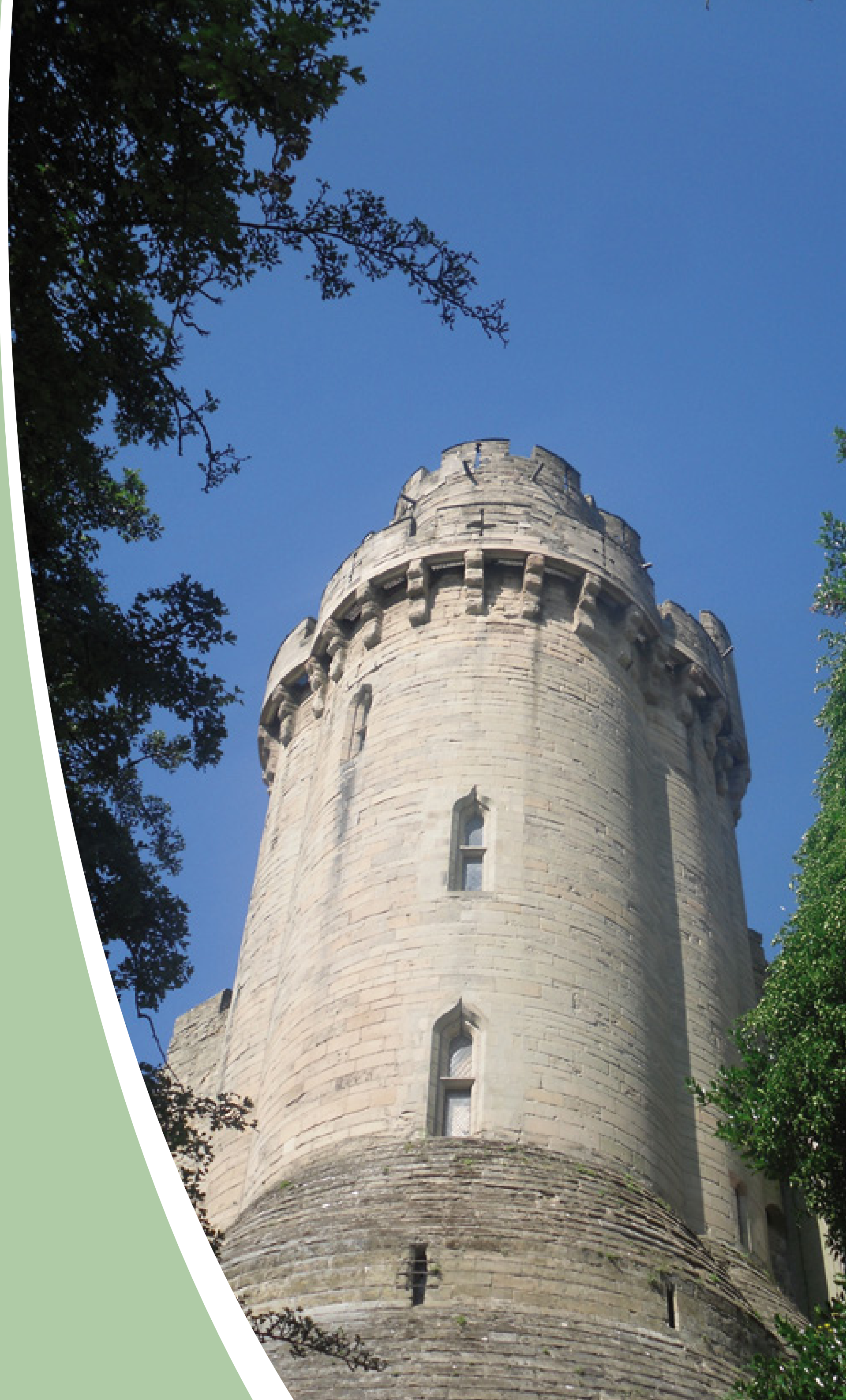


Warwickshire County Council

Pension Fund

Annual Report & Financial Statements

2012-2013

WARWICKSHIRE
pension fund

Warwickshire
County Council

Working for Warwickshire

Contents

This annual report refers to the 'Pension Fund Investment Board'. Following County Council elections in May 2013 the board was re-named the 'Pension Fund Investment Sub-Committee'.

Chairman's Statement

JohnAppleton
Chairman of the Pension Fund Investment Board

This is my first report as Chairman, I would like to thank the outgoing Chairman, Chris Davis, who stood down in May 2013 following his decision not to seek re-election as a County Councillor, on behalf of all the members, for all of his hard work and dedication. In May we welcomed Councillors Doughty, Gifford and Horner to the Pension Fund Investment Sub-Committee.

Last year our investments delivered excellent returns, the fund increased in value by over £167 million, to over £1.37 billion. On the administration side we have seen the number of employers increase as schools choose to convert to academy status and employers consider alternative means of service delivery.

The 2013 Actuarial Valuation is now well underway. Whilst investment returns have exceeded the Actuary's assumption made in the 2010 valuation, the impact of the fall in yields on Government bonds outweighs the investment gains as this has had an adverse impact on the valuation of liabilities.

Our ninth Annual Meeting took place on 23 November 2012, with many of our employers represented, and we were pleased to welcome back Paul Craven from Goldman Sachs continuing his talk about behavioural finance.

During the year we implemented the decision to invest part of the fund in absolute return type investments in both multi-asset and bond funds. I am pleased to report that we have appointed JP Morgan Asset Management and Barings Asset Management to manage these new investment classes.

Introduction from the Head of Finance

John Betts
Head of Finance

Our pension fund continues to perform strongly. Following last year's review of the investment strategy we have appointed two new managers to invest part of the fund in absolute return funds as part of our diversification strategy. I am pleased that our investments have performed well again this year, and the value of the fund has increased by over £167 million. I am aware that a significant proportion of our employee members had a pay freeze in 2013/14.

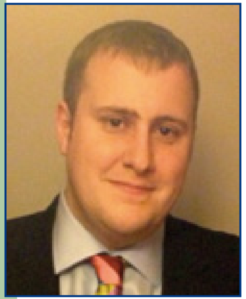
The year has seen many challenges and tribulations for the fund. We kept the global economic situation under close review. We actively contributed to the preparations for the 2014 LGPS scheme, as well as working hard to ensure that all employee and employer members are aware of the changes from April 2014.

As I write this report there are a number of ongoing projects that kept us busy in 2012/13 and are ongoing in 2013/14. The 2013 Actuarial valuation process is nearing completion, this is the culmination of over a year of hard work by the team to ensure that the Actuary has all the information and data he needs to carry out the triennial valuation.

We have also been working with employers to help them prepare for auto-enrolment; this will hopefully increase the number of members in the scheme.

I am sure that 2013/14 will be equally as busy as this year with its own risks and challenges.

Report from the Treasury and Pension Fund Manager



Mat Dawson
Treasury and Pension Fund Manager

In January 2013 we placed money with two new fund managers, both fit the "absolute return" category which ignores relative return and always seeks to make money for investors regardless of what may be happening in markets.

Our first new fund manager is JP Morgan, 5% of our fund is now in their "Strategic Bond Fund". Our thinking was that in order to earn any real yield with central bank rates remaining depressed we have to think tactically and, most importantly, put our confidence behind the manager to use their talents by freeing them from restrictions and constraints. This particular product targets a return of 3% over cash which, if achieved, is a healthy return to a portfolios fixed income allocation.

The second new fund manager is the Baring Dynamic Asset Allocation Fund also with 5% of our total fund. This is a well established fund that has performed solidly but more importantly we think will continue to do so. The fund invests in fixed income as above but also equities and alternatives, the inclusion of risk assets means we do expect more from this fund versus the J P Morgan product with the targeted performance at 4% over cash.

Many investors fell out of love with active management in the last decade, however, our segregated mandates with MFS (Global equity) and Threadneedle (UK equity) prove that conviction in active strategies can pay off with the right managers. MFS have delivered a five year annualised return of 12.9% versus a benchmark of 7.8%, an outstanding performance which is no coincidence given their favoured approach of picking quality defensive companies, and these are never more popular than when investors are licking their wounds after a head-on collision with a fat tail event like we saw in 2008. Threadneedle, over the same period also outperformed delivering 7.6% against a benchmark of 6.8%.

I hope you enjoy the report, any feedback you have would be welcomed.

Report from the Pensions Services Manager

Neil Buxton
Pensions Service Manager

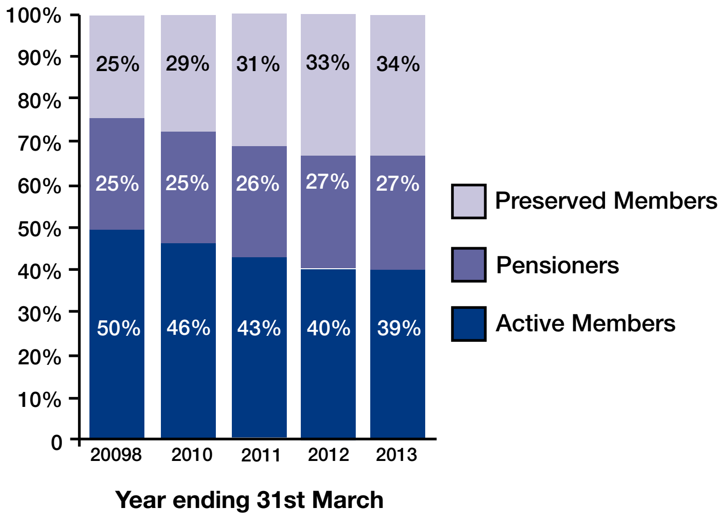
In last years' report I referred to the major changes faced by the Local Government Pension Scheme (LGPS) as a result of Lord Hutton's review of public service pension schemes. The scheme changes will go ahead from 1 April 2014 and stakeholders around the country have been working on ensuring that the regulations are in place in time for those major changes to be implemented.

Along with neighbouring administering authorities we are reviewing our communications strategy in an endeavour to keep members and employers up to date with the changes to the scheme and the inevitable changes to our administrative procedures. On a national basis, the Local Government Association and the Department for Communities and Local Government have been providing pensions software and payroll systems providers with updates on the changes which will need to be implemented prior to the new regulations coming into force.

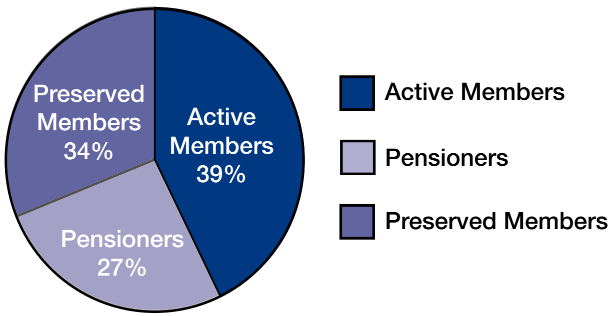
And there is still the day job! The upgrade to our pension administration system went ahead in late December and was far smoother than anticipated with none of the hitches one tends to expect and plan for when you move or implement upgraded systems. The project to have all correspondence stored electronically continues with all correspondence for over 15,500 scheme members now stored on the administration system and the extension of this to encompass over 13,000 preserved benefits records continues. The storing of this electronically together with a comprehensive workflow system saves the team an enormous amount of time and improves our service to our customers.
The major task for the year has to be the submission of data to the Actuary for the Pension Fund for the triennial valuation and I would like to record my thanks to all the employers for the quality of the data submitted and their help in resolving any queries we referred to them.

The coming twelve months will see more work on LGPS 2014 with representatives of the team going on the road visiting sites around the County explaining the provisions of the new scheme. The communications exercise will continue with our partners to ensure leaflets and guides are issued to members prior to April 2014.

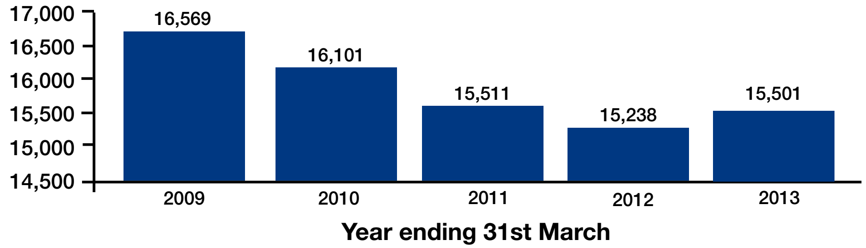
Scheme Membership profile over the last 5 years



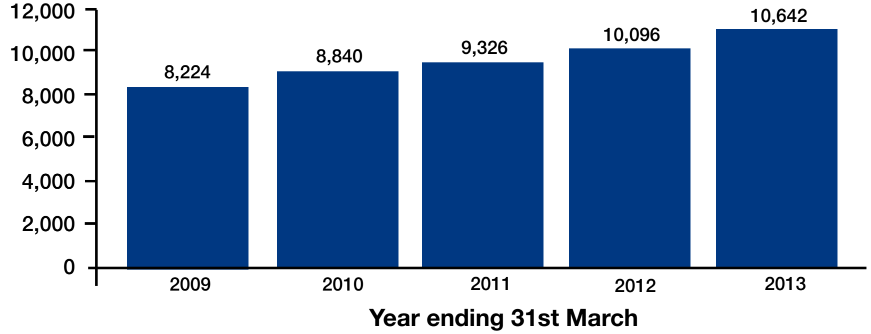
Membership profile as at 31 March 2013



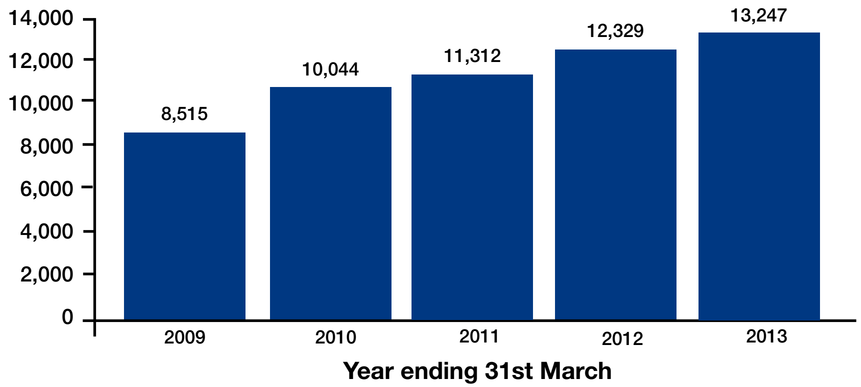
Active Membership in the last 5 years



Pensioners in the last 5 years



Preserved Members over the last 5 years



1. Pensions Administration Performance Indicators

Indicator	Target	Achieved
Letter detailing transfer in quote	10 days	100%
Letter detailing transfer out quote	10 days	100%
Process refund and issue payment voucher	5 days	94%
Letter notifying estimate of retirement benefit	10 days	89%
Letter notifying actual retirement benefit	5 days	100%
Letter acknowledging death of member	5 days	99%
Letter notifying amount of dependants benefits	5 days	90%
Calculate and notify deferred benefits	10 days	75%

2. Pensions Administration Full Time Equivalent Staff

Pensions Admin total		13.1
less		
IT Staff	-0.5	
Payroll Staff	-1.0	
Communications Staff	-1.5	
Employing authority work	-1.3	
Work for other schemes	-0.7	
Admin of LGPS		**8.1**

Participating Employers

Warwickshire County Council administers on behalf of the County Council, district and borough councils and other public service organisations.

Scheduled Bodies

- Alcester Grammar Academy
- Alcester High Academy
- Alcester Town Council
- Ash Green Academy
- Ashlawn Academy
- Atherstone Town Council
- Aylesford School Academy
- Bilton High Academy
- Bishops Itchington Parish Council
- Bidford upon Avon Parish Council
- Campion School Academy
- Clifton on Dunsmore Parish Council
- Coleshill Academy
- Coleshill Town Council
- Community Academy Trust
- Curdworth Parish Council
- Etone Academy
- Griffin Trust Academy
- Henley High Academy
- Henry Hinde Academy
- Higham Lane Academy
- King Edward VI College, Nuneaton
- Kingsbury Parish Council
- Long Itchington Parish Council
- Mancetter Parish Council
- Myton Academy
- North Warwickshire and Hinckley College
- North Warwickshire Borough Council
- The Midlands Academies Trust
- Nuneaton and Bedworth Borough Council
- The Priors Free School Academy
- Reach 2 Academy
- Rugby Borough Council
- Royal Leamington Spa Town Council
- Rugby High Academy
- Ryton on Dunsmore Parish Council
- Shipston High Academy
- Shipston Town Council
- Southam Town Council
- Stratford upon Avon College
- Stratford on Avon District Council
- Stratford on Avon Girls Grammar Academy
- Stratford on Avon King Edward VI Academy
- Stratford on Avon School Academy
- Stratford upon Avon Town Council
- Studley High Academy
- Tanworth in Arden Academy
- Warwick District Council
- Warwickshire College
- Warwickshire County Council
- Warwickshire Police and Crime Commission
- Warwickshire Probation Trust
- Warwickshire Valuation Tribunal
- Wellesbourne Parish Council
- Whitnash Town Council

Admitted Bodies

- ABM Catering
- Alliance in Partnership (2 contracts)
- Balfour Beatty
- Bedworth, Rugby and Nuneaton Citizens Advice Bureau
- Class Catering (8 contracts)
- Coventry Mind
- Goldcrest Cleaning
- Mid Warwickshire MENCAP
- North Warwickshire Citizens Advice Bureau
- Nuneaton and Bedworth Leisure Trust
- Orbit Housing and Care Group (Sanctuary Housing)
- Orbit Housing Group
- Rugby Town Centre Company Limited
- Shipston Leisure
- Solihull School
- Stratford and District MENCAP
- Stratford upon Avon Council for Voluntary Service
- Stratford upon Avon Citizens Advice Bureau
- Stratford upon Avon Town Trust Co Ltd
- Taylor Shaw (3 contracts)
- The Rowan Organisation
- Warwick District Citizens Advice Bureau
- Warwick Schools
- Warwickshire Association for the Blind
- Warwickshire Care Services Ltd
- Warwickshire Day Care Centres
- Warwickshire Welfare Rights Service
- Westfield Community Development Association
- Stonham (Home Group Ltd)

Other bodies with pensioners but no pensionable employees

- Beaudesert and Henley-in-Arden Joint Parish Council
- Lapworth Parish Council
- North Warwickshire Council for Voluntary Service
- Nuneaton and Bedworth Council for Voluntary Service
- People in Action
- Remnant Water Authority
- Rugby Council for Voluntary Service
- Rugby MENCAP Hostels
- Rugby MIND and Rugby Mental Health Association
- Severn Trent Water Plc
- Solihull Metropolitan Borough Council
- St Paul’s College
- Stretton on Dunsmore Parish Council
- Warwick Town Council
- Youth Clubs UK (ceased October 2010)

Contributions Paid 2012/13

Employers Contributions

> £20m
Warwickshire County Council
(including foundation schools)

< £3m
Warwickshire Police Authority
Nuneaton & Bedworth Borough Council

< £2m
Warwick District Council
Warwickshire College, Leamington,
Rugby & Moreton Morrell
Rugby Borough Council
North Warwickshire Borough Council
Stratford-On-Avon District Council

< £1m
North Warwickshire & Hinckley College
Warwickshire Probation Trust

< £500k
Midland Academies Trust
Warwick Schools
Stratford-Upon-Avon College
People in Action
Warwickshire Care Services Ltd
N B Leisure Trust
Stratford upon Avon High School Academy
Myton School Academy
Balfour Beatty
Heart of England Housing Group Ltd
Solihull School
Ashlawn Academy
Bilton High School (Academy)
Community Academy Trust
Campion School Academy
Avon Valley School
Coleshill School Academy
Etone College
Higham Lane Academy
Polesworth Academy
Studley High Academy

< £100k
The Rowan Organisation
Aylesford School
Alcester High School Academy
King Edward VI College Nuneaton
Stratford Girls Grammar Academy
Rugby High Academy
Atherstone Queen Elizabeth School
Ash Green School
Alcester Grammar Academy
Henley High School Academy
Stratford-Upon-Avon King Edward
VI Academy
Heart of England Housing & Care Ltd

< £50k
Hartshill School
Shipston on Stour High School (Academy)
REAch Academy
Dunchurch Infant School
Stratford-Upon-Avon MENCAP
Bedworth & District Citizens Advice Bureau
Henry Hinde Infants Academy
Stratford-Upon-Avon Town Trust Co. Ltd
Rugby Town Centre Company Ltd
Stratford-Upon-Avon Town Council
Warwick District Citizens Advice Bureau
Shipston Primary School
St Nicholas CoE Primary Alcester
Warwickshire Welfare Rights Service
Middlemarch Middle School
The Griffin Trust (Race Leys Academy)
Studley St Mary's School
Tanworth in Arden CoE Academy
Westfield Community Development Association
Warwickshire Valuation Tribunal
Warwick Association for the Blind
Taylor Shaw Catering (Myton Sch)
Tanworth in Arden School
Wolverton Junior & Infant School

< £10k
Dunnington CoE Junior & Infant School
Royal Leamington Spa Town Council
Haselor School
Stonham (Home Group Ltd)
Temple Grafton School
Shipston On Stour Town Council
Mappleborough Green School
Alcester Town Council
Stratford-Upon-Avon Council for Voluntary
Service
Stratford-Upon-Avon Citizens Advice Bureau
Atherstone Town Council
Moreton Morrell CoE School
Coleshill Town Council
North Warwickshire Citizens Advice Bureau

< £5k
Goldcrest Cleaning Ltd (WDC)
WCS Day Care Centres
Bidford-On-Avon Parish Council
Southam Town Council
Class Catering (Thomas Jolyffe)
Wellesbourne Parish Council
Whitnash Town Council
ABM Catering North Leam School
Mid Warwickshire MENCAP
Ryton on Dunsmore Parish Council
Bishops Itchington Parish Council
Alliance In Partnership - Henley
Stratford-Upon-Avon Citizens Advice Bureau
Long Itchington Parish Council
Mancetter Parish Council
Class Catering (Budbrooke Primary)
Class Catering (The Willows)
Class Catering (Round Oak Sch & Support
Service)
Alliance in Partnership - Tanworth In Arden
& Lapworth
Kingsbury Parish Council
Clifton upon Dunsmore Parish Council
The Priors Free School
Curdworth Parish Council
Class Catering (Bridgetown Sch)
Class Catering (St Mary Immaculate)
Lawrence Cleaning Racemeadow
Mappleborough Green School (Alliance in
Partnership)
Class Catering (SoA Primary Sch)
Coventry and Warwickshire Mind

Employees Contributions

< £10m
Warwickshire County Council
(including foundation schools)

< £2m
Warwickshire Police Authority

< £1m
Nuneaton & Bedworth Borough Council
Warwick District Council
Warwickshire College, Leamington, Rugby & Moreton Morrell
Rugby Borough Council

< £500k
North Warwickshire Borough Council
Stratford-On-Avon District Council
North Warwickshire & Hinckley College
Warwickshire Probation Service
Warwick Schools
Stratford-Upon-Avon College
Midland Academies Trust
N B Leisure Trust

< £100k
Solihull School
Balfour Beatty
Myton School Academy
Stratford upon Avon High School Academy
Heart of England Housing Group Ltd
Polesworth Academy
Ashlawn Academy

< £50k
Avon Valley School
Bilton High School (Academy)
Coleshill School Academy
Campion School Academy
Higham Lane Academy
Etone College
The Rowan Organisation
Community Academy Trust
Polesworth Academy
Warwickshire Care Services Ltd
King Edward VI College Nuneaton
Studley High Academy
Alcester High School Academy
Atherstone Queen Elizabeth School
Rugby High Academy
Aylesford School
Stratford Girls Grammar Academy
Ash Green School
Henley High School Academy
Alcester Grammer Academy
Stratford upon Avon King Edward VI Academy
Heart of England Housing & Care Ltd
Hartshill School
Bedworth & District Citizens Advice Bureau
Stratord-Upon-Avon MENCAP
Stratford-Upon-Avon Town Trust Co. Ltd
Dunchurch Infant Scool
REAch2 Academy
Warwick District Citizens Advice Bureau
Shipston on Stour High School (Academy)
Rugby Town Centre Company Ltd
Stratford-Upon-Avon Town Council

< £10k
Shipston Primary School
St Nicholas CoE Primary, Alcester
Warwickshire Welfare Rights Service
Henry Hinde Infants Academy
Middlemarch Middle School
People in Action
Studley St Mary's School
Wawrick Association for the Blind

< £5k
The Griffin Trust (Race Leys Academy)
Tanworth in Arden CoE Academy
Warwickshire Valuation Tribunal
Royal Leamington Spa Town Council
Tanworth in Arden School
Wolverton Junior & Infant School
Taylor Shaw Catering (Myton Sch)
Dunnington C of E Junior & Infant School
Haselor School
Westfield Community Development Association
Stonham (Home Group Ltd)
Stratford-Upon-Avon Council for Voluntary Service
Temple Grafton School
Shipston On Stour Town Council
Mappleborough Green School
Alcester Town Council
Atherstone Town Council
North Warwickshire Citizens Advice Bureau
Moreton Morrell Church of England School
Coleshill Town Council
Bidford-On-Avon Parish Council
WCS Day Care Centres
Goldcrest Cleaning Ltd (WDC)
Southam Town Council
Wellesbourne Parish Council
Whitnash Town Council
ABM Catering North Leam School
Class Catering (Thomas Jolyffe)
Mid Warwickshire MENCAP
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Bishops Itchington Parish Council
Stratford-Upon-Avon Citizens Advice Bureau
Long Itchington Parish Council
Mancetter Parish Council
Class Catering (Budbrooke Primary)
Class Catering (The Willows)
Class Catering (Round Oak Sch and Support Service)
Alliance in Partnership - Tanworth In Arden & Lapworth
Kingsbury Parish Council
The Priors Free School
Clifton upon Dunsmore Parish Council
Curdworth Parish Council
Class Catering (St Mary Immaculate)
Class Catering (Bridgetown Sch)
Lawrence Cleaning Racemeadow
Mappleborough Green School (Alliance in Partnership)
Class Catering (SoA Primary Sch)
Coventry and Warwickshire Mind
Shipston Leisure

Pension Fund Investment Board

The Role of the Investment Board

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

Membership of the Pension Fund Investment Board in the financial year 2012/13

Councillor Chris Davis
(Liberal Democrat)
Chairman 2012/13

Councillor John Appleton
(Conservative)
Chairman 2013/14

Councillor David Wright
(Conservative)

Councillor Jim Foster
(Conservative)

Councillor Robin Hazelton
(Conservative)

Councillor Brian Moss
(Labour)

Staff, Advisors and Investment Managers

The management and administration of the Pension Fund is delegated to the Head of Corporate Finance. The Treasury and Pensions Group within the Resources Group has responsibility for day-to-day management.

Management and Administration

John Betts CPFA, Head of Finance

Andrew Lovegrove FCA MBA, Strategic Finance Manager

Mat Dawson ACCA, Treasury and Pension Fund Manager

Neil Buxton, MIPP, Pensions Services Manager

Treasury Team: Vicki Forrester, Christine Gough, Jen Turner

Membership Team: Dawn Clutton, Chris Holmes, Sonu Copson, Frank Harding, Amarjit Powar, Sharan Mundey

Benefits Team: Lisa Webb, Ian Morris, Linda Radley, Carly Cleary, Holly Gallan

Firefighters Pension Scheme: Ali Wickens, Anthony Hall

Customer Liaison External Support: Kelly Harrow, Sue Lloyd

Investment Advisors

Independent Advisor: Peter Jones

Actuary: Richard Warden, Hymans Robertson

External Consultants: Paul Potter, Hymans Robertson

Investment Managers

UK Equities: Threadneedle Investments

Global Equities: MFS Investment Management

Fixed Income: Legal and General Investment Management

Passive Index Tracker: BlackRock Global Investors, State Street Global Advisors and Legal and General Investment Management

Fund of Hedge Funds: Blackstone Group International

UK Property: Schroder Investment Management and Threadneedle Investments

Fund of Private Equity Funds: HarbourVest Partners

Absolute Return: Baring Asset Management and JP Morgan Asset Management

The Local Government Pension Scheme

The Warwickshire Pension Fund is part of the Local Government Pension Scheme (LGPS). The LGPS is governed by statute, primarily the Superannuation Act 1972 and the Local Government Pension Scheme (Benefit, Membership and Contributions) Regulations 2007 and the Local Government Pension Scheme (Administration) Regulations 2008. The statutory responsibility for the LGPS falls under the remit of the Minister of State for the Department for Communities and Local Government.

The Warwickshire Pension Fund is administered by the Head of Corporate Finance on behalf of Warwickshire County Council, the five district councils and other scheduled and admitted public service organisations. The administration of the fund is carried out through the Pension Fund Investment Board who meet regularly throughout the year and is made up of elected Warwickshire County Council Members.

At 31 March 2013, the total membership of the fund stood at 39,390 and the total value of the Fund's net assets amounted to £1379.2m million. Of the 39,390 members 15,501 are active members currently contributing to the fund, 13,247 are members with deferred pension rights, and 10,642 are members receiving pensions.

The scheme is open to all local authority employees (except teachers, youth workers, police officers and firefighters who have their own schemes) and for employees of other eligible bodies.

All local government employees (except casual employees) are automatically entered into the scheme and must opt out if they do not want to join. Temporary employees must make an election to join the scheme if they so wish. 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 final year whole time equivalent pay and actual scheme membership. Because the Scheme is a defined benefit scheme members' benefits are calculated strictly in accordance with the Regulations and are not subject to changes generally affecting the fund assets. The Scheme is contracted out of the State Second Pension. This means that any pension paid from the Local Government Pension Scheme must be at least equal to the Guaranteed Minimum Pension (GMP) otherwise provided by SERPS to 5 April 1997.

Detailed below is a summary of the benefits of the LGPS. It is not intended to give details of all benefits provided or the specific conditions that must be met before these benefits can be obtained. Enquiries and further information can be obtained from the Treasury and Pensions Group at Shire Hall, Warwick, telephone (01926) 412234, email pensions@warwickshire.gov.uk.

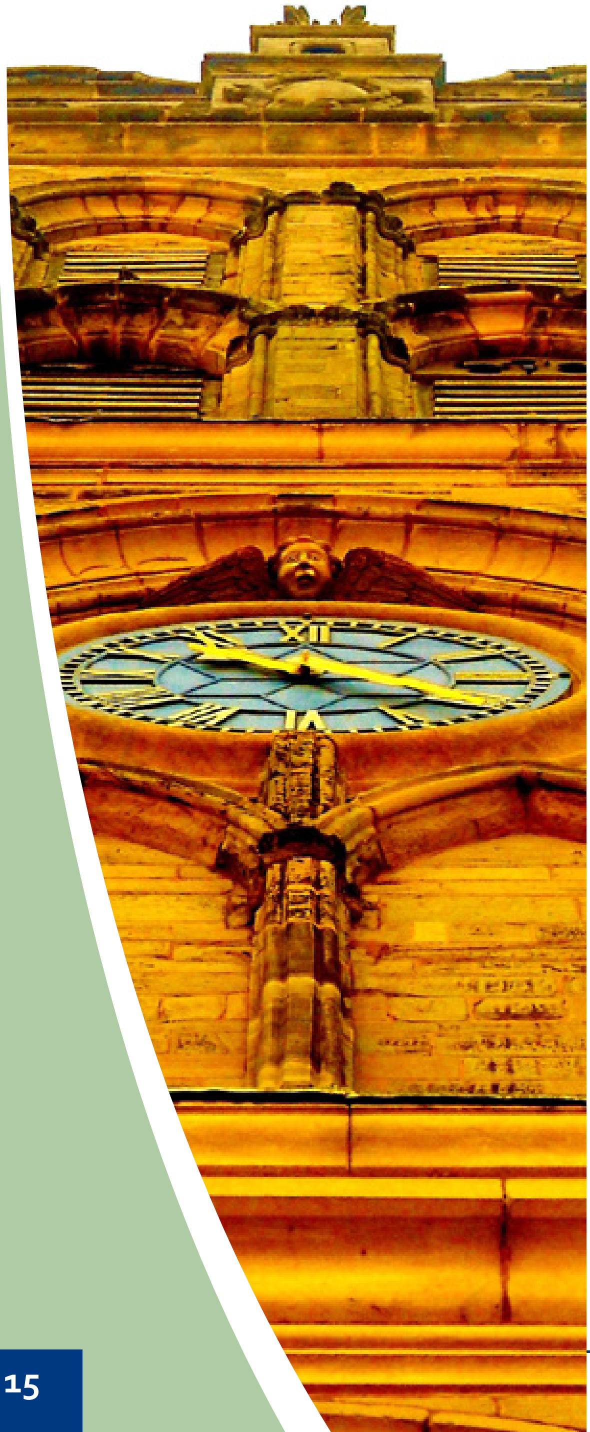
The core benefits of the scheme are:-

- A guaranteed pension based on final pay and the length of service in the scheme.
- The ability to provide a tax-free lump sum by commutation of pension. Members of the scheme prior to 1 April 2008 have a tax free lump of approximately three times the pension accrued based on service to 31 March 2008.
- Life assurance of three times the members yearly pay from the day they join the scheme.
- Pensions for spouses, civil registered partners, qualifying cohabiting partners and eligible children.
- An entitlement paid early if a member has to stop work permanently due to permanent ill health.
- Pensions increases in line with inflation.
- Pensions payable from age 55 with employers consent, including flexible retirement.

Cost of membership

Employees pay on average 6.4% of their pensionable pay and receive tax relief on their contributions.
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 as at the 2010 valuation was 17.6%.

The next triennial valuation this year will set the contribution rates from 2014/15 onwards.



Investment Report for the year ending 31 March 2013

The financial year 2012/13 was generally positive for global equity markets. Extreme turbulence in the first three months of the period gradually eased and most equity indices posted strong returns as the year progressed. Meanwhile, investors grew increasingly optimistic that central bank stimulus measures would lead to global economic recovery and an easing of the eurozone debt crisis. For the year, the MSCI World index produced a total return performance of 14.95% in local currency terms (source: Datastream).

US shares posted a robust performance following a further round of quantitative easing (QE) and corporate results generally exceeded expectations. There was strength in European markets too after the European Central Bank indicated readiness to support eurozone economies and the euro. Asian and emerging markets benefited from looser monetary policy and a decrease in investor risk aversion, plus signs of growth stabilisation in China.

Elsewhere, Japanese equities rebounded on further stimulus and on optimism that political change should bring a more robust approach to generating GDP growth. UK equities staged an impressive rally too, supported by additional QE and tentative signs that the economy may be improving. UK equities were also buoyed by income-seeking investors due to the FTSE's relatively high dividend yield in an environment of near zero interest rates.

This strong performance from equities came despite a negative start to the period as the eurozone debt crisis escalated and investors speculated over a possible break-up of the euro. In Greece, it took several attempts to form a government and contagion spread to Spain, driving Spanish government bond yields to unsustainably high levels. The US job market remained flat and there were concerns that Chinese economic growth would slow further. In Europe, most countries, apart from Germany, struggled to deliver any meaningful economic growth and unemployment remained stubbornly high.

Governments mounted a global response to tackle these issues. Additional bailout funds for Greece, bank re-capitalisations and regional government bailouts in Spain, further central bank liquidity measures, austerity programmes and the loosening of monetary policy – most notably in Europe and China – all reassured equity markets. Some encouraging economic data and corporate results in the US gave the markets fresh impetus, as did the partial resolution of the US government's tax and spending impasse (known as the fiscal cliff).

Positive momentum gathered in equity markets in the early part of 2013, although markets were unsettled by an inconclusive Italian election, a banking crisis in Cyprus and mixed economic data from China.

In bond markets, corporate and high-yield bonds performed well, as investors reacted to strengthening corporate fundamentals and strong demand for credit due to the broader ‘search for income’ theme. The search for higher yields led to more muted returns from government bonds. Nonetheless, the on-going distortions caused by QE served to keep core government bond yields at very low levels compared to history.

UK commercial property posted modestly positive returns over the year, with continued weakness in the retail sector counteracted by pockets of strength in ‘super prime’ assets, particularly in London and the South East.

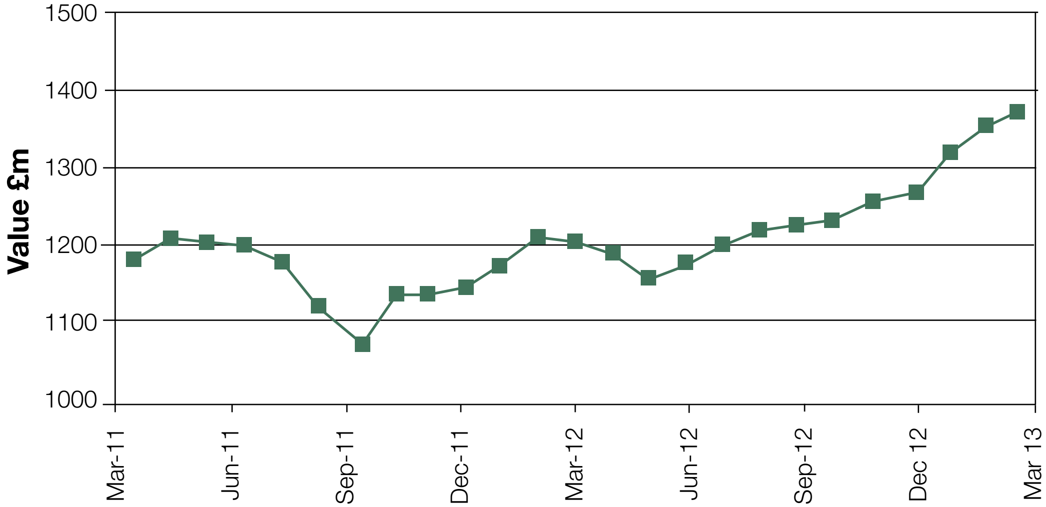
Investment Return Compared to the Local Authority Universe 2012/13

	1 Year Return	**3 Year Return**
Warwickshire	14.8%	8.6%
Warwickshire’s Benchmark	14.3%	8.3%
Local Authority Universe	13.8%	8.1%
Out (under) performance compared to benchmark	0.5%	0.3%

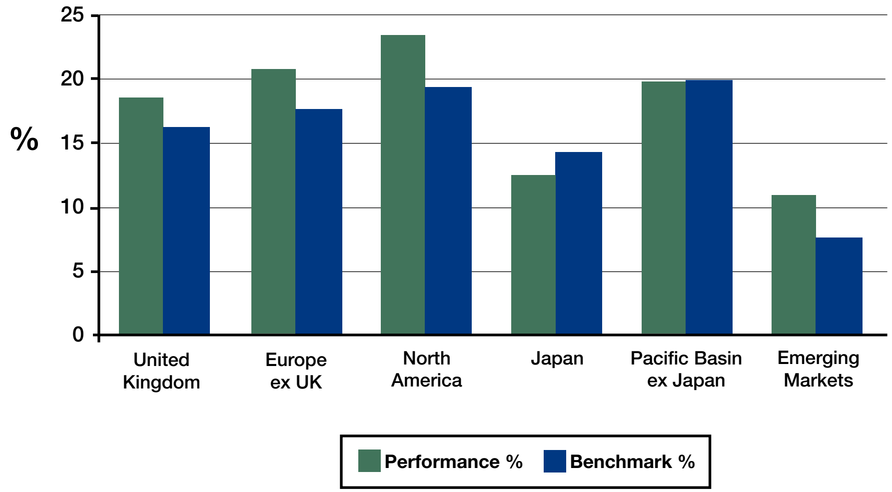
Top Ten Holdings at 31 March 2013

		£ millions
1	Reckitt Benckiser	8.5
2	Glaxosmithkline	7.8
3	Schroders	7.7
4	Diageo	7.7
5	BP	7.3
6	BT	7.0
7	HSBC	6.9
8	Standard Chartered	6.8
9	Nestle	6.6
10	Linde	6.5

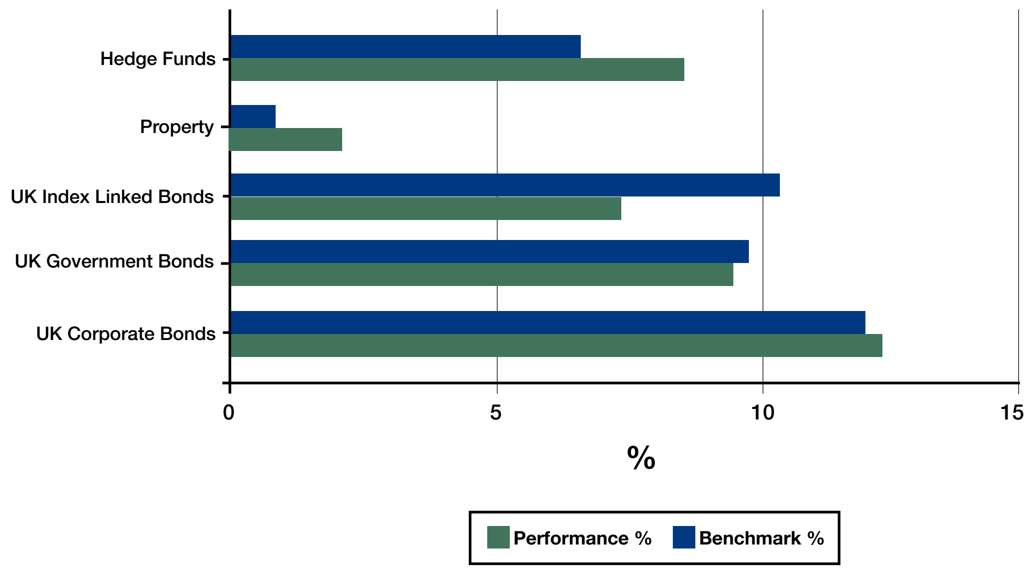
Total Fund Value Since March 2011



Equity Performance for the Year Ending 31 March 2013



Bonds and Alternatives Performance by Asset type for the Year Ending 31 March 2013



Statement of Investment Principles

1. Introduction

Warwickshire County Council (the “Authority”) has drawn up this Statement of Investment Principles (the “Statement”) to comply with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The Authority has consulted with such persons as it considers appropriate including obtaining advice from its consultants in preparing this Statement.

Overall investment policy falls into two parts: strategic management and day-to-day management. The strategic management of the assets is fundamentally the responsibility of the Authority (acting on advice as it deems appropriate) and is driven by its investment objectives as set out in Section 3 below. The remaining elements of policy are part of the day-to-day management of the assets, which is delegated to the investment managers and described in Section 4.

Annex 1 shows how the Warwickshire Pension Fund currently complies with the Principles for Investment Decision Making in accordance with the CIPFA guidance published in 2009 and in accordance with SI 3093 (2009).

Annex 2 sets out the role of the investment consultant.

Annex 3 sets out the day to day investment management arrangements.

2. Overall Responsibility

Warwickshire County Council is the designated statutory body responsible for the administration of the Warwickshire County Council Pension Fund on behalf of its constituent scheduled and admitted body employers. The responsibility for the Fund is delegated through the Regulatory Committee to the Pension Fund Investment Board.

The Pension Fund Investment Board consists of five County Councillors who are advised by the Council’s investment consultant (Hymans Robertson), its independent consultant (Peter Jones) and officers of the County Council. The Board is responsible for:

- Setting investment policy;
- Appointing suitable investment managers to implement the investment policy;
- Reviewing and monitoring investment performance.

The day-to-day monitoring of investment managers is delegated to the Strategic Director, Resources. The Strategic Director, Resources also has a statutory duty to ensure that proper financial arrangements are in place to manage the Fund. The Pension Board Investment Board meets four times a year or more frequently as necessary. The active investment managers will attend these Board meetings on a regular basis.

The Pension Fund Investment Board takes account of the views of stakeholders through a Consultative Panel consisting of elected members and officer representatives from the district / borough councils, unions and a pensioner representative. The Consultative Panel meets with the Pension Fund Investment Board at the start of the spring and autumn meetings.

3. Investment Objectives and Risk

3.1 Investment Objectives

The Authority has set the objective to be at or above a 100% funding level in order that it is able to meet its current and future liabilities. It also has an objective to maintain a stable employer contribution rate that is as low as possible. In order to meet these objectives, a number of secondary objectives have been agreed as follows:

(i) Seek returns that are consistently strong and outperform or match those available in the major investment markets and are comparable with other institutional investors.

(ii) Emphasise investment in markets that over time are likely to give better returns relative to the liabilities.

(iii) Acknowledge the risks of investing and have regard to best practice in managing these risks.

(iv) Have sufficiently liquid resources available to meet the Fund's current liabilities as they fall due.

(v) (v) For the assets of the Fund, in aggregate to outperform the benchmark set out in 3.3.

3.2 Risk

The Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. The principal risks affecting the Fund are:

Funding Risks

(i) Financial mismatch - 1. The risk that Fund assets fail to grow in line with the developing cost of meeting liabilities. 2. The risk that unexpected inflation increases the pension and benefit payments and the Fund assets do not grow fast enough to meet the increased cost.

(ii) Changing demographics –The risk that longevity improves and other demographic factors change increasing the cost of benefits.

(iii) 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 liabilities.

The Authority measures and manages financial mismatch in two ways. As indicated above, it has set a strategic asset allocation benchmark for the Fund. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. It also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Authority keeps under review mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation.

The Authority 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.

Asset risks

- Concentration - The risk that 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.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates

The Authority manages asset risks as follows. It provides a practical constraint on Fund investments deviating greatly from the intended approach by setting itself diversification guidelines and by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Authority's expected parameters. By investing across a range of assets, including quoted equities and bonds, the Authority has recognised the need for some access to liquidity in the short term. In appointing several investment managers, the Authority has considered the risk of underperformance by any single investment manager.

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 Authority takes professional advice and considers the appointment of specialist transition managers.
- 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.

The Authority monitors and manages risks in these areas through a process of regular scrutiny of its providers and audit of the operations they conduct for the Fund.

3.3 Investment Strategy

The Authority sets a long-term investment strategy (the mix of asset types) to have regard to the Fund's liability structure and the investment objectives above. This is reviewed at least every three years, after each actuarial valuation. The Authority believes that the following investment strategy is currently appropriate for controlling the risks identified in 3.2, given the liability profile of the Fund and its financial position.

Asset Class	Index-Trackers	UK Equity Specialists	Global Equity Specialists	Alternative Assets	Total
UK Equities	8.00	13.50	1.00		22.50
Overseas Equities	18.00		12.00		30.00
European	*7.90*		*2.10*		*10.00*
North American	*3.80*		*6.20*		*10.00*
Far East/ Emerging Markets	*6.30*		*3.70*		*10.00*
Property				10.00	10.00
Hedge Funds				5.00	5.00
Multi-Asset absolute Return				5.00	5.00
Private Equity				5.00	5.00
UK Corporate Bonds	10.00				10.00
UK Fixed Interest	2.50				2.50
UK Index-Linked	5.00				5.00
Absolute Return Bonds				5.00	5.00
Total	**43.50**	**13.50**	**13.00**	**30.00**	**100.00**

4. Management of the Assets

Further information on the detail of the benchmark and the management of Fund assets are provided in Annex 3.

4.1 Investment Restrictions

The investment managers are required to comply with LGPS investment regulations. All investment managers are permitted to utilise derivatives in the efficient management of portfolios.

The investment managers' investment decisions are further constrained by a maximum 5% limit on any single investment.

4.2 Realisation of Investments

In general, the Fund's investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. The majority of the Fund's investments may be realised quickly if required. Some of the alternative investments and property may be difficult to realise quickly. However, in aggregate, the combined weight of illiquid assets is around 15% of Fund assets. Further, the Fund has adequate cash flow including investment income to cover benefits without the need to realise assets.

4.3 Expected Return

The strategic benchmark is expected to produce a return in excess of the rate of return assumed in the Actuarial valuation.

4.4 Monitoring and Review

The performance of the Fund's investment managers is independently measured by BNY Mellon Asset Servicing, a subsidiary of the Authority's global custodian, on a quarterly and annual basis. They provide quarterly and annual performance reports to the Authority.

In addition, the Authority meets the main active investment managers at least once a year to review their actions together with the reasons for the background behind the investment performance. The investment managers also provide monthly and quarterly reports and give additional presentations to the Authority as appropriate.

Hymans Robertson is retained as investment consultant to assist the Authority in fulfilling its responsibility for monitoring the investment managers. A review of the consultants' roles and performance is undertaken annually.

The Authority reviews the Fund's asset allocation between the managers on a quarterly basis.

The Authority also monitors the transactions costs of the investment activity of the fund managers.

5. Social, Environmental and Ethically Responsible Investment

- The Authority believes that environmental, social and corporate governance (ESG) issues can have a material impact on the long term performance of its investments. The Authority believes that its primary concern is its responsibility to safeguard the best financial interests of beneficiaries.
- The Authority is a signatory to the FRC's Stewardship Code, and as such expects its investment managers to take account of ESG considerations as part of their investment analysis and decision making process.
- The Authority will monitor its investment managers in this regard and as part of the regular monitoring process will hold its managers to account.

6. Exercise of voting rights

The Authority will be an active owner and will exercise its ownership rights in order to protect the long term interests of the Fund. This will be achieved by exercising voting rights and regular monitoring of the engagement activity of their investment managers.

7. Stocklending

The Authority's policy on stock lending reflects the nature of the mandates awarded to investment managers, which include both pooled and segregated mandates.

Within segregated mandates, the Authority has absolute discretion over whether stock lending is permitted. The Authority permits stock lending in their active mandates (MFS and Threadneedle).

The manager(s) 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 Authority has no direct control over stock lending in pooled funds. The Authority is comfortable that the extent and nature of this activity is appropriate to the circumstances of the Fund.

8. Fee Structures

8.1 Rationale for Fee Structure

The investment managers and investment consultant submitted fee structures for the Authority's consideration. The Authority has reviewed the nature of these fee structures and is satisfied that they are appropriate.

8.2 Investment Consultant Fees

Hymans Robertson fees are either based on fixed quotes for particular projects or, more normally, on a time cost basis.

8.3 Manager Fees

Manager fees are based on a percentage of assets managed. (In the case of private equity and hedge fund investments there is a performance-related fee element).

9. Compliance with this Statement

The Authority will monitor compliance with this Statement annually. In particular, it will obtain written confirmation from the investment managers that they exercised their powers of investment with a view to giving effect to the principles contained in the Statement so far as is reasonably practicable. The Authority undertakes to advise the investment managers promptly and in writing of any material change to this Statement.

10. Review of this Statement

The Authority will review this Statement in response to any material changes to any aspects of the Fund, its liabilities, finances and its attitude to risk, which it judges to have a bearing on the stated Investment Policy. This review will occur no less frequently than every three years to coincide with the actuarial valuation.

Annex 1

Principles for Investment Decision Making

The Myners report on Institutional Investment in the UK was published in 2001, and included ten principles of good investment practice. The Local Government (Management and Investment of Funds) Regulations 2002 required Administering Authorities to publish the extent to which they complied with these principles.

In 2007 a review was conducted, and the outcome was that the ten principles were updated to reflect the findings of the review.

Six (modified) principles replaced the original ten and the LGPS regulations 2009 require the Administering Authority to publish the extent to which they comply with these six principles.

Principle 1: Effective Decision-Making

Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.

Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Best Principle Guidance

- The board has appropriate skills for, and is run in a way that facilitates, effective decision making.
- There are sufficient internal resources and access to external resources for trustees and boards to make effective decisions.
- It is good practice to have an investment sub-committee, to provide the appropriate focus and skills on investment decision-making.
- There is an investment business plan and progress is regularly evaluated.
- Consider remuneration of trustees.
- Pay particular attention to managing and contracting with external advisers (including advice on strategic asset allocation, investment management and actuarial issues).

Evaluation of Compliance

- Full compliance. The Fund has a dedicated Investment Board that is supported by suitably experienced officers and an independent adviser. All members of the Panel are offered training and are required to comply or explain. A formal forward looking business plan is published annually following the April Panel. This includes a timetabled programme of tasks concerning the investment advice and actuarial processes for the Fund.

Principle 2: Clear Objectives

Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

Best Practice Guidance

- Benchmarks and objectives are in place for the funding and investment of the scheme.
- Fund managers have clear written mandates covering scheme expectations, which include clear time horizons for performance measurement and evaluation.
- Trustees consider as appropriate, given the size of fund, a range of asset classes, active or passive management styles and the impact of investment management costs when formulating objectives and mandates.
- Consider the strength of the sponsor covenant.

Evaluation of Compliance

- Full compliance. Fund objectives are set out in the Statement of Investment Principles. Fund managers operate to detailed written mandates that give clear investment objectives and timescales for measurement (rolling three years). A customised benchmark has been adopted based on asset/liability studies undertaken by the Fund's actuary. Control ranges are in place consistent with performance targets to which the fund managers should work. Management styles and the impact of investment management costs are considered at the time of the regular procurement exercises.

Principle 3: Risk and Liabilities

In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

Best Practice Guidance

- Trustees have a clear policy on willingness to accept under-performance due to market conditions.
- Trustees take into account the risks associated with their liabilities' valuation and management.
- Trustees analyse factors affecting long-term performance and receive advice on how these impact on the scheme and its liabilities.
- Trustees have a legal requirement to establish and operate internal controls.
- Trustees consider whether the investment strategy is consistent with the scheme sponsor's objectives and ability to pay.

Evaluation of Compliance

- Full compliance. Asset allocation forms part of the customised benchmark proposed by the Fund's investment advisor following an asset/liability study and consulted on by the Fund's actuary and independent advisor, and then recommended to the Investment Board. Fund managers have discretion to position their portfolios around their agreed benchmark within ranges set out in the SIP, consistent with the performance objectives of the fund. Whilst the Fund's aspiration is that the active managers will outperform their benchmarks at all times, allowance is made for the managers to have periods of underperformance, while delivering good performance over the long term.

Principle 4: Performance Assessment

Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisors. Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Best Practice Guidance

- There is a formal policy and process for assessing individual performance of trustees and managers.
- Trustees can demonstrate an effective contribution and commitment to the role (for example measured by participation at meetings).
- The chairman addresses the results of the performance evaluation.
- State how performance evaluations have been conducted.
- When selecting external advisers take into account relevant factors, including past performance and price.

Evaluation of Compliance

- Full compliance. Performance of the Fund, and Fund's investment managers, is monitored quarterly. Monitoring of past performance and price of all external service providers and advisers is undertaken annually. A review of the advisor's role and performance is undertaken annually.

Principle 5: Responsible Ownership

Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents. A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles. Trustees should report periodically to members on the discharge of such responsibilities.

Best Practice Guidance

- Policies regarding responsible ownership are disclosed to scheme members in the annual report and accounts or in the Statement of Investment Principles.
- Trustees consider the potential for engagement to add value when formulating investment strategy and selecting investment managers.
- Trustees ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company.
- Trustees ensure that investment consultants adopt the ISC's Statement of Practice relating to consultants.

Evaluation of Compliance

- The Fund has signed up to the Financial Reporting Council's Stewardship Code, and a statement is on the Fund's website.
- All of the Fund's investment managers (with the exception of the private equity and hedge fund managers) are signatories to the Stewardship Code
- The Fund has appointed Manifest Voting Agency to undertake voting services.
- The Investment Board has already adopted the Institutional Shareholders' Committee Statement of Principles.

Principle 6: Transparency and Reporting

Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. Trustees should provide regular communication to members in the form they consider most appropriate.

Best Practice Guidance

- Reporting ensures that the scheme operates transparently and enhances accountability to scheme members and best practice provides a basis for the continuing improvement of governance standards.

Evaluation of Compliance

- Full compliance. Details of the Fund's communication policy is published on the Pension Fund website, together with the actuarial valuation, annual report of the fund, funding strategy statement, governance compliance statement, governance policy statement, statement of investment principles and Myners compliance statement. A summary of the annual report is sent to all members of the Fund.

Annex 2

Role of Investment Consultant

Hymans Robertson Investment Consulting are employed as Investment Consultants to the Fund. The Investment Consultant provides advice to the Authority but does not have responsibility for decision making in any areas. The role encompasses, but is not limited to, the following areas:

i. assistance in helping the Authority formulate investment objectives;

ii. advice on investment strategy;

iii. advice on devising an appropriate investment manager structure;

iv. assistance in selecting and monitoring of investment managers.

Annex 3

Investment Management Structure

Having taken advice from its investment consultant, the Authority decided to implement a specialist manager structure. The approach allows the selection of “best in class” managers in each region or asset class, which should lead to superior performance. A specialist structure is less exposed to the performance of any one manager and hence reduces the probability that a poor manager selection detracts from overall performance. A further advantage of this approach is that the investment managers have been selected so that they are unlikely to apply the same investment themes or process and so this provides an additional level of diversification.

Main Assets

The Authority invests the main assets of the Fund in portfolios operated by external investment managers. The Authority is satisfied that the spread of assets by type and the investment managers’ policies on investing in individual securities within each type provides adequate diversification of investments. The investment managers are required to comply with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The managers appointed are listed below.

Manager	Role	Target
Black Rock Global Investors (“BGI”)	Passive Multi-Asset Portfolio	17.5%
State Street Global Advisors (“SSGA”)	Passive UK Equity Portfolio	3.5%
Threadneedle Investments (“Threadneedle”)	Active UK Equity Portfolio	13.5%
MFS Investment Management (“MFS”)	Active Global Equity Portfolio	13%
Legal and General Investment Management (“LGIM”)	Passive Multi-Asset Portfolio	22.5%
Schroder Investment Management (“Schroder”)	Active Property (Multi-Manager) Portfolio	5%
Threadneedle Investments (“Threadneedle”)	Active Property Portfolio	5%
Blackstone Alternative Asset Management (“Blackstone”)	Active Fund of Hedge Funds Portfolio	5%
HarbourVest	Private Equity	5%
J P Morgan Asset Management (UK)	Absolute Return Bonds	5%
Barings Asset Management (“Barings”)	Multi Asset Absolute Return	5%

(The State Street UK Equity target is currently set at 6%, and will reduce to 3.5% over time as the private equity mandate with HarbourVest is gradually established).

The investment managers' mandates are as follows:

BlackRock : Passive Multi-Asset mandate

The details of the multi-asset passive mandate are as follows:

	Benchmark (%)	Index
UK Equities	22.0	FTSE All-Share Index
European (ex UK) Equities	15.0	FTSE AW Developed Europe (ex UK) Index
North American Equities	4.0 *	FTSE AW USA Index FTSE AW Canada Index
Japanese Equities	9.0	FTSE AW Japan Index
Pacific Basin (ex Japan) Equities	8.0	FTSE AW Developed Pacific (ex Japan) Index
Emerging Markets Equities	3.0	IFC Investable Index (ex Malaysia)
UK Corporate Bonds	9.0	iBoxx Sterling Non Gilts All Stocks years Index
UK Fixed Interest Gilts	3.0	FTSE A All Stocks Fixed Interest Gilt Index
UK Index Linked Gilts	27.0	FTSE A All Stocks Index Linked Gilt Index
Total	**100.0**	

* split between the US and Canada in proportion with the FTSE AW Developed North America Index

State Street Global Advisors: Passive UK equity mandate

	Benchmark (%)	Allowable Range (%)	Index
UK Equities	100.0	+/- 5.0	FTSE All-Share Index
Cash	0.0	+/- 5.0	

The performance target for the State Street mandate is to match the FTSE All Share Index (gross of fees) over one-year rolling periods.

Threadneedle Investments: Active UK equity mandate

	Benchmark (%)	Allowable Range (%)	Index
UK Equities	100.0	+/- 5.0	FTSE All-Share Index
Cash	0.0	+/- 5.0	

The performance target for the Threadneedle UK equity mandate is FTSE All Share Index +2.0% per annum (gross of fees) over rolling three-year periods.

LGIM: Passive Global Multi-Asset mandate

The details of the global multi asset mandate are:

	Benchmark (%)	Allowable Range (%)	Index
UK Equities	3.3	+/- 2.25	FTSE All Share
European (ex UK) Equities	24.0	+/- 2.25	FTSE AW Europe Developed (ex UK) Index
North American Equities	13.6	+/- 2.25	FTSE AW Developed North America Index
Pacific Basin (inc Japan) Equities	1.8	+/- 1.00	FTSE Asia Pacific Developed Pacific (ex Japan) Index
Japan Equities	2.7	+/- 2.5	FTSE AW Japan Index
Emerging Markets Equities	8.0	+/- 2.5	FTSE AW All Emerging Index
UK Index-Linked Gilts	1.1	+/- 1.0	FTSE A Index Linked All Stocks
UK Corporate Bonds	36.7	+/- 2.5	iBoxx Sterling Non-Gilts All Stocks Index
UK Fixed Interest Gilts	8.9	+/- 2.5	FTSE A UK Gilts All Stocks
Total	**100.00**		

Totals affected by rounding

Within each class of assets, LGIM will be expected to track the relevant benchmark index within agreed tolerance limits.

In addition, LGIM will be expected to maintain the overall Fund benchmark, excluding the proportion of the assets invested in ‘alternative assets’, by rebalancing its assets under management, i.e., LGIM will act as a “Swing Manager” on behalf of the Fund. Therefore, the above mandate will only apply initially and the ongoing asset allocation will vary. Due to the nature of the Fund’s investment in alternative assets, the allocations to Schroder, Threadneedle (Property), Blackstone, JP Morgan, Barings and HarbourVest are monitored separately.

MFS: Active Global Equities

The details of the global multi asset mandate are:

	Benchmark (%)	Allowable Range (%)	Index
Global Equities	100.00	+/- 5.0	MSCI AC World Index Index
Cash	0.00	+/- 5.0	
Total	**100.00**		

The out-performance target for the global equity mandate is 1.5% per annum (gross of fees) over rolling three-year periods above the return of the index weighted by the benchmark allocation.

Schroders: Multi-manager Property

The details of the multi-manager property mandate are:

	Benchmark (%)	Index
Property Multi-Manager	100.00	AREF/IPD UK Pooled Funds Index – All Balanced Funds Weighted Average
Total	**100.00**	

The out-performance target for the property mandate is 1.0% per annum (net of fees) over rolling three-year periods above the index return. Schroder has the discretion to invest in European property up to 20% value of the portfolio.

Schroder has the discretion to use derivatives in the management of the fund.

Threadneedle: Property

The details of the multi-manager property mandate are:

	Benchmark (%)	Index
Property	100.00	CAPS Pooled Property Median
Total	**100.00**	

The out-performance target for the property mandate is 1.0% per annum (net of fees) over rolling three-year periods above the index return.

Threadneedle has the discretion to invest in European property as part of this mandate.

Blackstone: Fund of Hedge Funds

The details of the fund of hedge funds mandate are:

	Benchmark (%)	Index
Fund of hedge funds	100.00	UK LIBID 7 Day Notice
Total	**100.00**	

The out-performance target for the fund of hedge funds mandate is 6% per annum (net of fees, in Sterling terms) over rolling three-year periods above the index return.

HarbourVest: Fund of Private Equity Funds

The details of the fund of private equity funds mandate are:

	Benchmark (%)	Index
Fund of private equity funds	100.0	MSCI World Index
Total	**100.00**	

The out-performance target for the fund of private equity funds mandate is 5% per annum (net of fees) over the life on the contract.

JP Morgan: Absolute Return Bonds

The details of the absolute return bond mandate are:

	Benchmark (%)	Index
Strategic Bond Fund	100.00	LIBOR
Total	**100.00**	

The performance target for the absolute return bond mandate is +3% p.a. (gross of fees) over a rolling 3 year period.

Barings: Multi Asset Absolute Return

The details of the multi asset absolute return mandate are:

	Benchmark (%)	Index
Dynamic Asset Allocation Fund	100.00	LIBOR
Total	**100.00**	

The performance target for the multi asset absolute return mandate is + 4% p.a. (net of fees) over a rolling 3 year period.

Funding Strategy Statement (FSS)

This Statement has been prepared by Warwickshire County Council (the Administering Authority) to set out the funding strategy for the Warwickshire County Council Pension Fund ("the Fund"), in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the guidance papers issued in March 2004 and November 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

1. Introduction

The Local Government Pension Scheme (Administration) Regulations 2008 (as amended) ("the Regulations") provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement. The key requirements for preparing the FSS can be summarised as follows:

After consultation with all relevant interested parties involved with the Fund the administering authority will prepare and publish their funding strategy;

In preparing the FSS, the administering authority must have regard to:-

- the guidance issued by CIPFA for this purpose; and
- the Statement of Investment Principles (SIP) for the Fund published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009;

The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

The Fund is a defined benefit final salary scheme under which the benefits are specified in the governing legislation, the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) ("the BMC Regulations"). The required levels of employee contributions are also specified in the Regulations.

Employer contributions are determined in accordance with the Regulations (principally Regulation 36) which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate. Contributions to the Fund should be set so as to "secure its solvency", whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

2. Purpose of the FSS in policy terms

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The purpose of this Funding Strategy Statement is:

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

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

3. Aims and purpose of the Fund

The aims of the Fund are to:

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

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses, as defined in the Local Government Pension Scheme (Administration) Regulations 2008 (as amended), the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

4. Responsibilities of the key parties

The Administering Authority should:

- collect employer and employee contributions
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- manage the valuation process in consultation with the Fund's actuary
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties, and
- monitor all aspects of the Fund's performance and funding and amend the FSS/SIP as and when appropriate.

The Individual Employer should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with BMC Regulation 3)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- exercise discretions within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and
- notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding.

The Fund actuary should:

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters, and
- advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the SIP.

5. Solvency Issues and Target Funding Levels

The funding objective

To meet the requirements of the Regulations the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "funding target") assessed on an ongoing basis including allowance for projected final pay.

Determination of the funding target and recovery period

The principal method and assumptions to be used in the calculation of the funding target are set out in the Appendix.

Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer (or employer grouping), following a principle of no cross-subsidy between the various employers in the Fund. In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Fund as a whole.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates:

- The following employer groupings will be adopted for certain employers in the Fund; Resolution Bodies – Parish and Town Councils, Admitted Bodies – Associated with Warwickshire County Council Social Services.

- A standard maximum deficit recovery period of 19 years will apply. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A different period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan below).
- With effect from April 2011 employer contributions will be expressed and certified as two separate elements:
  - A percentage of pensionable payroll in respect of the future accrual of benefits
  - A schedule of lump sum amounts over 2011/2014 in respect of the past service deficit subject to the review from April 2014 based on the results of the 2013 actuarial valuation.
- Where increases in employer contributions are required from 1 April 2011, following completion of the 2010 actuarial valuation, the increase from the rates of contribution payable in the year 2011/12 may be implemented in steps, over a maximum period of 6 years, unless the Administering Authority does not consider such phasing to be appropriate in any particular case.
- Where agreed by the Administering Authority, an employer may allocate a specific reserve to cover estimated early retirement costs over the three years commencing 1 April 2011. In such cases the amount of that reserve will be taken into account in determining the employer's contribution rate from 1 April 2011. The payment of additional contributions in respect of early retirements will be required once the specific reserve has been used up.
- On the cessation of an employer's participation in the Fund, the actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer. Details of the approach to be adopted for such an assessment on termination are set out in the separate Admission and Termination Policy document.

In determining the above objectives the Administering Authority has had regard to:
- the responses made to the consultation with employers on the FSS principles
- relevant guidance issued by the CIPFA Pensions Panel
- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose,
- the Government's aims as regards increases in local authority pension costs, as set out in the letter from the Office of the Deputy Prime Minister dated 10 September 2004, and
- the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

Deficit recovery plan

If the assets of the scheme relating to an employer are less than the funding target at the effective date of any actuarial valuation, a recovery plan will be put in place, which requires additional contributions from the employer to meet the shortfall.

Additional contributions will be expressed as annual monetary lump sums subject to review at the 2013 and subsequent actuarial valuations.

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- the size of the funding shortfall;
- the business plans of the employer;
- the assessment of the financial covenant of the Employer;
- any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.
- length of expected period of participation in the Fund

The normal cost of the scheme (future service contribution rate)

In addition to any contributions required to rectify a shortfall of assets below the funding target contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the "normal cost"). These contributions will be expressed as a percentage of the employer's pensionable payroll, subject to review at the 2013 and subsequent actuarial valuations. The method and assumptions for assessing these contributions are also set out in the Appendix.

6. Link to investment policy set out in the Statement of Investment Principles

The results of the 2010 valuation show the liabilities to be 83% covered by the current assets, with the funding deficit of 17% being covered by future deficit contributions due from employers. This is allowing for the change in the Actuary's demographic assumptions and allowing for benefits to increase in line with CPI in future rather than RPI.

In assessing the value of the Fund's liabilities above, allowance has been made for asset out-performance as described in Section 5, taking into account the investment strategy adopted by the Fund, as set out in the SIP.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts.

Investment of the Fund's assets in line with the least risk portfolio would minimise fluctuations in the Fund's ongoing funding level between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to make any allowance for out-performance of the Fund investments. On this basis of assessment, the assessed value of the Fund's liabilities at the 2010 valuation would have been significantly higher, by approximately 38% and the declared funding level would be correspondingly reduced to approximately 60%.

Departure from a least risk investment strategy, in particular to include equity investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The overall investment strategy of the Fund is based on a benchmark of 65% in equities (including private equity), 20% in bonds, 10% in property and 5% in hedge funds.

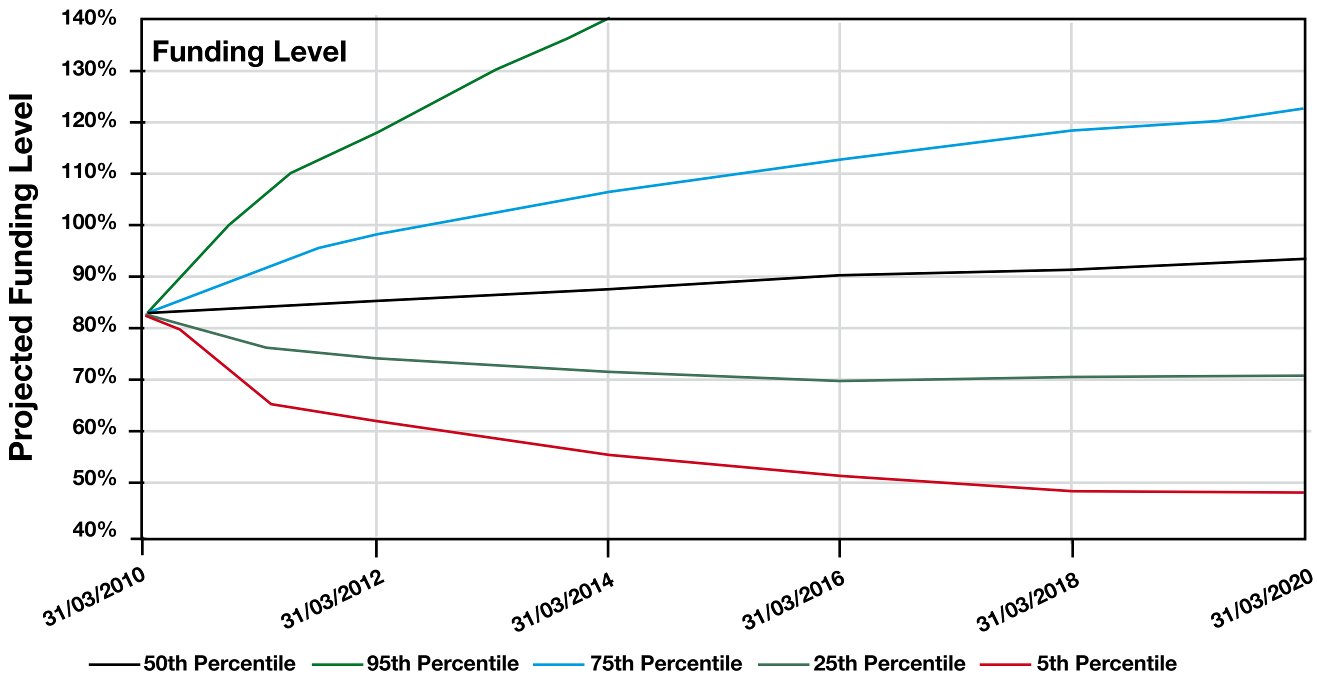
The funding strategy adopted for the 2010 valuation is based on an assumed asset out-performance of 2.5% in respect of liabilities pre-retirement and 1% in respect of post-retirement liabilities. Based on the liability profile at the valuation, this equates to an overall asset out-performance allowance against gilts of around 1.55% in the long-term to keep pace with the liabilities.

7. Identification of risks and counter-measures

The funding of defined benefits is by its nature uncertain. Funding of the Fund is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the Fund's funding is the investment risk inherent in the predominantly equity-based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that required on the basis of the 2010 valuation assumptions.

The chart below shows a "funnel of doubt" funding level graph, which illustrates the range and uncertainty in the future progression of the funding level, relative to the funding target adopted at the valuation. Using a simplified model, the chart shows the probability of exceeding a certain funding level over a 10 year period from the valuation date. For example, the top line shows the 95th percentile level (i.e. there is a 5% chance of the funding level at each point in time being better than the funding level shown, and a 95% chance of the funding level being lower).



The following risks specific to the Scheme have been identified. Each will be monitored with regard to the potential impact on the funding strategy and future solvency of the Fund.

Financial

- Investment markets fail to perform in line with expectations
- Market yields move at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Effect of possible increase in employer's contribution rate on service delivery and admitted/scheduled bodies

Demographic

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements
- Reduction in the numbers of new scheme entrants.

Regulatory

- Changes to Regulations, eg, more favourable benefits package, potential new entrants to scheme, eg, part-time employees
- Changes to national pension requirements and/or HMRC rules

Governance

- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements)
- Administering Authority not advised of an employer closing to new entrants
- An employer ceasing to exist with insufficient funding or adequacy of a bond.

8. Monitoring and Review

The Administering Authority has taken advice from the actuary in preparing this Statement, and has also consulted with the Investment Board and participating employers.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of then current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the Funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- if there have been significant changes to the Fund membership, or LGPS benefits
- if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- if there have been any significant special contributions paid into the Fund
- if there have been any election changes and any consequential changes in the Pension Fund Investment Board membership.

Appendix

Actuarial Valuation as at 31 March 2010

Method and assumptions used in calculating the Funding target

Method

The actuarial method to be used in the calculation of the funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted (the Attained Age method), which makes advance allowance for the anticipated future aging and decline of the current closed membership group.

Key Valuation Assumptions

Investment return (discount rate)

A yield based on market returns on UK Government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the Scheme's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") of 2.5% p.a. for the period pre-retirement and 1% p.a. post-retirement.
The asset out-performance assumptions represent the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the Fund relative to the yields available on long dated gilt stocks as at the valuation date. The allowance for this out-performance is based on the liability profile of the Scheme, with a higher assumption in respect of the "pre-retirement" (i.e. active and deferred pensioner) liabilities than for the "post-retirement" (i.e. pensioner) liabilities. This approach thereby allows for a gradual shift in the overall equity/bond weighting of the Fund as the liability profile of the membership matures over time.

Individual Employers

Having determined the AOAs as above for the Fund overall, it is important to consider how the financial assumptions in particular impact on individual participating employers. As employers in the Fund will have different mixes of active, deferred and pensioner members, adopting a different pre/post retirement investment return approach is equivalent to hypothecating a different equity/bond mix investment strategy for each employer. Such an approach would be inconsistent with the Fund practice, as set out in the FSS, of allocating investment performance pro rata across all employers based on a "mirror image" investment strategy to the whole Fund. In completing the calculations for individual employers therefore, a single, composite, pre and post retirement asset out-performance assumption has been calculated which, for the Fund as a whole, gives the same value of the Funding target as the separate pre and post retirement AOAs.

Inflation (Retail Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities but subject to the following two adjustments.

- An allowance for supply/demand distortions in the bond market is incorporated and
- Due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index, as announced in June. This change will apply from April 2011 and the assumptions make due allowance for this revision as advised by the Actuary.

The overall reduction to RPI inflation at the valuation date is 0.8% per annum.

Salary increases

The assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 2% p.a. over the CPI inflation assumption as described above. This includes allowance for promotional increases. This has been modified from the assumption at the previous valuation (of 1.75% above the RPI inflation assumption) to reflect the change in inflation assumption from RPI to CPI.

Pension increases

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with inflation (e.g. Guaranteed Minimum Pensions in respect of service prior to April 1997).

Mortality

The mortality assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation CMI, making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are set out below with a loading reflecting the Fund's specific experience. The derivation of the mortality assumption is based on the Club Vita Fund specific analysis. Members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a minimum rate of improvement of 1% per annum.

Method and assumptions used in calculating the cost of future accrual

The cost of future accrual (normal cost) will be calculated using the same actuarial method and assumptions as used to calculate the funding target except that the financial assumptions adopted will be as described below.

The financial assumptions for assessing the future service contribution rate should take account of the following points:

- contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the valuation, and which are not directly linked to market conditions at the valuation date; and
- the future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of 3.75% per annum, with a long term average assumption for price inflation of 3% per annum. These two assumptions give rise to an overall discount rate of 6.75% p.a.

Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the "Common Rate" of contributions. In market conditions at the effective date of the 2010 valuation this approach gives rise to a somewhat more optimistic stance in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of the Funding target.

At each valuation the cost of the benefits accrued since the previous valuation will become a past service liability. At that time any mismatch against gilt yields and the asset out-performance assumptions used for the funding target is fully taken into account in assessing the funding position.

Summary of key whole Fund assumptions used for calculating funding target and cost of future accrual (the "normal cost") for the 2010 actuarial valuation

Long-term gilt yields	
Fixed interest	4.5% p.a.
Index linked	0.7% p.a.
Past service Funding Target financial assumptions	
Investment return pre-retirement	7.0% p.a.
Investment return post-retirement	5.5% p.a.
CPI price inflation	3.0% p.a
Salary increases	5.0% p.a.
Pension increases	3.0% p.a.
Future service accrual financial assumptions	
Investment return	6.75% p.a.
CPI price inflation	3.0% p.a.
Salary increases	5.0% p.a.
Pension increases	3.0% p.a.

Demographic assumptions

The mortality tables adopted for this valuation are as follows:

	Table	Adjustment
Males actives	S1PMA CMI_2009_M [1%]	104%
Female actives	S1PFA CMI_2009_F [1%]	94%
Males deferreds	S1PMA CMI_2009_M [1%]	110%
Female deferreds	S1PFA CMI_2009_F [1%]	102%
Males normal health pensioners	S1PMA CMI_2009_M [1%]	98%
Female normal health pensioners	S1PFA CMI_2009_F [1%]	102%
Males ill health pensioners	As for male normal health pensioners +3 years	
Female ill health pensioners	As for female normal health pensioners +3 years	
Male dependants	S1PMA CMI_2009_M [1%]	103%
Female dependants	S1DFA CMI_2009_F [1%]	108%
Male future dependants	S1PMA CMI_2009_M [1%]	118%
Female future dependants	S1DFA CMI_2009_F [1%]	109%

Other demographic assumptions are noted below:

Withdrawal	As for 2007 valuation
Other demographics	Based on general LGPS experience

Assumptions used in calculating contributions payable under the recovery plan

The contributions payable under the recovery plan are calculated using the same assumptions as those used to calculate the **funding target.**

Warwickshire County Council Pension Fund ("the Fund")

Actuarial Statement for 2012/13

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2012/13.

Description of Funding Policy

The funding policy is set out in the administering authority's Funding Strategy Statement (FSS). In summary, the key funding principles are as follows:

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

The 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.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2010. This valuation revealed that the Fund's assets, which at 31 March 2010 were valued at £1,099 million, were sufficient to meet 83% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £229 million.

Individual employers' contributions for the period 1 April 2011 to 31 March 2014 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 adopted by Mercer for the formal valuation are described in the report dated 31 March 2011.

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 2010 valuation were as follows:

	31 March 2010	
Financial assumptions	**Past service liabilities % p.a.**	**Future service liabilities % p.a.**
Discount rate (pre retirement)	7.0%	6.75%
Discount rate (post retirement)	5.5%	6.75%
Pay increases*	5.0%	5.0%
Price inflation/Pension increases	3.0%	3.0%

The key demographic assumption was the allowance made for longevity. The baseline longevity assumptions adopted at this valuation were in line with standard SAPS mortality tables, and included improvements based on CMI 2009 model methodology with a 1% p.a. long term trend. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.9 years	23.6 years
Future Pensioners	22.8 years	25.9 years

* Figures assume members aged 45 at the last formal valuation date.

Copies of the 2010 valuation report and Funding Strategy Statement are available on request from Warwickshire County Council, administering authority to the Fund.

Experience over the period since April 2010

The administering authority monitors the funding position on a regular basis as part of its risk management programme. The funding level (excluding the effect of any membership movements) will have worsened since the 2010 valuation due to falling real gilt yields resulting in a higher value being placed on the liabilities. This will have been partially offset, however, by strong asset returns over the period.

The next actuarial valuation will be carried out as at 31 March 2013. The Funding Strategy Statement will also be reviewed at that time.

Richard Warden.

Richard Warden FFA
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
20 May 2013

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

Risk Management

Risks that are established as an issue for the Warwickshire Pension Fund are identified and evaluated via a risk evaluation model. The risks are prioritised with controls implemented to mitigate the risks and recorded in a risk register, which is regularly monitored.

The risk management process starts with the objectives of the Pension Fund. These are set out in the Fund's business plan. The risks involved in achieving those objectives are identified, and quantified in terms of the likelihood of them occurring and the impact if they did occur.

The process is summarised as follows:

1. Identify the objectives of the Fund (Business Plan)
2. Identify the risks
3. Quantify the risks
4. Decide on priorities
5. Set control mechanisms in place
6. Monitor

The risk register is available for viewing on the Council's Pensions website.

www.warwickshire.gov.uk/pensions

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.

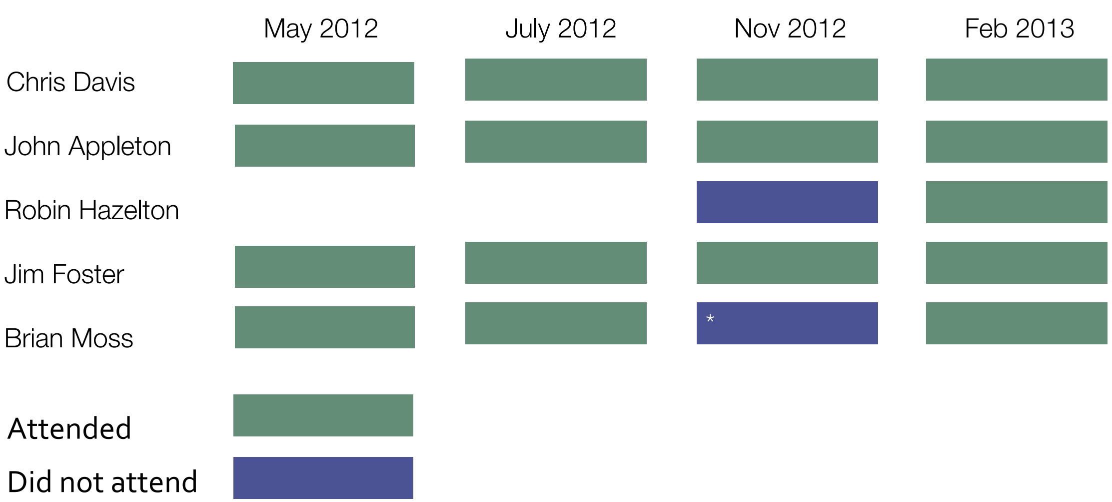
Principle	Warwickshire's Approach	Compliance
Structure		
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Warwickshire County Council delegates the management of the Warwickshire Pension Fund to the Pension Fund Investment Board. The Investment Board is responsible for these areas under the terms of reference contained in the Council's constitution.	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.	Warwickshire is compliant with these principles. Employers and employee representatives are represented on the Pension Fund Consultative Panel. The Panel comprises Pension Fund Investment Board members, the five Borough/District Councils, UNISON, Police UNISON, TGWU and a representative of the Fund's pensioners.	Comply
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	The Pension Fund Consultative Panel receives all papers sent to the Investment Board, except where reports are deemed to be confidential (such as fund manager appointment reports). Consultative Panel meetings are attended by Investment Board members and officers of the Council.	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.	The Pension Fund Investment Board consists of County Councillors only.	Explain

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);	Not all member bodies are represented on the Board or the Panel.	Explain
• scheme members (including deferred and pensioner scheme members);	The Consultative Panel includes trades union representatives.	Comply
• independent professional observers; and	The Board employs an independent consultant who is an experienced ex chief executive of an investment house. The consultant is present at all Board meetings.	Comply
• expert advisors (on an ad hoc basis).	Expert advisors attend the Board 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 papers and to training that is given as part of the Board processes. However, to date the Consultative Panel members have not been on any formal training.	Explain
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.	Board members are given initial and ongoing training to support them in their role as trustees. There is no formal approach at present with regard to Panel members.	Explain
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. Panel members do not have voting rights because they are not members of the Administering Authority which has the responsibility in law to administer the scheme.	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. Panel members do not receive expenses. Training has been referred to above.	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 Investment Board. Unelected Panel representatives do not receive expenses from the Administering Authority.	Explain
Meetings (Frequency/Quorum)		
That an administering authority's main committee or committees meet at least quarterly.	The Consultative Panel meets every six months with the dates of the meetings synchronised with the dates of the Investment Board.	Comply
That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	All members are treated equally in terms of access to papers and to training that is given as part of the Board processes. However, to date the Consultative Panel members have not been on any formal training.	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 meting in November each year to which all key stakeholders are invited. The meeting is a two-way process in which all delegates have the opportunity to ask questions and express their views.	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 fails to be considered at meetings of the main committee.	Certain papers involving confidential information about fund managers 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 both investment and benefit issues to the Board. An agenda will usually include a fund monitoring report, individual reports from managers, and reports on specific investment and administration issues. 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 Investment Board Meetings in 2012/13



* Bob Hicks attended in place of Brian Moss at the November 2012 meeting

Accounts for the year ending 31 March 2013

Responsibilities for the statement of accounts

Warwickshire County Council as Administering Authority of the Warwickshire County Council Pension Fund is required to:

- make arrangements for the proper administration of the financial affairs of the Fund and to secure that one of its officers has responsibility for the administration of those affairs. In this authority this is the Head of Corporate Finance who is responsible for the preparation of the Authority's Statement of Accounts, to present fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2013;
- manage the affairs of the Fund to secure economic, efficient use of resources and safeguard its assets.

In preparing the Statement of Accounts the Head of Corporate Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- stated whether applicable accounting standards and the CIPFA code of Practice in the United Kingdom have been followed;
- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Statement of Accounts presents fairly the financial position of the Authority at 31 March 2013 and its income and expenditure for the year then ended.

John Betts
Head of Corporate Finance

The Pension Fund

This section summarises the accounts of our pension fund. We use this fund to pay former employees their pensions and other benefits when they retire.

Fund account - Dealings with members, employers and other people directly involved in the scheme.

2011/2012 £ millions	Revenue account	2012/2013 £ millions
	Income to the fund	
	Contributions receivable:	
-39.3	From employers	-40.9
-15.6	From employees	-15.2
-5.7	Transfers in from other schemes	-6.1
-60.6	**Income to the fund**	**-62.2**
	Spending by the fund	
	Benefits to be paid:	
44.8	Pension payments	49.1
16.4	Commutation of pensions and lump sum retirement benefits	12.6
1.0	Lump sum death benefits	1.5
	Payments to and on behalf of leavers	
0.0	Refunds of contributions to people who leave the scheme	0.0
3.5	Individual transfers out of the scheme	4.2
1.5	**Administration expenses paid by the scheme**	1.4
67.2	**Spending by the fund**	**68.8**
6.6	**Net additions from dealing with members**	**6.6**
	Return on investments:	
-10.0	Dividends from stocks and shares	-11.5
-3.6	Income from pooled investment vehicles	-4.0
0.0	Interest on cash deposits	0.0

2011/2012 £ millions	Revenue account	2012/2013 £ millions
	Change in market values of investments:	
-16.4	Realised profit (-) or loss on sales	-39.3
-14.8	Unrealised profit (-) or loss on investments	-125.3
	Taxes on Income	
0.7	Tax we cannot claim back	0.8
5.1	**Investment management expenses**	5.2
-39.0	**Net returns on investments**	**-174.1**
-32.4	**Net increase (-) / decrease in fund during the year**	**-167.5**

2011/2012 £ millions	Pension fund net assets	2012/2013 £ millions
32.4	Net increase in fund during the year	167.5
1,179.3	Add opening net assets of the scheme	1,211.7
1,211.7	**Net assets at the end of the year**	**1,379.2**

As at 31 March 2012 £ millions	Net assets statement	As at 31 March 2013 £ millions
	Investment assets	
6.2	Fixed interest securities	6.9
343.7	Stocks and shares	420.0
848.1	Managed funds	943.8
5.8	Cash and deposits	6.4
1.5	Other Investments	0.8
1,205.3		**1,377.9**
	Current assets	
5.6	Debtors	5.0
3.4	Cash balances	-0.1
	Current liabilities	
-2.6	Creditors	-3.6
-6.4		1.3
1,211.7	**Net assets at the end of the year**	**1,379.2**

Notes to the accounts

1. Operations and membership

We administer the statutory Warwickshire Local Government Pension Fund (a defined benefit scheme).

The Scheme is a statutory scheme, established by an Act of Parliament, the Superannuation Act 1972. The Scheme is governed by the following regulations:

- Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- Local Government Pension Scheme (Administration) Regulations 2008 (as amended)
- Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (as amended)

The fund is open to our employees, the five district and borough councils and other organisations. The fund does not cover teachers, police officers or firefighters as these staff have different pension arrangements. The Pension Fund Investment Board is responsible for managing the pension fund. The Board is made up of five county councillors. A specialist advisor provides advice and guidance to the Board as well as the Head of Finance and his staff.

As at 31 March 2012	Membership	As at 31 March 2013
15,238	Number of members contributing to the fund	15,501
10,096	Number of pensioners paid by the fund	10,642
12,329	Number of ex-members whose pension rights are 'frozen' until they retire	13,247

2. Accounting policies

The accounts of the pension fund contain the information set out in the Code of Practice on Local Authority Accounting 2012/2013 (The Code). The Code says the accounts must keep to the SORP Financial Reports of Pension Schemes (the Pensions SORP). As a result, the accounting policies are consistent with the Pensions SORP. The accounts give a summary of the transactions and net assets of the fund. They do not take account of the liability to pay pensions and other benefits in the future. This is dealt with by the actuary's valuation every three years. The pension fund does not form part of the Administering Authorities consolidated accounts.

a How we have prepared these accounts

We have prepared the financial statements on an 'accruals basis'. This means that we show income and spending as we earn or agree to spend it, not as we actually receive or pay it. We have used the following accounting policies, which we have applied consistently when preparing the financial statements.

b Valuing investments

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 ruling on the final day of the accounting period.

ii) Fixed interest securities

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:

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the council expects to receive on wind-up, less estimated realisation costs.

- 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 pools or directly held securities 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 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.

- 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 guidelines set out by the British Venture Capital Association.

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; or 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.

The value of fixed interest investments in the scheme's investment portfolio does not include interest earned but not paid over at the end of the financial year. This is included in "Other Investments" in the accounts and Note 4.

We include acquisition costs in the purchase costs of investments.

c Investment income

We account for income from stocks and shares on the date shares are quoted 'ex-dividend'. Income from overseas investments is recorded after any withholding tax has been taken off if we cannot get this back.

We account for income from fixed interest and index linked securities, cash, short term deposits and other investments on an accruals basis.

The change in the market value of investments during the year includes all increases and decreases in the market value of investments held at any time during the year. This includes profits and losses on selling investments and unrealised changes in market value.

d Foreign currencies

If there are forward exchange contracts in place for assets and liabilities in foreign currencies, we have used the contract rate. Other assets and liabilities in foreign currencies are shown in sterling at the rate of exchange at the end of the financial year. We translate income from overseas investments into sterling at an average rate for the period in which we received it. We deal with gains and losses arising from converting currencies as part of the change to the market value of investments. The exception is where there is a foreign currency derivative acting as a cash-flow hedge on investments, where we would then class this gain separately as realised profit in the revenue account.

e Contributions

We account for normal contributions from members and employers in the payroll month to which they relate to, at rates set out in the rates and adjustments certificate. We account for extra contributions from employers in line with the agreement under which they are paid or, if there is no agreement, when we receive them.

f Benefits due to be paid

Under the scheme rules, members receive a lump sum retirement grant on top of their yearly pension. We account for lump sum retirement grants from the date members retire. If a member chooses to take a greater retirement grant in return for a reduced pension, we account for these amounts on an accruals basis from the date the member takes this option.

We account for other benefits on the date the member leaves the plan or dies.

g Transfer to and from other schemes

Transfer values relate to amounts we receive from other pension funds for new members or we pay to other pension schemes for members who have left the fund. These are accounted for when either received or paid. This is normally when the member liability is accepted or discharged.

h Other expenses

We account for administration and investment management expenses on an accruals basis. These expenses do not include any VAT that can be recovered.

We have worked out our fund manager fees in line with the appropriate contract and the associated contract agreement as follows.

Fund manager	Mandate	Negotiated fee
State Street Global Advisors	Passive index tracker (UK stocks and shares)	Percentage of the fund
Threadneedle Investment Services	UK stocks and shares	Percentage of the fund
MFS Investment Management	Global stocks and shares	Percentage of the fund
BlackRock Global Investors	Passive index tracker (Balanced)	Percentage of the fund
Schroder Investment Management	Fund of funds (UK property)	Percentage of the fund
Legal and General Investment Management	Passive index tracker (global stocks and shares)	Percentage of the fund
Legal and General Investment Management	Passive index tracker (fixed income)	Percentage of the fund
Threadneedle Investments	Pooled Fund (UK property)	Percentage of the fund
Blackstone Group International	Fund of funds (hedge funds)	Percentage of the fund
HarbourVest Partners	Fund of funds (private equity)	Percentage of the fund
J P Morgan	Absolute Return Strategic Bond	Percentage of the fund
Baring Asset Management	Absolute Return Multi Asset	Percentage of the fund

i) Private Equity

The determination of fair value of private equity investments can be subjective as these investments are not publicly listed. Valuations are based on forward looking estimates and judgements involving many factors. The unquoted private equity has been valued by the fund manager using guidelines set out by the British Venture Capital Association. The total fund of private equity investment in the pension fund is valued at £11.7m. There is a risk that this investment may be under or overstated in the accounts.

3. Actuarial valuation

The purpose of an actuarial valuation, which must be carried out every three years by law, is to assess the ability of the fund to meet its long-term liabilities. The actuary assesses the future growth in the value of the fund, and the future liability to pay pensions to current and former employees. The difference between projected assets and liabilities sets the amount employers must contribute. The fund aims to set employers' contributions rates so that the projected assets equal at least 100% of the projected liabilities. The actuarial valuation as at 31 March 2010 in the report dated March 2011 decided that the funding level was at 83%. A revised schedule of employers' contribution rates came into force from 1 April 2011.

During 2012/2013, the County Council paid employers' contributions at a rate of 15.5%. The district and borough councils paid employers' contributions at rates ranging between 16.1% and 17.7%.

The assumptions used for the March 2010 actuarial valuation were as follows.

Actuarial valuation	Past service %	Future service %
Rate of return on investments - before retirement	7.00%	7.00%
Rate of return on investments - after retirement	5.50%	5.50%
Salary and earnings increases	5.00%	5.00%
Rate of increase in pensions	3.00%	3.00%

The fund is valued using the projected unit method which is consistent with the aim of achieving the 100% funding level described above. At the 31 March 2010 actuarial valuation, the fund's assets were valued at £1,099.0 million.

4. Fund manager holdings

2011/2012 £ millions	%	Market value of external investments	2012/2013 £ millions	%
168.2	14.0	State Street Global Advisors (Index Tracker UK Equities)	99.7	7.2
174.1	14.3	Threadneedle Investments (UK Equities)	207.8	15.1
176.3	13.9	MFS Investment Management (Global Equities)	220.5	16.0
211.7	17.3	BlackRock Global Investors (Index Tracker)	241.8	17.6
146.2	13.7	Legal and General Investment Management (Index Tracker - Global Equities)	159.1	11.6
142.0	11.8	Legal and General Investment Management (Index Tracker - Fixed Income)	125.0	9.1
64.8	5.1	Threadneedle Investments (Property)	66.0	4.8
59.8	4.8	Schroder Investment Management (Property)	60.7	4.4
57.2	4.8	Blackstone Group International (Hedge Funds)	62.1	4.5
4.9	0.0	HarbourVest (Private Equity)	11.7	0.8
0.0	0.0	Baring Asset Management (Absolute Return)	62.5	4.5
0.0	0.0	J P Morgan (Strategic Bond)	59.7	4.3
0.1	0.3	BNY Mellon (Global Custodian)	1.3	0.1
1,205.3	**100.0**	**Total**	**1,377.9**	**100.0**

5. Investments

	Value 1 April 2012 £ millions	Purchases at cost £ millions	Sales proceeds £ millions	Realised profit or loss (-) £ millions	Unrealised profit or loss (-) £ millions	Increase in debtors or (creditors) £ millions	Value 31 March 2013 £ millions
Fixed interest securities	6.2	0.0	0.0	0.0	0.7	0.0	6.9
Stocks and shares	343.7	84.4	-74.9	11.5	55.3	0.0	420.0
Managed funds	848.1	141.0	-142.3	27.8	69.2	0.0	943.8
Cash and deposits	5.8	95.8	-96.7	0.0	0.1	1.4	6.4
Other investments	1.5	0.7	0.0	0.0	0.0	-1.4	0.8
Total	**1,205.3**	**321.9**	**-313.9**	**39.3**	**125.3**	**0.0**	**1,377.9**

The change in market value of investments during the year includes all increases and reductions in the market value of investments held at any time during the year, including profits and losses made when selling investments during the year.

2011/2012 £ millions		2012/2013 £ millions
	Fixed interest securities	
6.2	UK quoted	6.9
6.2		**6.9**
	Stocks and shares	
166.8	UK quoted	226.7
176.9	Overseas quoted	193.3
343.7		**420.0**
	Managed funds	
848.1	Managed funds	943.8
848.1		**943.8**
	Cash and deposits	
3.0	Sterling	3.2
2.8	Foreign currency	3.2
5.8		**6.4**
	Other investments	
2.5	Debtors	2.2
-0.1	Creditors	-1.4
1.5		**0.8**

6. Contributions and benefits

The total contributions we received from employers was £40.8 million (£39.3 million in 2011/2012) and £15.3 million (£15.6 million in 2011/2012 from employees.

Employees contributions during the year included payments of £0.2 million to buy added year and additional regular contributions (£0.3 million in 2011/2012 for added years).

Employers' contributions during the year included £0.7 million received for compensation to the fund for those retiring early and being made redundant (£0.5 million in 2011/2012).

The funding objective is to achieve and maintain a funding level of 100% of liabilities. For this reason a certain proportion of employer contribution received will be to reduce an existing deficit. The 2010 actuarial valuation stated that the deficit could be eliminated by an average contribution addition of 4.8% of pensionable pay for 19 years.

2011/2012 £ millions	Contributions we receive	2012/2013 £ millions
	Administering authority	
21.4	~ From employers	21.5
8.9	~ From employees	8.3
30.3		**29.8**
	Scheduled bodies	
15.8	~ From employers	17.2
6.0	~ From employees	6.3
21.8		**23.5**
	Admitted bodies	
2.0	~ From employers	1.6
0.7	~ From employees	0.7
2.7		**2.3**
	Non-scheduled bodies	
0.1	~ From employers	0.5
0.0	~ From employees	0.0
0.1		**0.5**
54.9	**Total**	**56.1**

2011/2012 £ millions	Analysis of contributions by type	2012/2013 £ millions
15.3	Employee contributions - normal	15.0
0.3	Employee contributions - purchase of additional years	0.2
31.2	Employers' normal contributions	30.4
8.1	Employers' deficit funding contributions	10.5
54.9	**Total**	**56.1**

The deficit funding contributions figure is an actuarial calculation based on a proportion of normal employer contributions. However, in the year 2012/2013 the fund received cash amounts from one employer to pay a deficit.

2011/2012 £ millions	Benefits to be paid	2012/2013 £ millions
	Administering authority	
35.5	~ Pension paid (including lump sums)	35.1
2.0	~ Transfers out	2.7
37.5		**37.8**
	Scheduled bodies	
23.6	~ Pension paid (including lump sums)	25.1
1.4	~ Transfers out	1.1
25.0		**26.2**
	Admitted bodies	
2.6	~ Pension paid (including lump sums)	2.5
0.1	~ Transfers out	0.4
2.7		**2.9**
	Non-scheduled bodies	
0.5	~ Pension paid (including lump sums)	0.5
0.0	~ Transfers out	0.0
0.5		**0.5**
65.7	**Total**	**67.4**

The total pensions paid out (including lump sums) was £63.2 million (£62.2 million in 2011/2012) and the total transfers out was £4.2 million (£3.5 million in 2011/2012).

7. Transfers In

The Magistrates' Courts left the County Council to join the Civil Service on 1 April 2005. The Government's Actuaries Department have calculated that the fund will receive an annual payment of £0.7 million commencing in April 2011 with the last payment to be received in April 2020. This is shown within the total balance of transfers in.

2011/2012 £ millions	Transfers in from other Pension Funds	2012/2013 £ millions
-0.7	Group Transfers	-0.7
-5.0	Individual Transfers	-5.4
-5.7		**-6.1**

8. Additional voluntary contributions

In 2012/2013, some members of the pension scheme paid voluntary contributions to Equitable Life and Standard Life to buy extra pension benefits when they retire. These contributions are invested in a wide range of assets to provide a return on the money invested. The pension fund accounts do not include the assets held by Equitable Life or Standard Life, which were valued at £0.4 million in Equitable Life, and £2.6 million in Standard Life on 31 March 2013. The pension fund accounts also do not include additional voluntary contributions. During the financial year 2012/2013, employees contributed £0.3 million in additional voluntary contributions to Standard Life and £4,376 to Equitable Life.

9. Related party transactions

Warwickshire County Council is the administering authority and largest employer of the Pension Fund, consequently there is a strong relationship between the council and the fund. The County Council incurred costs of £0.9m in relation to the staffing and running costs of the fund and has been reimbursed by the fund for these expenses. There is no co-mingling in terms of cash holdings, the Pension Fund manages its own bank account and operates its own cash-flow.

There is one member of the investment board in receipt of a pension from the fund and one active member of the pension fund. Each member is required to declare their interests at each meeting. Several employees of Warwickshire County Council hold key positions in the financial management of the Pension Fund. These employees and their financial relationship with the fund (expressed as cash-equivalent transfer values) are set out below.

	Accrued pension as at 31 March 2012 £	Accrued pension as at 31 March 2013 £
Head of Corporate Finance	457,563.01	502,725.73
Head of Corporate Financial Services	172,874.13	190,605.15
Group Manager, Treasury and Pensions*	342,907.65	-
Pensions Manager	303,983.54	339,176.17
Principal Accountant	69,272.72	94,022.86

* This person left in the year and the post has been deleted.

10. Investment performance

	Our pension fund %	Our benchmark %	Local Authority Average %
Yearly return on investments for 2012/2013	14.74%	14.30%	13.80%

Overall in the financial year 2012/2013, the fund had a return of 14.74% compared with the fund's specific benchmark of 14.30%.

11. Contingent liability

We expect to need £0.4 million to cover any possible refunds due to former members of the Local Government Pension Scheme (LGPS) run by Warwickshire County Council (the pension fund) that we have lost contact with. If a member leaves the scheme within three months of joining, they are entitled to a refund of any contributions they may have made into the pension fund during that period. The refund will also include an appropriate amount of interest. The pension fund is continuing to try to contact these former members and arrange refunds to them.

12. Actuarial Present Value of Promised Retirement Benefits as Provided by Hymans Robertson Pension Fund Actuary.

CIPFA's Code of Practice on Local Authority Accounting 2012/2013 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.

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 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
- 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 Pension Fund's funding assumptions. I have been instructed by the Administering Authority to provide the necessary information for the Warwickshire County Council Pension Fund, which is in the remainder of this note.

Balance Sheet

Year ended	31 Mar 2012 £millions	31 Mar 2013 £millions
Present value of Promised Retirement Benefits	1,802.0	2,256.0

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2010. I estimate this liability at 31 March 2013 comprises £1,405m in respect of employee members, £288m in respect of deferred pensioners and £563m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. 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 as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2013 is to increase the actuarial present value by £286m.

Financial Assumptions

My recommended financial assumptions are summarised below:

Year ended	31 Mar 2012 % p.a.	31 Mar 2013 % p.a.
Inflation/Pension Increase Rate	2.50%	2.80%
Salary Increase Rate	4.80%	5.10%
Discount Rate	4.80%	4.50%

*Salary increases are 1% p.a. nominal for the three years to 31 March 2015 reverting to the long term rate thereafter

Longevity assumption

As discussed in the accompanying report, the life expectancy assumption is based on standard "SAPS" tables with member category specific adjustments. Improvements are based on the CMI 2009 model methodology with a 1% p.a. long term trend. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	21.9 years	23.6 years
Future Pensioners*	22.8 years	25.9 years

*Future pensioners are assumed to be currently aged 45

This assumption is the same as at 31 March 2012.

Commutation assumption

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 50% of the maximum tax-free cash for post-April 2008 service.

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2013 for IAS19 purposes' dated 26 April 2013. 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:-

Richard Warden FFA

20 May 2013

For and on behalf of Hymans Robertson LLP

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £2,256 million figure is used for statutory accounting purposes by Warwickshire County Council Pension Fund and complies with the requirements of IAS26.

The assumptions underlying the figure match those adopted for the Administering Authority's FRS17/IAS19 reports at each year end. The figure is only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

13. Nature and Extent of Risk and how the Pension Fund Manages Those Risks

The Pension Fund's activities expose it to a variety of risks:

Credit risk: the possibility that other parties might fail to pay amounts due to the Pension Fund.

Liquidity risk: the possibility that the Pension Fund might not have funds available to meet its commitments to make payments.

Market risk: the possibility that financial loss might arise for the Pension Fund as a result of changes in such measures as interest rates and stock market movements.

Credit risk

The Pension Fund is exposed to credit risk through stock lending, derivative contracts, and its daily treasury activities.

The stock lending programme is administered by the Fund's custodian, Bank of New York Mellon, who manage and monitor the counterparty risk, collateral risk and the overall lending programme. The minimum level of collateral for stock on loan is 105%. This level is assessed daily to ensure it takes account of market movements. In accordance with investment regulations, stock lending is restricted at no more than 25% of the total market value of the stock held within the Fund at any time.

Responsibility for managing the financial risks associated with derivative contracts rests with the appointed investment fund managers, whose performance is regularly monitored and reviewed.

The Pension Fund's bank account is held at Lloyds TSB, which holds a Fitch AA- long term credit rating (or equivalent). The Fund's cash balance is lent to borrowers in accordance with the County Council's Treasury Management Strategy. There are rigorous procedures in place to manage the security of all cash deposits, including criteria for the quality of counterparties and limits on the amount that can be placed with any one of those counterparties.

Liquidity risk

The Pension Fund holds a working cash balance or overdraft in its bank account to pay pensions and other benefits. Cash is also required if the Fund's Private Equity Fund of Fund's manager requires additional funds. The Fund currently enjoys a long term positive cash flow. Cash flow surpluses are invested with fund managers as and when required. The Pension Fund is authorised to borrow in its own right on a short term basis to fund cash flow deficits.

Market risk

To mitigate market risk, the Pension Fund is invested in a diversified pool of assets to ensure a reasonable balance between different asset categories, having taken external professional advice as necessary. The management of the assets is split between a number of investment fund managers with different benchmark performance targets and investment strategies. Each manager is expected to maintain a diversified portfolio within their allocation. Risk associated with the strategy and investment return are regularly monitored and reviewed by the Pension Fund Investment Board.

Interest rate risk is the risk to which the Pension Fund is exposed to changes in interest rates and mainly relates to holdings in bonds. This risk is managed by Legal & General and BlackRock who are the Fund's appointed bond portfolio investment managers.

For investments denominated in non sterling currencies, the Pension Fund is exposed to currency risk as a result of possible fluctuations in foreign currency exchange rates. So far as the Fund's equity investments are concerned, these risks are mitigated to some extent by the global nature of their underlying businesses. Furthermore, investment fund managers will take account of currency risk in their investment decisions.

We have prepared a table for our exposure to all non-UK assets. In order to calculate this, we created a currency basket based on the fund's foreign currency mix. We do this by multiplying the weight of each currency by the change in its exchange rate (relative to GBP) and sum to create the aggregate currency change of the 'basket'.

Currency	Value (£000)	% Change	Value on Increase (£000)	Value on Decrease (£000)
Australian Dollar	6	10.0%	6	5
Brazilian Real	1,942	11.6%	2,167	1,716
Canadian Dollar	6,240	5.6%	6,590	5,890
Czech Republic Koruna	852	10.0%	937	767
Danish Krone	1,755	7.7%	1,890	1,619
EURO	70,968	7.8%	76,504	65,433
Indian Rupee	1,309	9.3%	1,431	1,187
Israeli Shekel	764	8.7%	830	697
Japanese Yen	5,900	11.8%	6,594	5,205
Norwegian Krone	12	9.0%	13	11
South Korean Won	1,938	7.6%	2,084	1,791
Swedish Krona	3,242	8.1%	3,505	2,978
Swiss Franc	22,258	9.4%	24,342	20,175
US Dollar	105,296	8.7%	114,499	96,093
Global Basket	4,392	5.3%	4,626	4,158
Asia Pacific ex Japanese Basket	19,122	6.3%	20,329	17,916
Total Currency	**245,995**	**8.3%**	**266,347**	**225,642**

Table may not sum due to roundings

Price risk is the risk of losses associated with the movement in prices of the underlying assets. By diversifying investments across asset classes and managers, the Pension Fund aims to reduce the exposure to price risk. Statutory limits prescribed by Regulations are also in place to avoid concentration of risk in specific areas.

An additional area of risk is the outsourcing of custody and accounting services to external third party service organisations. The main service area that the Pension Fund outsource is its custody arrangements with Bank of New York Mellon. The Fund's custodian is responsible for the safekeeping of the Fund's assets and acts as the Fund's clearing bank, settling transactions and collecting income. In addition, they provide a range of support services including stock lending and investment accounting. Bank of New York Mellon is a global industry leader and provides the custodian service to many English local government pension scheme administering authorities.

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend largely on funds' asset allocations. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This can then be applied to the period end asset mix. The closing investment assets of the scheme have been assessed for price risk in the following table.

Asset Type	Value (£m)	% Change	Value on Increase (£m)	Value on Decrease (£m)
UK Equities	534.0	13.0%	603.5	464.5
Overseas Equities	308.0	13.2%	348.5	267.5
Total Bonds a & IL	208.2	4.3%	217.1	199.2
Cash	5.7	0.0%	5.7	5.7
Alternatives	195.9	3.5%	202.9	189.0
Property	126.1	2.4%	129.1	123.1
Total	**1377.9**		**1,507**	**1,249**

Table may not sum due to roundings

14. Other disclosures

At 31 March 2013, the fund had stock valued at £4.5 million (£11.0 million at 31 March 2012) which was lent out to other organisations. The collateral held against this stock was valued at £4.9 million. This generated a total income of £53k up to 31 March 2013.

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

Our policy is to reinvest income from fixed interest securities within the pooled units of the fund. During 2012/2013 we did not earn any interest from fixed interest securities held in pooled units.

During the year 2012/2013, the pension fund paid refunds of contributions to employees of £10,723 after tax has been deducted.

Transaction costs totalling £0.3 million attributable to the acquisition and disposal of the funds investments have been added to purchase costs and netted against sale proceeds as shown in note 5.

Withholding tax has only been incurred against equities held actively by the fund.

The fund paid its external auditors a fee of £0.024m during the year 2012/2013.

15. Administrative Expenses

2011/2012 £millions	Administration Expenses	2012/2013 £millions
0.1	Actuary Fees	0.1
0.9	Costs Incurred by Administrating Authority	0.8
0.1	Support/Audit/Financing Costs	0.1
0.4	Payroll Charges	0.4
1.5		**1.4**

16. Investment Income

2011/2012 £000	Investment Income	2012/2013 £000
5.2	Cash - UK - From administration of the Fund	4.7
-18.2	Cash & Other Investments - UK - Fund Mgrs	11.3
1.3	Cash & Other Investments - Overseas	0.0
6,637.3	Equities - UK	7,868.2
1,264.6	Equities - North America	1,616.0
1,576.6	Equities - Europe	1,702.9
288.4	Equities - Japan	198.0
75.0	Equities - Pacific (Ex Japan)	32.2
78.4	Equities - Emerging Markets	72.3
47.8	Stock Lending	54.0
2,263.7	Managed Funds - UK	2,749.8
1,316.9	Managed Funds - Overseas	1,278.4
13,537.2		**15,587.9**

Table may not sum due to roundings

17. Investment Expenses

2011/2012 £millions	Investment Expenses	2012/2013 £millions
3.7	Fund Managers Fees	4.0
1.3	Fund Expenses	1.1
0.1	Custody and Governance Fees	0.1
5.1		**5.2**

18. Analysis of Current Assets and Liabilities

2011/2012 £millions	Current Assets	2012/2013 £millions
2.5	Contributions due from Employers	2.9
1.2	Contributions due from Employees	1.2
0.3	Deficit Recovery Contributions due from Employers	0.0
0.1	Debtors - Strain on Fund	0.0
0.6	Sales to Cash (Invoiced Debtors)	0.8
0.9	Other Debtors	0.2
3.4	Cash Balances	-0.1
9.0		**5.0**

2011/2012 £millions	Current Liabilities	2012/2013 £millions
1.0	Owed to Administrating Authority	1.3
0.0	Creditors - Suppliers	1.5
1.3	Creditors - Income Received in Advance	0.7
0.3	Creditors - Early Retirement	0.1
2.6		**3.6**

19. Financial Instruments

The following tables present the funds closing net assets by category of financial instrument. (Fair values and the carrying values of Fund assets are equal).

Financial Instruments 2012/13	Fair Value Through Profit and Loss £millions	Loans and Receivables £millions	Financial Liabilities (current) £millions	Total £millions
Fixed interest securities	6.9	0.0	0.0	6.9
Stocks and shares	420.0	0.0	0.0	420.0
Managed funds	943.8	0.0	0.0	943.8
Cash and deposits	0.0	6.4	0.0	6.4
Other Investments	0.0	2.3	-1.5	0.8
Debtors	0.0	5.0	0.0	5.0
Cash balances	0.0	-0.1	0.0	-0.1
Creditors	0.0	0.0	-3.6	-3.6
Net assets at the end of the year	**1,370.7**	**13.6**	**-5.1**	**1,379.2**

Financial Instruments 2011/12	Fair Value Through Profit and Loss £millions	Loans and Receivables £millions	Financial Liabilities (current) £millions	Total £millions
Fixed interest securities	6.2	0.0	0.0	6.2
Stocks and shares	343.7	0.0	0.0	343.7
Managed funds	848.1	0.0	0.0	848.1
Cash and deposits	0.0	5.8	0.0	5.8
Other Investments	0.0	2.5	-0.1	1.5
Debtors	0.0	5.6	0.0	5.6
Cash balances	0.0	3.4	0.0	3.4
Creditors	0.0	0.0	-2.6	-2.6
Net assets at the end of the year	**1,198.0**	**17.3**	**-3.6**	**1,211.7**

The following table shows the net gains on the different categories of instruments above, (catagorised in the fund accounts as realised and unrealised profit).

2011/2012 £millions		2012/2013 £millions
-31.3	Fair Value through profit and loss	-164.6
0.1	Loans and Receivabless	0.0
0.0	Financial Liabilities (current)	0.0
-31.2		**-164.6**

The following tables categorise financial instruments according to the information used to determine their fair values:

Quoted market price - where fair values are derived from a price in an active market.

Using observable inputs - where valuation techniques have been used to arrive at a value in a market that it is not active.

With significant unobservable inputs - where there is no market data to use the values will rely on judgement and assumptions.

The carrying value of assets is the same as their fair value.

Valuation at 31 March 2013	Quoted market price £millions	Using observable inputs £millions	With significant unobservable inputs £millions	Total £millions
Financial assets at fair value	1,176.6	126.7	73.8	1,377.1
Loans and Receivables	5.7	0.0	0.0	5.7
Financial Liabilities	-3.6	0.0	0.0	-3.6
Net assets at the end of the year	**1,178.7**	**126.7**	**73.8**	**1,379.2**

Valuation at 31 March 2012	Quoted market price £millions	Using observable inputs £millions	With significant unobservable inputs £millions	Total £millions
Financial assets at fair value	1,017.1	124.6	62.1	1,203.8
Loans and Receivables	10.5	0.0	0.0	10.5
Financial Liabilities	-2.6	0.0	0.0	-2.6
Net assets at the end of the year	**1,025.0**	**124.6**	**62.1**	**1,211.7**

Communications

We communicate with our scheme members in various ways:

- Periodic newsletters are produced for scheme members, pensioners and preserved beneficiaries and sent to their home address.
- All new employees are given a leaflet about the LGPS.
- Scheme booklets are distributed to all scheme members.
- An annual meeting is held for all pension fund employers.
- An annual report is produced.
- Pension Services staff present to members and employers. We hold pension "surgeries" which give members the opportunity to discuss their benefits in confidence.
- Scheme updates and other relevant information are forwarded to all employers.
- A presentation by our staff on the benefits of the scheme is included in the Warwickshire County Council Induction programme.
- Factsheets are produced on various issues such as reducing hours and divorce/dissolution of Civil Partnership. These are available on our website or on request.
- Quarterly bulletins on the investment performance of the fund are distributed to all members of the Pension Fund Investment Board and all employers.
- Answering general scheme member and employer queries as they arise.
- A benefit statement is issued to all current members and deferred beneficiaries.
- The pensions website is available allowing employers and members to access key pensions information and to stay up to date with changes to the scheme. Updates will also be posted onto the Intranet, employers are advised to do the same.
- This report is produced and published on the website. Hard copies are available to other interested parties if requested.
- Campaigns notifying members of specific scheme benefits; for example nominated co habiting partners and death grants.
- Articles about changes/updates/reminders featured in Working for Warwickshire (W4W) and website.

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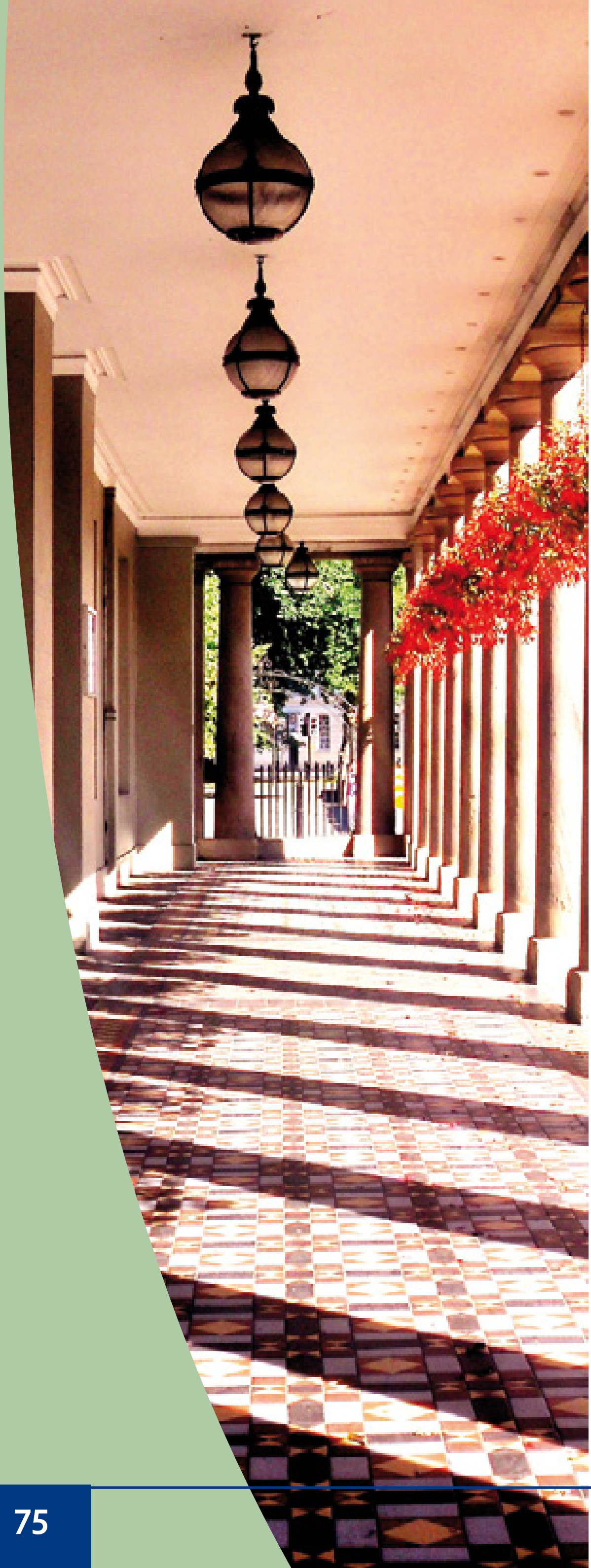

Glossary

An A to Z of Investment terms

A

Absolute Return
Absolute return investing aims to produce a positive return over time, regardless of the prevailing market conditions.

Active management
A style of investment management where the fund manager aims to outperform a ***benchmark*** by superior ***asset allocation***, market timing or ***stock selection*** (or a combination of these). Compare with ***passive management***.

Active risk
A measure of estimated ***volatility*** of fund performance against the ***benchmark***. Also known as forecast ***tracking error*** or ***relative risk***. In technical terms, it is defined as the forecast standard deviation of annual returns versus the ***benchmark***. Active risk is usually quoted ***ex-ante***, the ***ex-post*** measure of ***volatility*** of actual returns more usually being referred to as realised ***tracking error***.

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.

Alpha
Often loosely used to describe the amount of investment ***return*** an ***active manager*** adds from their management of the fund. The formal definition of alpha is the outperformance of a stock or fund in excess of the ***return*** that can be attributed to the market in general. The ***return*** attributable to the market will be determined by the actual market return and the stock or fund's ***beta***. For example, if a fund returns 14%, the market returns 10% and the beta of the fund is 1.2, the alpha of the portfolio is 14% – (10%x1.2) = 2%. If a fund has a consistently high alpha this can indicate skilful management.

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

Asset allocation
The apportionment of a fund's assets between ***asset classes***. See ***strategic asset allocation*** and ***tactical asset allocation***.

Asset/liability modelling
A technique that gauges the suitability of various investment strategies by making projections of the future investment ***returns*** and ***liabilities*** of a fund.

Asset-backed securities
Securities, usually bonds, where the cashflow to make the coupon payments comes from underlying assets. For example, mortgage-backed bonds where the cashflow comes from mortgage payments made by borrowers.

B

Balanced management
A particular type of ***multi-asset management*** where a manager is responsible for all ***asset classes***, with the possible exception of property. A fund using this style is called a balanced fund. Compare with ***specialist management*** and ***multi-asset management***.

Bear market
A market where prices decline against a background of widespread pessimism. Compare with ***bull market***.

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

Beta
A measure of the expected movement in price of a stock or fund, given a movement in its benchmark. For example, suppose a stock has a beta of 1.2. If the market appreciates by 10%, the expected corresponding increase in stock price would be 12%.

Bull market
A market where prices increase against a background of widespread optimism. Compare with ***bear market***.

C

Class action
A class action arises when a group of investors initiates a legal action against a company or its directors in respect of alleged negligence or illegal behaviour. The majority of class actions are initiated in the US. The case usually involves a claim for compensation in respect of share price losses in a specified period.

Combined Code
A code of *corporate governance* principles for UK companies. So called because it combines the recommendations of several key reports on corporate governance issues including those of the committees chaired by Cadbury, Greenbury, Hampel and Higgs.

Commission recapture
A commission recapture agreement is where *brokers*, who have received *directed commissions* from a client, agree to give back some of their *commission* to the client. Such an agreement would usually be facilitated by a third party (such as a *custodian*) who would take a share of the revenue.

Commodity
A tradeable item that can be further processed and sold. Industrial (metals), agricultural (wool, wheat, sugar) and bulk commodities (coal, iron ore) are examples. It is possible to invest in physical commodities or in *derivatives* based on commodity prices.

Corporate governance
Issues relating to the way in which a company ensures that it is attaching maximum importance to the interests of its shareholders and how shareholders can influence management. Governance issues include executive pay levels and how institutional investors use their votes.

Currency hedging
Currency risk can be mitigated by *hedging* using *derivatives*.

Currency overlay
An investment strategy in which the currency exposure of a portfolio is altered using *derivatives* (usually *forward* contracts).

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*.

Defined contribution scheme
A type of pension scheme where employees' and the employer's contributions are fixed but the pension ultimately paid to the employee depends on the investment returns achieved by the contributions and annuity rates at retirement. Compare with *defined benefit scheme*.

Derivatives
Financial instruments that are based on the movements of underlying assets. They allow exposures to markets and individual assets to be adjusted, thereby adjusting the *risk* characteristics of a fund. Common types of derivative include *forward* contracts, *futures*, *options*, and *swaps*. Derivatives may be traded on an exchange, *or over the counter* (OTC).

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

Dow Jones Industrial Average
This is an *index* of the New York Stock Exchange and is a basket of thirty shares, chosen to represent the economy, that provides an indication of the general movement of prices in the market.

Duration
The duration of a *bond* is the sum of the present value of the future income and *redemption* payments, weighted by the number of years until receipt. Modified duration is a measure of the sensitivity of the price of a bond to changes in its *redemption yield*.

Dynamic alpha
A term used to describe an investment strategy that uses the concept of *portable alpha*.

F

FRAG 21
Financial Reporting and Auditing Group guide on the issuance of reports to third parties on the internal controls of investment managers and custodians. The Group is part of the Institute of Chartered Accountants in England and Wales (ICAEW).

FRS 17/IAS19
An accounting standard which requires companies 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 company's balance sheet, and can potentially increase the *volatility* of a company's share price.

FTSE All-Share Index
An arithmetically weighted index of leading UK shares (by market capitalisation) listed on the *London Stock Exchange*. Updated daily. The FTSE 100 Index (or "Footsie") covers only the largest 100 companies.

Fund of hedge funds
See *hedge funds*.

G

Gold
Gold is potentially attractive as an investment due to its high liquidity, its status as an *asset* held by central banks, and because it is seen as a good source of *diversification* for funds and an *inflation hedge*.

Growth manager
A fund manager who aims to select stocks that he believes will achieve above-average profits growth. Compare with *value manager* and *momentum manager*.

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 exists 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.

Hedging
A strategy that aims to reduce *risk*. For example, a *forward* currency transaction might be executed when investing in overseas *shares* or *bonds* to avoid volatility of returns due to exchange rate movements.

I

IMA
The Investment Management Association is the industry body for the investment industry. Formed from previous industry bodies IFMA and AUTIF, the IMA's role is to make representations to the UK government, publicise the use of investment funds and promote training and knowledge throughout the industry. IMA is also an acronym for *Investment Management Agreement*.

L

LIBID
London Inter-Bank Bid Rate. Interest rate at which prime banks will offer to take funds on deposit from other banks in the London Inter-Bank market.

LIBOR
London Inter-Bank Offer Rate. Interest rate at which prime banks will offer to lend money in the London Inter-Bank market.

London Stock Exchange (LSE)
The UK's main exchange for trading in *shares*.

M

Myners Report
Paul Myners published a review of issues affecting the pension fund industry on behalf of the government in 2001. His report and subsequent documents have undergone consultation and the Myners' Principles established. These are in the process of being implemented in the industry.

N

NAPF
National Association of Pension Funds. The UK industry body for pension funds.

P

PRAG
Pensions Research Accountants Group – responsible for issuing recognised Statements of Recommended Practice (SORPs) for pension schemes.

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

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. See also *active risk*.

Risk appetite
A qualitative assessment of the amount of *risk* that an investor is willing to take.

Risk budget
A mathematical assessment of the total amount of *risk* that an investor is prepared to take and the allocation of that risk between the various possible *asset classes*.

Risk-free asset/rate
An investment with no chance of default, and a known or certain rate of *return*.

Risk premium
The extra *yield* over the risk-free rate demanded by investors to compensate them for bearing *risk*.

S

SORP
Statements of Recommended Practice issued by the accountancy profession. One SORP sets out recommendations on the form and content of the financial statements of pension schemes.

Scrip issue
A share issue which raises no new money for a company, but simply gives extra shares to existing holders. Also known as a *bonus issue*. Compare with *rights issue*.

Specialist management
A fund management arrangement where there are separate accounts with one or a variety of managers for specific *asset classes*. A specialist fund manager is concerned primarily with *stock selection* within the specialist *asset class*. *Asset allocation* decisions are taken by the trustees, their consultant or a specialist *tactical asset allocation* manager. Compare with *multi-asset management*.

Statement of Investment Principles (SIP)
Trustees of pension funds are required under the Pensions Act 1995 to prepare and keep up to date this written statement of how their scheme's assets are invested. Essentially, it provides evidence that the trustees have thought through the suitability of their scheme's investment policy and how that policy is implemented.

Stocklending
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*. The *IMA Disclosure Code* sets out how investment managers should report details of these costs to their clients.

Transition
The transfer of assets from one fund manager to another which may involve buying and selling assets.

WARWICKSHIRE
pension fund

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