers such as town and parish councils that are able to participate
Employer	in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Employer	An individual participating body in the Fund, which employs (or used to employ) members of the Fund. Normally the assets and funding target values for each employer are individually tracked, together with its Primary rate at each valuation.
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but are also used in funding as an objective measure of a risk-free rate of return.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy. respectively).
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 100 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex- employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.

Profile The profile of an employer's membership or liability reflects various measurements of that employer's members, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its maturity also.

Rates and Adjustments Certificate A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the period until the next valuation is completed.

Scheduled Bodies Types of employer explicitly defined in the LGPS Regulations, whose employees must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Secondary contribution rate The difference between the employer's actual and Primary contribution rates. See Appendix D for further details.

Stabilisation Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund.

Valuation A risk management exercise to review the Primary and Secondary contribution rates, and other statutory information, for a Fund, and usually individual employers too.

Warwickshire Pension Fund ("the Fund") Actuarial Statement for 2020/21

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2020. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 19 years. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 70% likelihood that the Fund will achieve the funding target over 19 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £2,166 million, were sufficient to meet 92.3% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £180 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving their funding target within a time horizon and likelihood measure as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2019 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date; and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2019 valuation were as follows:

Financial assumptions	31 March 2019
Discount rate	3.7%
Salary increase assumption	3.1%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.6 years	23.8 years
Future Pensioners*	22.5 years	25.4 years

* Aged 45 at the 2019 Valuation.

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2019

Markets were severely disrupted by COVID 19 in March 2020, but in the 2020/21 year they recovered strongly. As a result, the funding level of the Fund as at 31 March 2021 is likely to be an improvement to that reported at the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.

Robert Bilton FFA
21 May 2021
For and on behalf of Hymans Robertson LLP

COVID-19 Update

This financial year has been overshadowed by the COVID-19 global pandemic, and the governmental responses to it. Starting with an initially unidentified illness found in Wuhan in December 2019,by the beginning of April 2020 the disease had spread worldwide. There have been very significant economic, social, and health impacts.

The activities of the Pension Fund focused on maintaining the safety and wellbeing of staff and scheme members and maintaining operational effectiveness, in particular ensuring that pensions continued to be paid, that cashflow is managed, and that calls to place planned investments could be made.

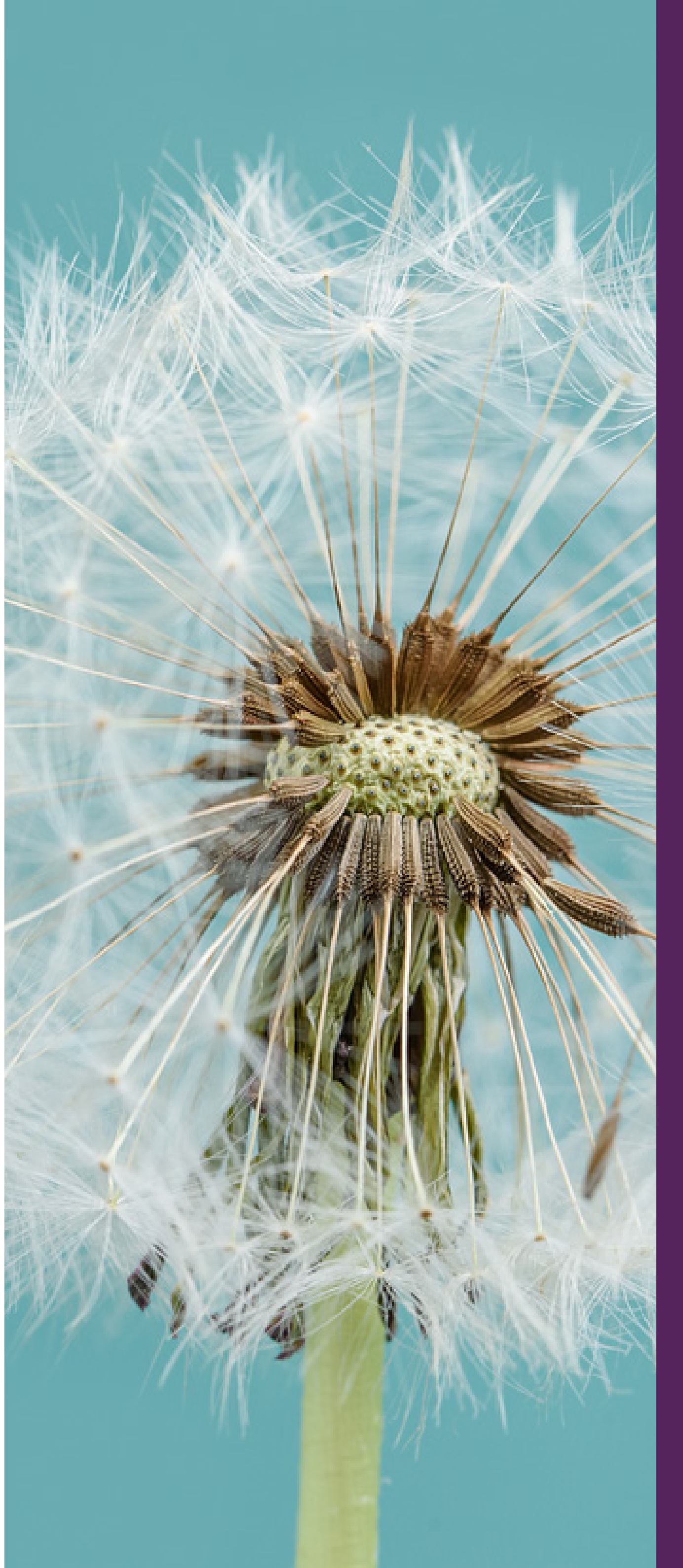
Throughout the year the Pension Fund’s staff worked remotely with a minimal presence being required in the office for business-critical functions that could not be done from home, for example dealing with physical post received.

A review of risks specifically relating to COVID-19 was undertaken in late March 2020 including the identification of mitigating actions. Officers briefed the Staff and Pensions Committee, Pension Fund Investment Sub-Committee, and Local Pension Board in early April, and quarterly thereafter. At the beginning of 2021 the COVID-19 risk register merged with the general risk register, so risks and mitigating actions could be reviewed and managed.

Key operational administration and payroll activities were delivered during the lockdowns, with pensions continuing to be paid. Cashflow management has been maintained, with the Fund holding higher cash balances to reduce the risk of needing to sell assets inappropriately to service cash requirements. Investment activity has continued, with the Fund being able to meet calls made by fund managers relating to existing and new investment commitments.

The County Council uses the Microsoft platform, with Microsoft 365 and Surface Pro computers as standard. The functionality available has enabled staff to continue their roles including meeting with each other virtually, sharing information, and processing tasks.

COVID-19 caused significant volatility in financial markets over the financial year, though it was not the only event of note. Market activity is being monitored; however the Fund takes a long-term view, and continues to work closely with its advisers on making decisions that focus on the Fund’s long-term objectives. Ultimately the effect of COVID-19 will be captured in the 2022 Valuation and will be managed over the long-term time horizon to which the Pension Fund operates.



Risk Management

Fund risks are identified and evaluated annually and reported form Pension Fund Investment Sub-committee and Local Pension Board Quarterly during the Year. Relevant actions and controls are implemented to mitigate risks, which are recorded in a risk register. The risks involved in achieving the objectives of the fund are identified and quantified in terms of the likelihood of them occurring and the impact if they did occur.

During 2020/21 the Fund made use of two risk registers, one being the fund's standard strategic risk register considering all risks, and the second being a risk register focused on Covid and associated issues, actions, and controls. The reason for this was to ensure that Covid risks were given adequate consideration at a senior level given the seriousness of the pandemic.

The original strategic risk register for the year did not remark on Covid or pandemics generally, however the Fund was able to manage the challenges presented through a combination of being able to rely upon robust IT systems, a flexible working policy, and the commitment of the Fund's staff, advisers, and fund managers. In addition, although the pandemic resulted in significant asset volatility, the level of volatility experienced was within the range of scenarios modelled in the previous valuation.

The Fund has undertaken a fundamental review of risks in Quarter 4 in preparation for 2021/22 and has adopted a new approach and format which includes more sophisticated and granular measurements of risk likelihood and impact, and impact being more heavily weighted than likelihood. In addition, the fund has reverted back to a single risk register in which Covid features as a listing its own right, but it is also a feature of other risks where it is a potential cause. Simplifying back to a single risk register will provide the Fund with clarity over the big risk picture.

The Fund intends to investigate and develop a risk appetite statement during 2021/22 which will set out where the Fund is prepared to take greater risks in order to have access to certain opportunities and rewards and where the is not prepared to take risks as it has a duty, for example where it has a duty to deliver services to certain standards. This development will further improve the Fund's approach to risk management.

Appendix 1
Governance Compliance Statement

The Governance Compliance Statement requires LGPS funds to demonstrate their compliance (or non compliance) with best practice principles. These are contained in statutory guidance which is not mandatory but there is an obligation to comply unless there is a good reason not to do so. This approach is termed as "comply or explain". The move to a compliance based approach reinforces the need for pension funds to have well defined and transparent governance structures.

Principle	Warwickshire's Approach	Compliance
Structure		
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Warwickshire County Council delegates the management of the Warwickshire Pension Fund to the Staff and Pensions Committee. The Management of the Fund is delivered by that committee and also by responsibilities delegated further to the Pension Fund Investment Sub-committee.	Comply
That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	County Councillors sit on the primary and secondary committee and represent all stakeholders. In addition, the Local Pension Board ensures equal representation though having member representatives and employer representatives.	Comply
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels	Public minutes of the PFISC and Local Pension Board meetings are freely available.	Comply
That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Members of the secondary committee sit on the primary committee.	Comply

Principle	Warwickshire's Approach	Compliance
Representation		
That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: • employing authorities (including non-scheme employers, e.g., admitted bodies);	County Councillors sit on the primary and secondary committee and represent all stakeholders. In addition, the Local Pension Board ensures equal representation though having member representatives and employer representatives.	Explain
• scheme members (including deferred and pensioner scheme members);	County Councillors sit on the primary and secondary committee and represent all stakeholders. In addition, the Local Pension Board ensures equal representation through having member representatives and employer representatives.	Explain
• independent professional observers; and	The PFISC employs an independent financial consultant who is present at all PFISC meetings.	Comply
• expert advisors (on an ad hoc basis).	Expert advisors attend the PFISC as required depending on the nature of the decisions to be taken. For example, the actuary attends when the valuation is being considered and the investment consultant attends when strategic asset allocation decisions are being discussed.	Comply
That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	All members are treated equally in terms of access to public papers and to training that is given as part of the Board processes.	Comply
Selection and role of lay members		
That Board or Panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	SPC, PFISC and Local Pension Board members are given initial and ongoing training to support them in their role.	Comply
Voting		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Warwickshire is fully compliant with this principle. Most decisions are reached by consensus, but voting rights remain with councillors because the Council retains legal responsibility as the administering authority. The Local Pension Board has its own voting system and must be independent from the PFISC.	Comply

Principle	Warwickshire's Approach	Compliance
Training/Facility time/Expenses		
That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	This falls within the County Council's normal approach to member expenses. The Chair of the Local Pension Board receives an allowance and expenses but the remainder of the Board can be re-imbersed.	Comply
That where such a policy exists, it applies equally to all members of committees, Sub Committees, advisory panels or any other form of secondary forum.	The policy applies equally to all elected members of the SPC and PFISC.	Comply
Meetings (Frequency/Quorum)		
That an administering authority's main committee or committees meet at least quarterly.	Warwickshire is fully compliant with this principle by holding quarterly and special appointment meetings.	Comply
That an administering authority's secondary committee or panel meet at least four times a year and is synchronised with the dates when the main committee sits.	The primary, secondary and The Local Pension Board meets at least four times a year and meetings are synchronised.	Comply
That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	The Pension Fund holds an annual meeting in November each year to which all key stakeholders are invited.	Comply
Access		
That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee	Certain papers involving confidential information are held to be exempt from the usual distribution process.	Explain

Principle	Warwickshire's Approach	Compliance
Scope		
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Warwickshire is fully compliant with this principle by bringing investment issues to the PFISC and benefit issues to both the Local Pension Board and Staff and Pensions Committee. A business plan is approved each year.	Comply
Publicity		
That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Warwickshire is fully compliant with this principle by publishing statements in the Annual Report and on its website.	Comply

Member Attendance at Pension Fund Investment Sub Committee Meetings in 2020/21

	20 March 2020	8 June 2020	14 Sept 2020	14 Dec 2020
Bob Stevens	Attended	Attended		
John Horner	Did not attend	Attended	Attended	Attended
Bill Gifford	Attended	Attended	Attended	Attended
Neil Dirveiks	Did not attend	Attended	Attended	Attended
Andy Jenns			Did not attend	Attended
Wallace Redford	Did not attend	Attended	Attended	Attended

Attended

Did not attend

Member Attendance at Local Pensions Board Meetings in 2020/21

	20 October 2020	26 January 2021
Keith Bray	Did not attend	Attended
Cllr Parminder Birdi	Attended	Did not attend
Keith Francis	Attended	Attended
Alan Kidner	Attended	Attended
Sean McGovern	Attended	Attended
Cllr Dave Parsons	Did not attend	Attended
Mike Snow	Attended	Attended

Attended

Did not attend

Post Pooling Report

LGPS Pooling Savings

Costs and savings relating to pooling are in the context of the assets under management within the pool having increased to £859m by March 2021. In particular due to positive performance of equity funds and due to investments in alternatives building up.

During 2020/21 Border to Coast has worked with the Partner Funds to gather data, agree assumptions, and build a savings model and process that will enable consistent reporting going forward. This supports one of the original objectives of pooling to reduce costs and deliver value for money. Savings from future launches are not included in this report, but the level of savings should grow as other funds are developed and included. To provide for greater consistency across the LGPS Pools, Border to Coast has been asked to lead a project to standardise the 2021 pooling saving report for MHCLG.

Table 1

Set up and Transaction Costs

Set up costs in 2020/21 were £2.695m, the majority of which related to transition costs for the Global Equity Alpha fund.

The cumulative set up cost from inception incudes £833k of regulatory capital.

	17/18	18/19	19/20	20/21			
	Total £000s	Total £000s	Total £000s	Direct £000s	Indirect £000s	Total £000s	Cumlative £000s
Set up costs:							
Recruitment	17						**17**
Legal	27						**27**
Procurement	36						**36**
Other support costs eg IT, accomodation	2						**2**
Share purchase/subscription costs*		833					**833**
Other working capital provided e.g. Loans							
Staff costs	62						**62**
Other costs	41	426	250	298		298	**1,015**
TOTAL SET UP COSTS	185	1,259	250	298		298	**1,992**
Transition costs:							
Transition fees		3,570	2,912		2,397	2,397	**8,879**
Taxation (seeding relief)							
Other transition costs							
TOTAL TRANSITION COSTS		3,570	2,912			2,393	**8,879**
TOTAL POOLING RELATED COSTS	**185**	**4,829**	**3,163**	**298**	**2,397**	**2,695**	**10,872**

* Share capital

Table 2

Management fees and Transaction Costs

This table reports on ongoing management fees relating to pooling activity. Costs have increased in comparison to 2019/20, however the amount of assets under management has increased.

	BCPP Asset Pool			Non-BCPP Asset Pool			Fund Total	
	Direct	Indirect	Total	Direct	Indirect	Total		
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	bps
Management fees:	**1,961.2**		**1,961.2**	**5,853.7**		**5,853.7**	**7,814.8**	**30.6**
ad valerom	1,961.2		1,961.2	3,643.6		3,643.6	5,604.8	22.0
performance				2,210.1		2,210.1	2,210.1	8.7
research								
PRIIPS compliance								
Asset pool shared costs	**431.1**		**431.1**				**431.1**	**1.7**
Transition costs:	**348.2**		**348.2**				**348.2**	**1.4**
commisions	128.4		128.4				128.4	0.5
aquisitions/issue costs								
disposal costs								
registration/filing fees								
taxes and STD	219.8		219.8				219.8	0.9
Custody				**45.2**		**45.2**	**45.2**	**0.2**
Other	**9.3**		**9.3**	**3,769.1**		**3,769.1**	**3,778.4**	**14.8**
Total £000	**2,749.7**	**0.0**	**2,749.7**	**9,668.0**	**0.0**	**9,668.0**	**12,417.8**	**48.7**

Draft Accounts for year ending 31 March 2021

Statement of responsibilities for the statement of accounts

This section explains our responsibilities for our financial affairs and how we ensure we carry out these responsibilities properly in line with the Accounts and Audit (Amendment) Regulations 2021 and the Accounts and Audit Regulations 2015.

Responsibilities of the Pension Fund

We do the following:

- make sure that one of our officers is responsible for managing our financial affairs. For the Pension Fund, Warwickshire County Council's Strategic Director for Resources is responsible for this;
- manage our affairs to use our resources efficiently and effectively and to protect our assets;
- approve the statement of accounts.

Responsibilities of the Strategic Director for Resources

As the Strategic Director for Resources, I am responsible for preparing our statement of accounts. These accounts must present a true and fair view of our financial position, including our income and spending for the year.

In preparing the Pension Fund accounts, I have:

- selected suitable accounting policies and applied them consistently;
- made reasonable and prudent judgements and estimates; and
- followed the Chartered Institute of Public Finance and Accountancy's/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

I have also:

- kept proper accounting records which are up to date; and
- taken steps to prevent and detect fraud and other irregularities.

I certify that the Statement of Accounts presents a true and fair view of the financial position as at the 31st March 2021 and the income and expenditure for the year ended 31st March 2021. The unaudited draft accounts were authorised for issue on 30th June 2021. These will then be audited and presented at a meeting of the Council on 14th December 2021.

Rob Powell
Strategic Director for Resources
14 December 2021

Councillor Peter Gilbert
Chair of the Council
14 December 2021

Warwickshire Pension Fund Account

2019/2020 £m		Notes	2020/2021 £m
	Dealings with members, employers and others directly involved in the fund		
(84.9)	Contributions	7	(98.9)
(12.9)	Transfers in from other schemes	8	(12.7)
(97.8)			(111.7)
80.7	Benefits payable	9	83.5
12.0	Payments to and on account of leavers	10	9.9
92.7			93.4
(5.1)	**Net (additions)/withdrawals from dealing with members**		**(18.3)**
13.2	Management expenses	11	**14.6**
8.1	**Net (additions)/withdrawals including fund management expenses**		**(3.7)**
	Returns on investments		
(20.3)	Investment income	13	(21.0)
(0.1)	Taxes on income		(0.0)
(306.7)	Profit and losses on disposal of investments	23	(19.2)
450.6	Changes in the market value of investments	23	(496.1)
123.5	**Net return on investments**		**(536.3)**
131.6	**Net (increase)/decrease in the net assets available for benefits during the year**		**(540.0)**
(2,165.7)	**Opening net assets of the scheme**		**(2,034.1)**
(2,034.1)	**Closing net assets of the scheme**		**(2,574.1)**

Net Assets Statement

2019/2020 £m		Notes	2020/2021 £m
0.8	Long-term Assets	15	1.2
2,003.6	Investment assets	15/16	2,502.6
0.0	Investment liabilities	15	0.0
20.9	Cash deposits	15/16	48.3
2,025.3	**Total net investments**		**2,552.1**
12.6	Current assets	29	25.4
(3.8)	Current liabilities	30	(3.4)
2,034.1	**Net assets of the fund available to fund benefits at the period end**		**2,574.1**

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in the Actuary Statement Note 28.

Notes to the Warwickshire Pension Fund Accounts for the year ended 31 March 2021

Note 1: Description of fund

The Warwickshire Pension Fund ('the Fund') is part of the Local Government Pension Scheme and is administered by Warwickshire County Council. The County Council is the reporting entity for this pension fund.

The following description of the Fund is a summary only. For more detail, reference should be made to the Warwickshire Pension Fund Annual Report and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and The Local Government Pension Scheme (LGPS) Regulations.

a) General

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended);
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended); and
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended).

The Warwickshire Pension Fund is a defined benefit scheme administered by the Director for Resources on behalf of Warwickshire County Council (the scheme administrator), five district councils and other scheduled and admitted public service organisations and their contractors. Teachers, police officers and firefighters are not included as they come within the remit of other national pension schemes.

The administration of the Fund is carried out through Warwickshire County Council's Staff and Pensions Committee, the Pension Fund Investment Sub-Committee and the Local Pension Board. The committees are comprised of elected County Council members whilst the Board is an equal mix of representatives of scheme employers and scheme members with an independent chair. The Pension Fund Investment Sub-Committee receives advice and guidance from two independent financial advisors (one post vacant as at 31 March 2021), its investment consultant (Hymans Robertson) and its Scheme Actuary (Hymans Robertson).

The Public Service Pensions Act 2013 included a requirement to establish a Local Pension Board, with responsibility to assist the administering authority to:

- secure compliance with; the LGPS regulations; other legislation relating to the governance and administration of the LGPS and; the requirements imposed by the Pension Regulator in relation to the LGPS; and
- perform an oversight role to ensure the effective and efficient governance and administration of the LGPS.

A Local Pension Board has been in place since February 2015.

b) Membership

Membership of the LGPS is automatic for entitled employees, but employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Warwickshire Pension Fund include:

- scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund; and
- admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 189 employer organisations with active members within Warwickshire Pension Fund including the county council itself, as detailed below.

Warwickshire Pension Fund	31 March 2020	31 March 2021
Number of employers with active members	190	189
Number of active employees in scheme		
County Council	7,930	8,434
Other employers	8,786	9,351
Total	**16,716**	**17,785**
Number of pensioners		
County Council	8,039	8,446
Other employers	6,355	6,692
Total	**14,394**	**15,138**
Deferred pensioners		
County Council	11,262	11,477
Other employers	7,659	8,138
Total	**18,921**	**19,615**
Total	**50,031**	**52,538**

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with The LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2021. Contributions are also made by employers which are set based on triennial actuarial funding valuations. The last valuation was at 31 March 2019 and a revised schedule of employer contribution rates became effective for the three years from 1 April 2020. Currently, employer contribution rates range from 0% to 58% of pensionable pay.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised in the following table.

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump Sum	Automatic lump sum of 3 x pension In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices Index. The changes also brought in a 50/50 option allowing members the opportunity to contribute 50% for 50% of the benefit entitlement.

Contributions to the LGPS prior to 1 April 2014 were assessed on full-time equivalent pay and excluded non-contractual elements of pay such as overtime and bonus. However, contributions since 1 April 2014 are assessed on all pensionable pay received including non-contractual elements. In addition, the contribution bandings were extended with many of the higher paid seeing an increase in contributions.

There are a range of other benefits provided under the scheme including early retirement, ill health entitlements and life assurance.

Note 2: Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2020/21 financial year and its position at year-end as at 31 March 2021. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2020/21* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. They have been prepared on a going concern basis in accordance with IAS1.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. This is addressed by the Scheme Actuary's triennial valuation.

2.1 Accounting standards issued but not yet adopted

The code requires disclosure of any accounting standards issued but not yet adopted and their potential impact on the Fund. The new standards issued but not yet adopted for 21/22 are:

a. Definition of a Business: Amendments to IFRS 3 Business Combinations

b. Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7

c. Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

It is too early to say with any degree of certainty what the likely impact of the above issued accounting standards would be, but it is assumed it will not materially impact on the 2020/21 financial statements.

Note 3: Summary of significant accounting policies

a) Contribution income

Normal contributions, both from members and employers, are accounted for on an accruals basis at the percentage rate recommended by the Scheme Actuary in the period to which they relate.

Employer deficit, augmentation and pension strain contributions are accounted for in the period in which the liabilities arise. Any amount due in year but unpaid will be classed as a current financial asset.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with The Local Government Pension Scheme Regulations (see notes 8 and 10). This is normally when the member liability is accepted or discharged.

c) Investment income

i) Interest Income
Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income
Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is reflected within investment assets in the Net Assets Statement. Investment income arising from the underlying investments of the Pooled Investment Vehicles is either reinvested within the Pooled Investment Vehicles and reflected in the unit price or taken as dividends.

iii) Distributions from managed funds
Distributions from managed funds are recognised at the date of issue. Any amount not received by the end of the reporting period is reflected within investment assets in the Net Assets Statement.

iv) Profit and losses on disposal of investments
Profit and losses on the disposal of investments are recognised as income and comprise all realised profits/losses during the year.

v) Movement in the market value of investments
Changes in the market value of investments are recognised as income and comprise all unrealised profits/losses during the year.

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

e) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless an exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

f) Management expenses

The Code does not require a breakdown of pension fund administration expenses. However, in the interests of greater transparency, the council discloses its pension fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs.*

Administrative expenses
All administrative expenses are accounted for on an accrual basis. All staff costs of the pension's administration team and associated accounting, management, accommodation and other overheads are apportioned and charged as expenses to the Fund.

Oversight and governance costs
All oversight and governance expenses are accounted for on an accrual basis. All costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Investment management expenses
All investment management expenses are accounted for on an accrual basis.
Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. Where these are deducted at source (as opposed to being charged via an invoice) the fee is identified and a journal posted to record the investment management fee and increase the investment income.

g) Investment assets

Shareholder investment in Warwickshire's LGPS asset pool, Border to Coast Pensions Partnership (the "pool"), is valued at transaction price i.e. cost. The pool's main trading company, Border to Coast Pensions Partnership Limited, became licensed to trade in July 2018 and does not have established trading results or profit forecasts available yet.

The Pension Fund's view is that the market value of investments in the Border to Coast Pension Partnership at 31 March 2021 cannot be reasonably assessed and that cost is therefore an appropriate estimate of fair value.

All other investment assets are included in the Net Assets Statement on a fair value basis as at the reporting date. An investment asset is recognised in the net asset statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised in the Fund.

The values of investments as shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Pension Fund Note 24). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

The values of investments as shown in the Net Assets Statement have been determined as follows:

i) Market-quoted investments
The value of an investment for which there is a readily available market price is determined by the bid market price on the final day of the accounting period.

ii) Fixed interest securities
Are recorded at net market value based on their current yields.

iii) Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

- directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or to the management agreement;

- investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager; and

- investments in private equity funds and unquoted listed partnerships are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the *International Private Equity and Venture Capital Valuation Guidelines 2018*.

iv) Limited partnerships

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

v) Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; if single priced, at the closing single price.

In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income, which is reinvested in the Fund net of applicable withholding tax.

h) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

i) Cash and cash equivalents

Cash comprises cash in hand and on demand deposits and includes amounts held by the Fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value

j) Investment Liabilities

The Fund recognises investment liabilities at fair value as at the reporting date. An investment liability is recognised on the date the Fund becomes party to the liability and these are summarised in Note 15. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

k) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Scheme Actuary in accordance with the requirements of IAS19 and relevant actuarial standards. The last triennial valuation was carried out as at 31st March 2019.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 28).

l) Additional Voluntary Contributions

Warwickshire Pension Fund provides an additional voluntary contributions (AVCs) scheme for its members, the assets of which are invested separately from those of the pension fund. The Fund has appointed Utmost Life & Pensions and Standard Life as its AVC providers. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and movements in the year.

AVCs are not included in the accounts in accordance with section 4(1)(b) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 31).

m) Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term, 'financial instrument' covers both financial assets and financial liabilities and includes financial assets and liabilities such as trade receivables and trade payables.

IFRS 13 Fair Value Measurement - The standard provides a consistent definition of fair value and enhanced disclosure requirements. It is designed to apply to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value (with some exceptions). The Fund currently complies with this standard.

Note 4: Critical judgements in applying accounting policies

Pension fund liability

The McCloud and Sargeant judgements upheld the claimants' cases that the method of implementation of the new public sector pension schemes discriminated against younger members. On 4 February government confirmed in their response to the Firefighter Pension Scheme consultation that they will look to proceed with the 'Deferred Choice' option where members can choose between the legacy or reformed scheme for their benefits for 2015-2022 at the point of retirement (instead of having to make a pre-emptive choice in 2022). The update does not affect the LGPS; we are still awaiting MHCLG to publish their response to the McCloud consultation for the Local Government Pension Scheme. No allowance has been made for this in the accounts as the remedy to resolve the age discrimination has yet to be agreed and the financial impact remains uncertain. However, the fund actuary has included an allowance for the impact of McCloud in Note 28 within the fund liabilities.

Further legal judgements in force include Goodwin, Walker and O'Brien. There is still uncertainty surrounding the potential remedy to the Goodwin judgement, current analysis estimates this to be very small for a typical fund. The Walker and O'Brien cases are others which may impact on the LGPS in the future which are unlikely to be significant judgements in terms of pension obligations.

Investment in Border to Coast Pensions Partnership

This investment has been valued at cost on the basis that fair value as at 31 March 2021 cannot be reasonably assessed as set out under Note 3.

Impact of COVID-19

Last year the impact of COVID-19 was felt globally with markets experiencing greater volatility due to uncertainty. The Fund has exposure to several Property and Infrastructure funds which experienced some uncertainty surrounding their valuations. However, markets and asset values have since steadied and we now believe that valuations can be carried out with sufficient accuracy.

Note 5: Assumptions made about the future and other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the Balance Sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the accounts as at 31 March 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £404m, a 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £36m, and a one-year increase in assumed life expectancy would increase the liability by approximately 3-5%.
Private equity, Infrastructure and Private Debt	These investments are valued at fair value in accordance with *International Private Equity and Venture Capital Valuation Guidelines 2018* and US GAAP. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. Due to the current Coronavirus pandemic, there is a risk that the valuation of these investments may have an increased level of uncertainty. There are a wide range of possible outcomes, resulting in a high degree of uncertainty.	The total value of Level 3 investments stands at £331.8m. There is a risk that this investment may be under- or over-stated in the accounts. The custodian reports a tolerance of +/- 2% around the net asset values on which the valuation is based. This equates to a tolerance of +/- £6.6m.

Note 6: Events after the reporting date

Events from the balance sheet date to the date of authorisation for issue would be reflected as an adjustment to The Statement of Accounts whether favourable or adverse. This would occur where there was provision of evidence that these conditions were in place by the end of the reporting period and that these events were significant to the fair value of the Fund's net assets. Those events taking place after the date of authorisation for issue will not be reflected in the statement of accounts.

There has been significant volatility in markets since the 31st March 2021. The total Fund asset valuation reported as at Quarter 1 2021/22 to the Pension Fund Investment Sub Committee having risen to £2,666m due to returns on investments since 31st March 2021.

Note 7: Contributions receivable

By category

2019/2020 £m		2020/2021 £m
18.2	Employees' contributions	19.3
	Employers' contributions:	
60.3	Normal contributions	74.8
6.5	Deficit Recovery contributions	4.8
66.8	**Total Employers' contributions**	**79.6**
84.9	**Total**	**98.9**

By authority

2019/2020 £m		2020/2021 £m
39.3	Administering authority	41.7
42.8	Scheduled bodies	55.4
2.7	Admitted bodies	1.8
0.1	Bodies no longer contributing	0.0
84.9	**Total**	**98.9**

Note 8: Transfers in from other pension funds

2019/2020 £m		2020/2021 £m
0.7	Group transfers	0.7
12.2	Individual transfers	12.0
12.9	**Total**	**12.7**

Note 9: Benefits payable

By category

2019/2020 £m		2020/2021 £m
65.6	Pensions	68.0
13.3	Commutation and lump sum retirement benefits	14.1
1.8	Lump sum death benefits	1.5
80.7	**Total**	**83.5**

By authority

2019/2020 £m		2020/2021 £m
43.2	Administering authority	44.6
32.7	Scheduled bodies	34.0
4.0	Admitted bodies	4.1
0.9	Bodies no longer contributing	0.9
80.7	**Total**	**83.5**

Note 10: Payments to and on account of leavers

2019/2020 £m		2020/2021 £m
0.4	Refunds	0.3
0.0	Group transfers	0.0
11.7	Individual transfers	9.5
12.0	**Total**	**9.9**

Note 11: Management expenses

2019/2020 £m		2020/2021 £m
1.6	Administration costs	1.9
10.6	Investment management expenses	11.6
1.0	Oversight and governance costs	1.1
13.2	**Total**	**14.6**

This analysis of the costs of managing the Warwickshire Pension Fund during the period has been prepared in accordance with CIPFA guidance.

Indirect costs are incurred through the bid-offer spread on investment sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sale of investments (Note 16 and Note 25).

Note 12: Investment management expenses

2019/2020 Total £m		Management Fees	Performance Fees	2020/2021 £m
1.8	Pooled Investments	2.6	0	2.6
2.0	Pooled Property Investments	1.7	0	1.7
3.6	Private Equity	2.4	0.8	3.2
1.3	Infrastructure	1.8	0.8	2.6
1.0	Private Debt	0.8	0.7	1.5
0.0	Managed funds	0.0	0	0.0
0.8	Equities	0.0	0	0.0
0.1	Custody Fees	0.0	0.0	0.0
10.6		**9.4**	**2.2**	**11.6**

Note 13: Investment income

2019/2020 £000		2020/2021 £000
5.3	Equity dividends	0.0
4.9	Property	6.5
1.5	Infrastructure	2.4
1.2	Pooled Equity	1.8
0.9	Private Debt	1.2
4.9	Absolute Return	3.7
1.4	Private Equity	0.9
0.0	Pooled Fixed Income	4.6
14.8	Managed funds	21.0
0.2	Interest on cash deposits	0.0
0.0	Stock lending	0.0
20.3		**21.0**

Note 14: Other fund account disclosures: external audit costs

The external audit fee for 2020/21 was £30,647 excluding VAT. The fee for 2019/20 was £22,647. Non-audit fees in respect of IAS 19 assurance for 2020/21 are £6,500 (2019/20: £7,000).

Note 15: Investments

2019/2020 £m		2020/2021 £m
	Long term investments	
0.8	Equities	1.2
	Investment Assets	
1,997.3	Pooled Funds ***	2,496.3
727.3	Global Equity	1,113.7
306.1	UK Equity	286.2
67.9	Infrastructure	72.3
83.1	Private Debt	84.5
120.7	Private Equity	175.0
217.4	Pooled Property	221.5
474.7	Fixed Income	543.1
20.9	Cash deposits	48.3
6.4	Investment Current Assets	6.2
2,025.3	**Total Investment Assets**	**2,550.9**
	Investment Liabilities	
0.0	Investment current liabilities	0.0
0.0	**Total Investment Liabilities**	**0.0**
2,025.3	**Net Investment Assets**	**2,552.1**

*** This refers to the management structure of the Funds, where the Fund does not directly own the underlying assets

Note 16: Reconciliation of movements in investments

	Market value 31 March 2020 £ m	Purchases during the year £ m	Sales during the year £ m	Change in market value during the year £ m	Market value 31 March 2021 £ m
Investment Assets					
Equities	0.8	0.3	0.0	0.0	1.2
Pooled Investments	1,997.3	119.2	-132.2	512.0	2,496.3
Private Equity	120.7	18.6	-22.8	58.5	175.0
Pooled Property	217.4	3.8	-0.5	0.8	221.5
Pooled funds, Unit Trusts & Other Managed Funds	1,508.2	61.0	-79.1	453.0	1,943.0
Infrastructure	67.9	17.6	-11.8	-1.4	72.3
Private Debt	83.1	18.3	-18.0	1.1	84.5
Other Investment Balances					
Cash deposits	20.9	63.3	-35.7	-0.1	48.3
Net investment current assets	6.4	1.2	-1.0	-0.4	6.2
Net Investment Assets	**2,025.3**	**184.1**	**-168.9**	**464.9**	**2,552.1**

	Market value 31 March 2019 £ m	Purchases during the year £ m	Sales during the year £ m	Change in market value during the year £ m	Market value 31 March 2020 £ m
Investment Assets					
Equities	390.1	13.8	-446.6	43.5	0.8
Private Equity	101.2	14.8	-17.7	22.3	120.7
Pooled Property	224.7	12.8	-10.3	-9.8	217.4
Pooled Investments, Unit Trusts & Other Managed Funds	1,308.9	874.5	-463.0	-212.3	1508.2
Infrastructure	47.9	14.5	-0.7	6.3	67.9
Private Debt	62.1	22.8	-5.7	3.8	83.1
Managed funds:	**1,744.8**	**939.5**	**-497.4**	**-189.7**	**1,997.3**
Other Investment Balances					
Cash deposits	17.5	59.9	-56.9	0.4	20.9
Net investment current assets	5.6	0.5	0.0	0.3	6.4
Net Investment Assets	**2,158.0**	**1,013.7**	**-1,000.8**	**-145.5**	**2,025.3**

Note 17: Derivatives

The Fund does not engage in any direct derivative activity however fund managers may make use of these to achieve investment objectives.

Note 18: Investments analysed by fund manager

Market value 31 March 2020			Market value 31 March 2021	
£ m	%		£ m	%
Investments managed by BCPP asset pool				
0.9	0.0%	Private Equity	2.7	0.1%
3.7	0.2%	Infrastructure	12.8	0.5%
0.0	0.0%	Private Debt	2.4	0.1%
292.2	14.4%	Global Equity Alpha Fund	370.5	14.5%
199.0	9.8%	UK Listed Equity Alpha Fund	286.2	11.2%
173.1	8.5%	BCPP Investment Grade Credit	184.0	7.2%
668.9	**33.0%**		**858.6**	**33.6%**
Investments managed outside of BCPP asset pool				
2.3	0.1%	MFS Investment Management (Global Equities)	0.8	0.0%
542.4	26.8%	Legal and General Investment Management (Index Trackers - Global Equities)	743.4	29.1%
179.0	8.8%	Legal and General Investment Management (Index Trackers - Fixed Income)	184.7	7.2%
114.2	5.6%	Columbia Threadneedle Investments (Property)	116.9	4.6%
107.1	5.3%	Schroder Investment Management (Property)	110.9	4.3%
119.8	5.9%	HarbourVest (Private Equity)	172.3	6.8%
122.8	6.1%	JP Morgan (Unconstrained Bond)	114.6	4.5%
22.3	1.1%	Standard Life Capital (Infrastructure)	22.9	0.9%
41.9	2.1%	Partners Group (Infrastructure)	36.5	1.4%
29.9	1.5%	Alcentra (Private Debt)	40.6	1.6%
53.2	2.6%	Partners (Private Debt)	41.5	1.6%
0.0	0.0%	PIMCO (Diversified Income Fund)	60.4	2.4%
20.8	1.0%	BNY Mellon (Global Custodian)	46.9	1.8%
0.8	0.0%	BCPP Shareholding	1.2	0.0%
1,355.6	66.9%		1,693.5	66.4%
2,025.3	**100.0%**		**2,552.1**	**100.0%**

Note 19: Investments representing more than 5% net assets of the scheme

Security	Market value 31 March 2021 £m	% of total fund as at 31 March 2021
Border to Coast Global Equity Alpha Fund	370.5	14.8%
Border to Coast UK Listed Equity Alpha Fund	286.2	11.4%
LGIM Fundamental Indexation	264.3	10.6%
Border to Coast Investment Grade Credit Fund	184.0	7.3%
LGIM Europe (Exc UK) Equity Index	175.4	7.0%
Harbourvest (Private Equity)	172.3	6.8%
LGIM UK Equity Index	133.9	5.3%

Security	Market value 31 March 2020 £m	% of total fund as at 31 March 2020
Border to Coast Global Equity Alpha Fund	292.2	14.48%
Border to Coast UK Listed Equity Alpha Fund	199.0	9.86%
LGIM Fundamental Indexation	183.4	9.09%
Border to Coast Investment Grade Credit Fund	173.1	8.58%
LGIM Europe (Exc UK) Equity Index	130.2	6.45%
JPM* Unconstrained Bond Fund	122.8	6.08%
LGIM Index linked Bonds	121.8	6.04%
Columbia Threadneedle TPN Property A	114.2	5.66%
LGIM UK Equity Index	107.2	5.31%

* JPM refers to JP Morgan

Note 20: Stock lending

The Fund does not currently engage in any direct stock lending.

Note 21: Property holdings

The Fund does not hold property directly. Property is held in the form of pooled funds.

Note 22: Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and Net Assets Statement heading. No financial assets were reclassified during the accounting period.

Fair value through profit and loss	Assets at amortised cost	Financial liabilities at amortised cost		Fair value through profit and loss	Assets at amortised cost	Financial liabilities at amortised cost
	31 March 2020				**31 March 2021**	
£ m	**£ m**	**£ m**		**£ m**	**£ m**	**£ m**
			Investment Assets			
0.0			Index linked bonds	0.0		
0.8			Equities	1.2		
1,997.3			Pooled Investments	2,496.3		
727.3			Global Equity	1,113.7		
306.1			UK Equity	286.2		
67.9			Infrastructure	72.3		
83.1			Private Debt	84.5		
120.7			Private Equity	175.0		
217.4			Pooled Property	221.5		
474.7			Fixed Income	543.1		
	20.9		Cash deposits		48.3	
	6.4		Investment Current Assets		6.2	
	9.0		Debtors		8.4	
	3.6		Cash balances		17.0	
1,998.1	**39.8**	**0.0**		**2,497.5**	**80.0**	**0.0**
			Liabilities			
		0.0	Investment current liabilities			0.0
		-3.8	Creditors			-3.4
0.0	**0.0**	**-3.8**		**0.0**	**0.0**	**-3.4**
1,998.1	**39.8**	**-3.8**		**2,497.5**	**80.0**	**-3.4**

Note 23: Net gains and losses on financial instruments

31 March 2020 £m		31 March 2021 £m
	Financial Assets	
306.7	Fair value through profit and loss	515.3
0.0	Loans and receivables	0.0
	Financial liabilities	
-450.6	Fair value through profit and loss	0.0
0.0	Loans and receivables	0.0
-143.9	**Total**	**515.3**

The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

Note 24: Valuation of financial instruments carried at fair value

The Unquoted equities holding in Border to Coast Pensions Partnership is valued at cost (i.e. transaction price), as an appropriate estimate of fair value. A fair value cannot be otherwise established for these assets as at 31 March 2021 because the main trading vehicle of Border to Coast Pensions Partnership only became licenced to trade in July 2018 and the reliability of any observable or unobservable inputs used to calculate fair value cannot as yet be assessed with certainty.

All other investments are held at fair value in accordance with the requirements of the Code and IFRS13. The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year.

All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value, these inputs are observable. Products classified as level 2 include unquoted bonds and overseas unit trusts and property funds.

Level 3

Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity and debt investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investments in private equity, infrastructure and private debt are based on valuations provided by the general partners to the funds in which Warwickshire Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are undertaken quarterly and an adjustment is made to roll forward the latest available valuation to 31 March as appropriate.

Description of asset	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments Level 1	Published bid market price ruling on the final day of the accounting period.	Not required	Not required
Pooled investments – overseas unit trusts & property funds Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price is published.	NAV-based pricing set on a forward pricing basis	Not required
Private equity, Infrastructure and Private Debt Level 3	These investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines 2018 and US GAAP.	NAV-based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension funds own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Valuation at 31 March 2021	**Level 1**	**Level 2**	**Level 3**	**Total**
	£ m	**£ m**	**£ m**	**£ m**
Equities	1.2			1.2
Pooled Investments	114.6	1,828.5		1,943.0
Infrastructure			72.3	72.3
Private Debt			84.5	84.5
Private Equity			175.0	175.0
Pooled Property		221.5		221.5
Financial assets at fair value through profit and loss	115.8	2,050.0	331.8	2,497.5
Financial liabilities at fair value through profit and loss				
Financial liabilities	0.0	0.0	0.0	0.0
Net financial assets	115.8	2,050.0	331.8	2,497.5

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Valuation at 31 March 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
	£ m	**£ m**	**£ m**	**£ m**
Equities	2.6			2.6
Pooled Investments	141.4	1,361.1		1,502.6
Infrastructure			67.9	67.9
Private Debt			83.1	83.1
Private Equity			120.7	120.7
Pooled Property		221.3		221.3
Financial assets at fair value through profit and loss	144.0	1,582.4	271.7	1,998.1
Financial liabilities at fair value through profit and loss				
Financial liabilities	0.0	0.0	0.0	0.0
Net financial assets	144.0	1,582.4	271.7	1,998.1

The following assets have been carried at cost:

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Valuation at 31 March 2021	**Level 1**	**Level 2**	**Level 3**	**Total**
	£ m	**£ m**	**£ m**	**£ m**
Investment in Border to Coast				
Pensions Partnership			1.2	1.2
Investments held at cost				

Note 25: Reconciliation of fair value measurements within Level 3

	Market value 31 March 2020	Purchases during the year	Sales during the year	Change in market value during the year	Realised profit or loss (-) during the year	Market value 31 March 2021
	£ m	**£ m**	**£ m**	**£ m**	**£ m**	**£ m**
Private Debt	83.1	18.3	-18.0	1.7	-0.5	84.5
Private Equity	120.7	18.6	-22.8	49.9	8.6	175.0
Infrastructure	67.9	17.6	-11.8	-2.6	1.1	72.3
	271.7	**54.5**	**-52.6**	**49.0**	**9.2**	**331.8**

Note 26: Nature and extent of risks arising from financial instruments

Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Investment Sub-Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks in two ways:

- the exposure of the Fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels; and
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument, or its issuer, or factors affecting all such instruments in the market.

The Fund is exposed to share price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital.

The Fund's investment managers mitigate this price risk through diversification. The selection of securities and other financial instruments is monitored to ensure price risk is within limits specified in the Fund's investment strategy.

Following analysis of historical data and expected investment return movement, the Fund has determined that the following movements in market price risk were reasonably possible for the 2020/21 reporting period. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Asset Type	2020/2021 Potential market movement
	%
UK Pooled Funds	17%
Overseas Pooled Funds	17%
Bonds	8%
Cash	0%
Property	14%
Alternatives	10%

The potential price changes disclosed above are broadly consistent with a one-year dispersion in the value of the assets and are based on observed historical volatility of the returns of the asset class.

Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits would have been as follows (the prior year comparator is shown below):

Asset Type	Value as at 31 March 2021	Potential market movement	Value on increase	Value on decrease
	£ m	£ m	£ m	£ m
UK Pooled Funds	287.4	48.9	336.3	238.6
Overseas Pooled Funds	1,113.7	189.3	1303.1	924.4
Total Bonds	428.5	34.3	462.8	394.2
Cash	54.6	0.0	54.6	54.6
Alternatives	446.4	44.6	491.0	401.7
Property	221.5	31.0	252.5	190.5
Total	**2,552.1**	**348.1**	**2,900.2**	**2,204.0**

Asset Type	Value as at 31 March 2020	Potential market movement	Value on increase	Value on decrease
	£ m	£ m	£ m	£ m
UK Pooled Funds	306.1	82.7	388.8	223.5
Overseas Pooled Funds	727.3	203.6	930.9	523.6
Total Bonds	352.0	35.2	387.1	316.8
Cash	27.3	0.0	27.3	27.3
Alternatives	394.5	43.4	437.8	351.1
Property	217.4	30.4	247.9	187.0
Total	**2,024.5**	**395.3**	**2,419.8**	**1,629.2**

Note: Segregated mandates have been transitioned the BCPP pool

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's interest rate risk is monitored as part of asset allocation decisions. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates.

Asset Type	Duration	Value as at 31 March 2021	Value on 1% increase	Value on 1% decrease
	Years	£ m	£ m	£ m
LGIM UK Corporate Bonds	7.7	60.3	55.6	64.9
LGIM UK Index Linked	21.4	124.3	97.7	150.9
JPM Absolute Return Bonds	3.1	114.6	111.0	118.1
BCPP Investment Grade Credit	8.2	184.0	170.0	197.9
Total		**483.2**	**434.4**	**531.9**

Asset Type	Duration	Value as at 31 March 2020	Value on 1% increase	Value on 1% decrease
	Years	£ m	£ m	£ m
LGIM UK Corporate Bonds	7.6	57.1	52.7	61.4
LGIM UK Index Linked	21.4	121.8	95.7	147.9
JPM Absolute Return Bonds	3.1	122.8	112.4	133.2
BCPP Investment Grade Credit	8.5	173.1	167.7	178.4
Total		**474.7**	**428.5**	**521.0**

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund holds both monetary and non-monetary assets denominated in currencies other than £UK. Our investment adviser has provided an estimate of 10% volatility for a pooled overseas fund.

A strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows. This analysis assumes that all other variables, in particular interest rates, remain constant. The prior year comparator is shown below and based on the Fund's segregated overseas mandate which has now transitioned to the BCPP pool:

Asset Type	Value as at 31 March 2021	Potential market movement	Value on increase	Value on decrease
	£ m	£ m	£ m	£ m
Overseas Pooled Funds	1,113.7	109.1	1,222.9	1,004.6
Total	**1,113.7**	**109.1**	**1,222.9**	**1,004.6**

Asset Type	Value as at 31 March 2020	Potential market movement	Value on increase	Value on decrease
	£ m	£ m	£ m	£ m
Overseas Pooled Funds	727.3	72.7	800.0	654.6
Total	**727.3**	**72.7**	**800.0**	**654.6**

Note: Segregated mandates have been transitioned the BCPP pool

Credit risk

Credit risk represents the risk that the counterparty to a transaction will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high-quality counterparties and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Pension Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments, particularly cash to meet pensioner payroll and other benefit costs, and cash to meet investment commitments.

The Pension Fund has immediate access to its cash holdings and has had a long-term positive cash flow. Cash flow surpluses are invested with fund managers. The Pension Fund is authorised to borrow on a short-term basis to fund cash flow deficits.

The actuary to the Pension Fund produces regular cash flow forecasts which are presented to the Investment Sub-Committee.

All financial liabilities as at 31 March 2021 are due within one year.

Note 27: Funding arrangements

In line with The Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019 and set contribution rates for the three years commencing 1 April 2020.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- to ensure that employer contribution rates are as stable as possible;

- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the council taxpayer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 19 years and to provide stability in contribution rates by spreading any increases in rates over a period of time. Normally this is three years but, in some cases, an extended period can be granted. Solvency is achieved when the funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable. When an employer's funding level falls significantly short of the 100% funding target, then a deficit recovery plan will be put in place requiring additional contributions from the employer to meet the shortfall.

At the 2019 actuarial valuation, the Fund was assessed as 92% funded. This corresponded to a deficit of £180m.

Contribution increases were phased in over the three-year period ending 31 March 2023. The common contribution rate (i.e. the rate which all employers in the Fund pay) is as follows.

Valuation Date	31 March 2019
Total contribution rate	
Primary Rate (% of pay)	20.1%
2018/19 Secondary Rate £000	60.71
2018/19 Secondary Rate £000	62.51
2019/20 Secondary Rate £000	64.36

Individual employer rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2019 actuarial valuation report and the funding strategy statement on the Fund's website.

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions are as follows:

Financial assumptions

Financial assumptions	31 March 2019
	%
Post Retirement Discount Rate	3.7%
Salary Increases	3.1%
Price Inflation/Pension Increases	2.3%

Demographic assumptions

Assumed life expectancy from age 65 is as follows:

Demographic assumptions	31 March 2019	
Assumed life expectancy at age 65	**Male**	**Female**
Pensioners	21.6	23.8
Non-pensioners	22.5	25.4

Commutation assumptions

It is assumed that future retirees will take 50% of the maximum additional tax-free lump sum up to HMRC limits for pre-April 2008 service and 75% of the maximum for post-April 2008 service.

50:50 Option

1.0% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option.

Note 28: Actuarial present value of promised retirement benefits

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund contribution rates and the Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 27). The following is the full Pension Fund Accounts Reporting Requirement provided by the Scheme Actuary.

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2019/20 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the Warwickshire Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

31 March 20120 £m		31 March 2021 £m
1,167	Active members	1,774
651	Deferred pensioners	905
1,089	Pensioners	1,180
(2,907)	Present value of promised retirement benefits (£m)	(3,859)
2,025	Fair Value of scheme assets (bid value) (£m)	2,552
(882)	Net Liability	(1,307)

The promised retirement benefits at 31 March 2021 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2021 and 31 March 2020. I estimate that the impact of the change in financial assumptions to 31 March 2021 is to decrease the actuarial present value by £792m. I estimate that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £47m.

Financial assumptions

Year ended (% p.a.)	31 March 21	31 March 20
	%	%
Inflation/pensions increase rate	2.85%	1.9%
Salary increase rate	3.65%	2.7%
Discount rate	2.00%	2.3%

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2020 model, with a 0% weighting of 2020 data, standard smoothing (Sk7), initial adjustment of 0.5% and a long term rate of improvement of 1.5% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	21.8 years	24.2 years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	23.0 years	26.1 years

Please note that the longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

Commutation assumptions

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

Sensitivity analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2021	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	9%	360
0.5% p.a. increase in the Salary Increase Rate	1%	36
0.5% p.a. decrease in the Real Discount Rate	10%	404

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1-year increase in life expectancy would approximately increase the liabilities by around 3-5%.

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2021 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

Robert Bilton
20 October 2021
For and on behalf of Hymans Robertson LLP

Note 29: Current assets

31 March 2020 £m		31 March 2021 £m
	Debtors:	
1.2	Contributions due: Employees	1.4
5.7	Contributions due: Employers	6.0
1.6	Invoiced debtors	0.8
0.6	Sundry debtors	0.2
3.6	Cash balances	17.0
12.6	**Total**	**25.4**

Note 30: Current liabilities

31 March 2020 £m		31 March 2021 £m
	Liabilities:	
1.5	Owed to administering authority	0.6
1.5	Sundry Creditors	2.4
0.9	Benefits Payable	0.4
3.8	**Total**	**3.4**

Note 31: Additional Voluntary Contributions

Contributions Paid 2019/20 £000's	Market Value 31 March 2020 £m		Contributions Paid 2020/21 £000's	Market Value 31 March 2021 £m
334.8	2.4	Standard Life	342.7	2.8
1.6	0.2	Utmost Life and Pensions	1.4	0.2
336.4	**2.6**	**Total**	**344.1**	**3.0**

Note 32: Related Party Transactions

Warwickshire County Council

The Warwickshire Pension Fund is administered by Warwickshire County Council. Consequently, there is a strong relationship between the council and the pension fund.

During the reporting period, the council incurred costs of £1.9m (2019/20: £1.6m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The council is also the single largest employer of members of the pension fund. Employee and employer contributions from the council amounted to £41.7m in 2020/21 (£39.3m in 2019/20).

Border to Coast Pensions Partnership

The Warwickshire Pension Fund, through Warwickshire County Council as the Administering Authority, is a shareholder in Border to Coast Pensions Partnership Limited. The Partnership is a wholly owned private limited company registered in England and Wales founded to carry out pension fund asset pooling obligations set out by the Government. The company provides the facility to pool the pension fund investments of 11 local authorities in order to gain the benefits of economies of scale, concentration of expertise and improved ability to reduce investment costs. The company was incorporated in 2017/18 and the first transfers of investment assets into the pool occurred in 2018/19. As at the balance sheet date all 11 partners own an equal 1/11th share of the company.

The Border to Coast Pensions Partnership is a joint venture that brings risks as well as benefits. The partnership has grown significantly, for example in terms of the value of assets under management and the number of personnel employed. At Fund level the pool manages 1/3 of total AUM. Pooling and membership of the Border to Coast Pensions Partnership is a regular and high-profile feature of reporting to the Pension Fund Investment Sub-Committee and the Fund's risk register has regard to key pooling risks.

Governance

There are two members of the Pension Fund Investment Sub-Committee who are in receipt of pension benefits from the Warwickshire Pension Fund.

Each member of the Pension Fund Investment Sub-Committee is required to declare their interests at each meeting.

There is one member of the Local Pension Board who is an active member of the Warwickshire Pension Fund.

Key management personnel

Several employees of Warwickshire County Council hold key positions in the financial management of the Warwickshire Pension Fund, alongside responsibilities for Warwickshire County Council directly. The posts of Strategic Director for Resources (2%), Assistant Director Finance (16%), Strategy and Commissioning Manager (50%), Finance Service Manager Transformation (30%), Technical Specialist Pensions (100%), Lead Commissioner Pensions and Investment (100%), and Pensions Admin Delivery Lead (100%) are considered to be key management personnel. These employees and their financial relationship with the Fund are set out below.

	2020/21 £	2019/20 £
Short-term benefits	256.7	108.0
Post-employment benefits	630.6	103.4

Note 33: Contingent Liabilities and Contractual Commitments

Outstanding capital commitments at 31 March 2021 totalled £364.0m. Of this, £99.6m related to Private Equity, £187.3m related to Infrastructure, and £77.1m related to Private Debt. During 20/21 the Fund committed to BCPP Series 1C alternatives (across Infrastructure, Private Equity and Private Debt) to a value of £120m.

Glossary

A

Actuarial valuation
A review of the assets and *liabilities* of a pension fund to determine the surplus or deficit, and the future rate of contributions required.

Alternative investments
Investments other than the mainstream *asset classes* of *equities* and *bonds*. Alternatives include h*edge funds, private equity, private debt, infrastructure* and *commodities*. Property is also sometimes described as an alternative.

Asset allocation
The apportionment of a fund's assets between different *asset classes.*

B

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

C

Currency risk
Investing in any securities not denominated in the investor's own base currency introduces currency risk due to the *volatility* of foreign exchange rates.

D

Defined benefit scheme
A type of pension scheme where the pension that will ultimately be paid to the employee is fixed, usually as a percentage of final salary. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the pension promised. Compare with *defined contribution scheme*.

Deferred Pensioners
Members of the Pension Fund who are no longer active employees making contributions to the Fund but who are not yet receiving their pension (may also be referred to as Deferred Members).

Diversification
The spreading of investment funds among different types of assets, markets and geographical areas in order to reduce *risk*.

H

Hedge Funds
A hedge fund is a capital pool that has the ability to use *leverage* and to take both *long* and *short* positions with the aim of achieving an *absolute return*. A large variety of hedge fund strategies exist, and the level of risk taken will vary. Investors looking for a diversified exposure to hedge funds will normally opt for a fund of hedge funds – a fund with underlying investments in several hedge funds covering different strategies and geographical areas.

I

IAS19 (International Accounting Standards)
An accounting standard which requires organisations to incorporate their pension funds into their balance sheets and specifically that all pension fund *liabilities* should be valued using an AA corporate bond yield. Any mismatch between assets and liabilities is effectively brought on to the organisation's balance sheet.

IAS1
An accounting standard that sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

P

Private equity
Funds put up by investors to finance new and growing businesses. Also known as venture capital.

Pooled funds
Pooled funds are where the Fund does not directly own underlying assets.

Private Debt
Private debt comprises mezzanine and other forms of debt financing that comes mainly from institutional investors such as funds and insurance companies – but not from banks.

R

Risk
In its simplest sense, risk is the variability of *returns*. Investments with greater inherent risk must promise higher expected returns if investors are to invest in them. Risk management is an important aspect of portfolio management and involves the use of complex statistical models.

S

Stock lending
The lending of a security by the registered owner, to an authorised third party, for a fixed or open period of time, for an agreed consideration secured by *collateral*. The demand to borrow *securities* comes mainly from *market makers* to cover short positions or take *arbitrage* opportunities.

T

Transaction costs
Those costs associated with trading on a portfolio, notably *stamp duty* and *commissions*.

Communications

We communicate with our scheme members and employers in various ways:

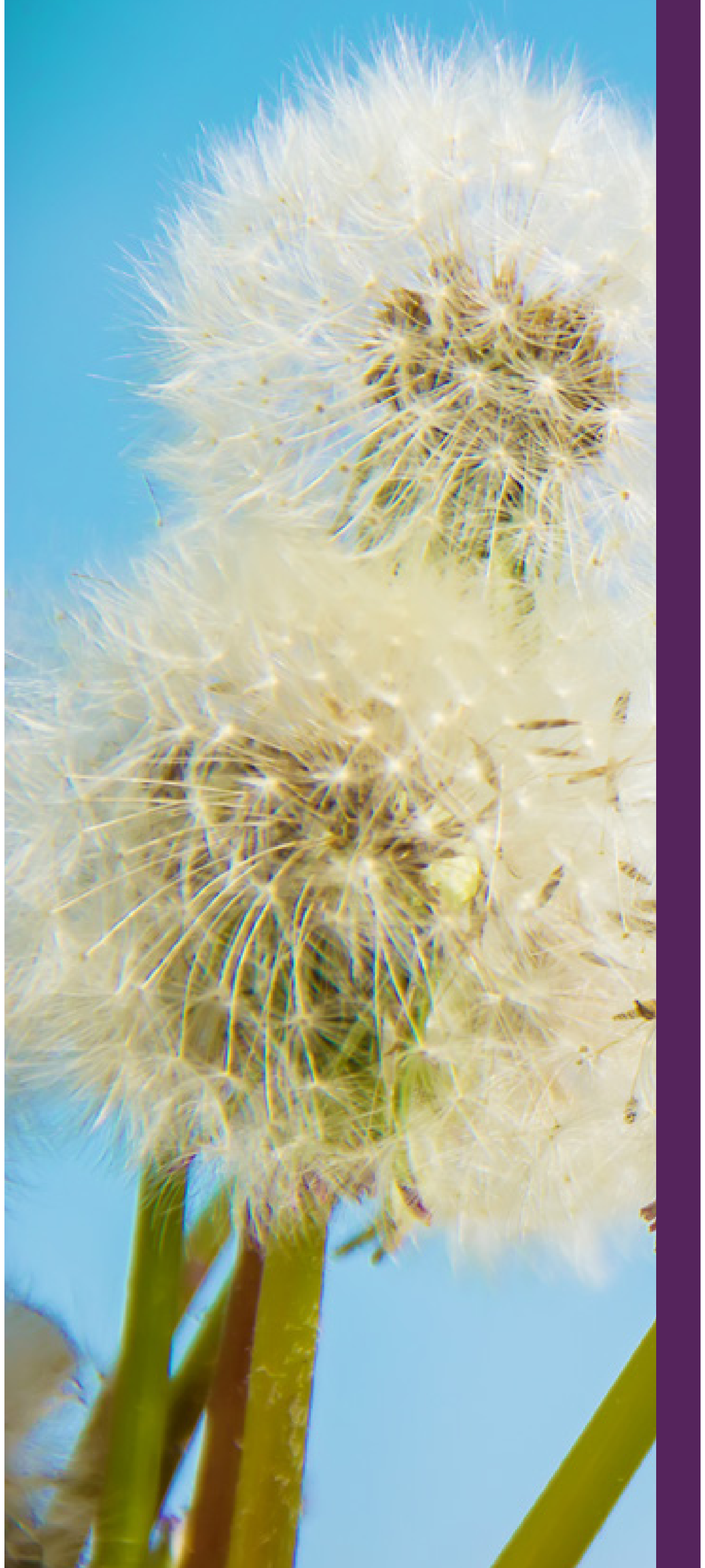
- Periodic newsletters are produced for scheme members, pensioners and preserved beneficiaries. These are either sent to their home address or are made available online and via employer intranets.
- All new employees have the opportunity to opt out of the pension scheme by completing an online form.
- A brief guide is available online for all new employees.
- Comprehensive guides are available online for all members.
- The Fund's website is available allowing employers and members to access key information and to stay up to date with changes to the scheme. Updates are made available on employer intranets.
- Factsheets are produced on a variety of circumstances such as, divorce/dissolution, dependant benefits, TUPE etc. These are available online.
- Online newsletters are issued periodically to our employers.
- Campaigns notifying members of specific scheme benefits, for example nominated cohabiting partners and expressions of wish (death grants), are issued on employer intranets.
- An annual benefit statement is issued to the home address of all current active and preserved members.
- All our benefit statements, newsletters and factsheets are produced in partnership with several neighbouring pension funds including Staffordshire, Shropshire, Cheshire West, Worcestershire, Cambridgeshire and Northamptonshire (LGSS), Oxfordshire, Bedfordshire and Surrey.
- An annual meeting is held for all pension fund employers to attend.
- Pension administration staff are available to present to employers and members. We hold pension surgeries providing members with the opportunity to discuss their benefits in confidence.
- An annual training forum is held for all scheme employers.
- Staff are available to discuss general enquiries from 8am to 5:30pm at our office either by telephone or to visit. In exceptional circumstances we are available for home visits either by telephone or emailing pensions@warwickshire.gov.uk.
- Quarterly bulletins on the investment performance of the fund are distributed to all members of the Pension Fund Sub Committee.
- An annual report is made available online.
- The report is produced on our website and hard copies are available on request.

Contact details

Pension Services
Warwickshire County Council
Resources Directorate
Shire Hall
Warwick
CV34 4RL

Telephone Number:
01926 412504 Benefits
01926 412138 Membership
01926 412186 Communications
01926 412227 Investments

Fax Number: 01926 412962
E-mail: Pensions: pensions@warwickshire.gov.uk
Investments: wpfinvestments@warwickshire.gov.uk
Website: www.warwickshirepensionfund.org.uk



Addresses of Fund Managers and Advisors

Global Custodian

BNY Mellon Global Securities Services
1 Canada Square
London
E14 5AL

AVC Provider

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

(Heritage Equitable Life customers)

Utmost Life and Pensions
Walton Street
Aylesbury
Bucks
HP21 7QW

Fund Actuary and Investment Consultant

Hymans Robertson
20 Waterloo Street
Glasgow
G2 6DB

Fund Auditor

Grant Thornton UK LLP
Colmore Plaza
20 Colmore Circus
Birmingham
B4 6AT

Fund Managers

Columbia Threadneedle Investments
Cannon Place
78 Cannon Street
London
EC4N 6AG

Legal & General Investment Management Ltd
One Coleman Street
London
EC2R 5AA

Alcentra Ltd
160 Queen Victoria Street
London
EC4V 4LA

Schroder Investment Management Limited
31 Gresham Street
London
EC2V 7QA

HarbourVest Partners (U.K.) Limited
3rd Floor
33 Jermyn Street
London
SW1Y 6DN

JP Morgan Asset Management
60 Victoria Embankment
London
EC4Y 0JP

Partners Group
110 Bishopsgate
14th Floor
London
EC2N 4AY

Aberdeen Standard Investments
Bow Bells House
1 Bread St
London
EC4M 9HH

Border to Coast Pensions Partnership Ltd
5th Floor
Toronto Square
Leeds
LS1 2HJ

PIMCO
11 Baker Street
London
W1U 3AH

WARWICKSHIRE
pension fund

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