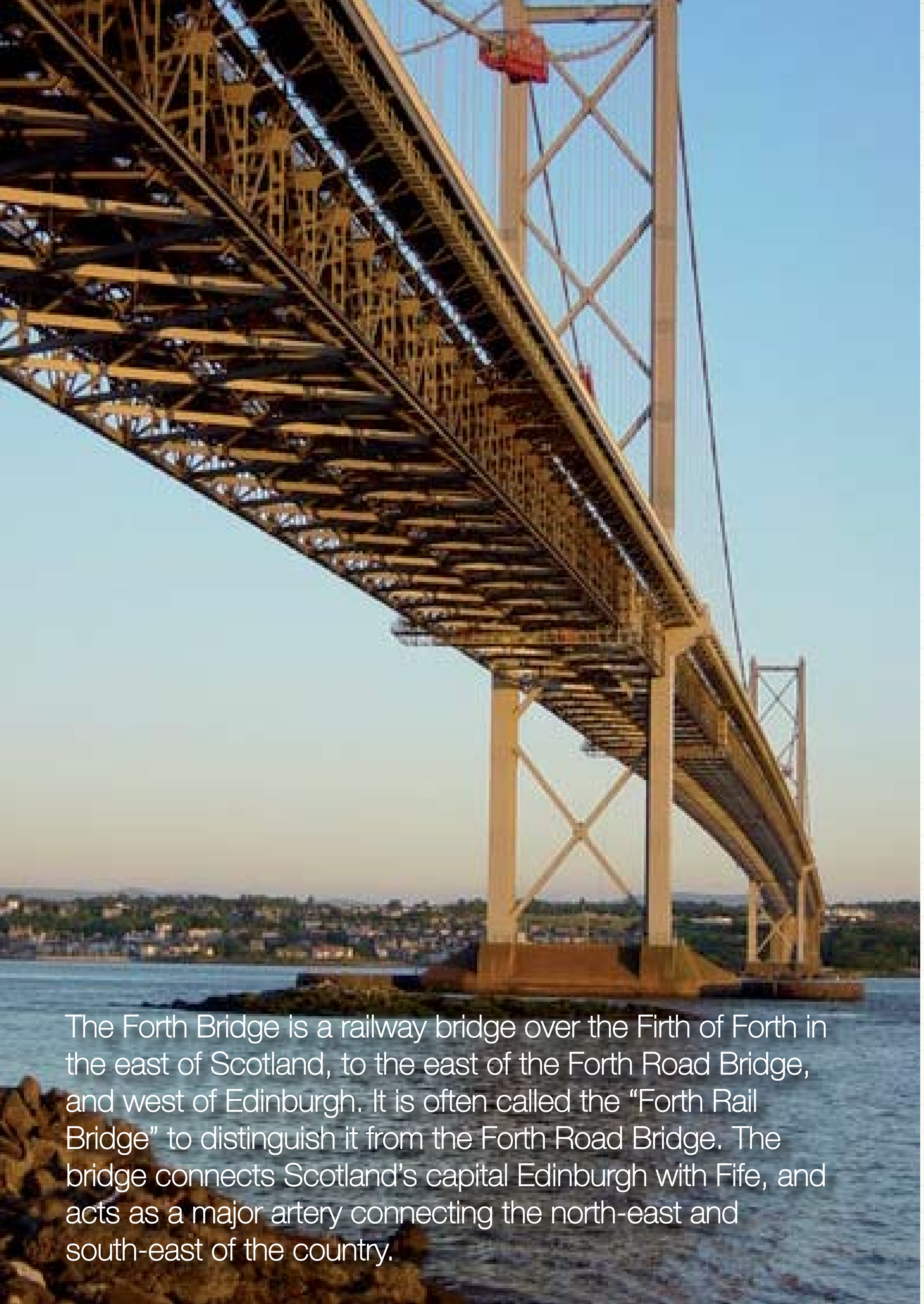
Warwickshire County Council

pension fund our year in review

2005/06

Warwickshire County Council

Working for Warwickshire



The Forth Bridge is a railway bridge over the Firth of Forth in the east of Scotland, to the east of the Forth Road Bridge, and west of Edinburgh. It is often called the "Forth Rail Bridge" to distinguish it from the Forth Road Bridge. The bridge connects Scotland's capital Edinburgh with Fife, and acts as a major artery connecting the north-east and south-east of the country.

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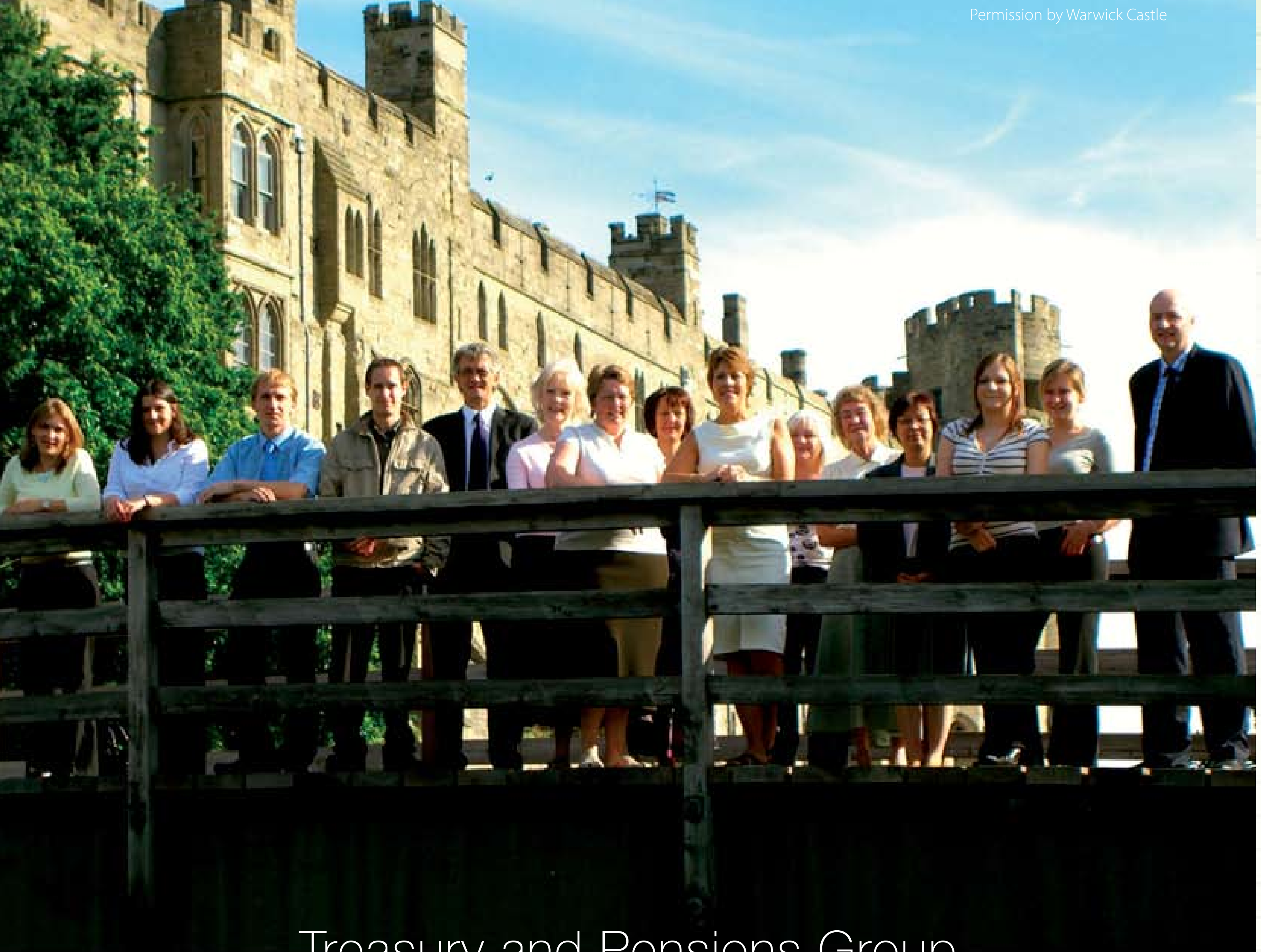


Permission by Warwick Castle

Treasury and Pensions Group

Chairman's Statement

Chris Davis
Chairman of the Pension Fund Investment Board

After some ten years service on the Pension Fund Investment Board, it has been pleasing to be elected Chairman on the retirement of my distinguished predecessor Hughie Todner. The May 2005 County election also resulted in two new Investment Board members, Councillors Bob Hicks and Brian Moss.

This is the third Annual Report for the Pension Fund and part of the Council's approach to enhance its communication with stakeholders. In fact, this is the very theme of this issue of "building bridges". Indeed, the Fund held a very successful annual meeting again in November 2005 for the employer organisations and plans to repeat this venture on 24 November 2006 (9.30am) at Shire Hall.

I am pleased to report that the financial year of 2005/06 has been one of further progressive consolidation to the Warwickshire County Council Pension Fund following the restructure to specialist fund managers carried through last year.

The Fund has seen a continuation in the recovery in the equity market following the improvements of last year. Positive returns in all four quarters of 2005/06 provided a continuing boost to our funding level. The Board remains optimistic that equities will continue to out-perform bonds over the long term and this remains a fundamental principle of our investment funding strategy.

Also the increase in Fund liabilities seemed to have bottomed out as long-term corporate bond rates have stopped falling and started to rise.

A major activity of your Investment Board has been to review our governance policy and draw up a member protocol guided by the principles set down in the Myner's report. A documented business plan and risk policy have also been approved together with a Statement of Investment Principles. These are used to help ensure that we act in an effective and efficient way to the benefit of the Fund. Investment Board members have attended a wide variety of courses and seminars to build strong collective and individual skills, knowledge and understanding.

I would like to take this opportunity of expressing my personal appreciation to the members of the Pension Fund Investment Board, our specialist advisors, the fund managers, the County Treasurer and his pensions staff for all their hard and dedicated work.

County Treasurer's Introduction

David Clarke
County Treasurer

Iron Bridge was built by Abraham Darby III and is recognised as one of the great symbols of the Industrial Revolution. This remarkable structure, which opened in 1779, still dominates the small Shropshire town that bears its name.

The Local Government Pension Scheme (LGPS) is not as old as Iron Bridge but until now it has served its scheme members faithfully and has been as solid and functional as Darby's bridge. We are currently in a state of change with the LGPS, and the Government and employers are seeking changes that will make the scheme more affordable and fit for the 21st Century.

During 2005/06 we saw new regulations hit the statute book making a number of changes to the Scheme. The removal of retirement under the Rule of 85 was one of the most prominent changes. These regulations lead to industrial action with the regulations being revoked and subsequently reintroduced. Dialogue is expected to continue with a whole new LGPS being considered from April 2008.

The new investment arrangements that were put into place in 2004 have now had a full financial year to bed down. In the world of pensions, performance needs to be assessed over a medium to long-term horizon. During 2005/06, the Fund achieved a return of 26.3% compared with 9.7% for 2004/05.

The investment markets have generally strengthened during 2005/06. At one time, it was looking as if the Fund may break through the £1 billion level. However, it did not quite achieve this finishing the year at £945.2m, compared with £744.2m.at the beginning of the year.

Looking forward to 2006/07, the year is likely to be dominated by discussions around regulation changes and proposals to introduce a new LGPS by April 2008. It is vital that these discussions lead to a pension scheme that is fit for purpose and provides a lasting stable environment for both employers and scheme members. Even Iron Bridge needs maintenance to keep it in good order. Hopefully, with appropriate changes, the LGPS can survive the challenge of time to emulate Abraham Darby's masterpiece of engineering.

The bridge is the world famous symbol of the Industrial Revolution. It is the first cast iron bridge and was built in 1779 over the River Severn. Ironbridge is now regarded as a World Heritage Site sitting alongside the Pyramids and the Grand Canyon.

Report from the Group Manager

Phil Triggs
Group Manager, Treasury and Pensions

The financial year 2005/06 has been a very busy one for the Treasury and Pensions Group. Last year's annual Report was well received and used as the basis for a submission to the LGC Pension Fund Awards, culminating in a placing in the top three shortlist. The Group was rightly very proud of this achievement.

Communications

Our theme this year is building bridges (or enhancing our communication links) with our stakeholders. In terms of our links, the Ragged Staff newsletters to pensioners were published and sent in July 2005 and January 2006. All benefit statements for active contributors were sent out in March 2005. A newsletter detailing scheme changes was published and sent in April 2005 with further newsletters published and sent in July 2005 and January 2006. The Pension Fund Annual Report was published in September 2005 with a summary sent out to active members shortly afterwards. We now have a new governance policy and communications strategy which can be found on the Pension Fund website at **www.warwickshire.gov.uk/pensions**

In the true spirit of building bridges, the Warwickshire Pension Fund held its second Annual Meeting on 24 November 2005. Representatives from the District Councils and the 56 scheduled and admitted bodies were invited to a morning of presentations from the County Treasurer and his staff as well as the Fund's actuary, custodian and fund managers. This proved to be an outstanding success and is regarded as a cornerstone in the Fund's efforts in maintaining effective links with employer organisations.

Systems and Procedures

External consultants facilitated training sessions for the implementation of a new Task Manager system during December 2005 and the system was successfully introduced on 3 January 2006 with no problems experienced to date. It is proving to be a useful tool for the team. All the Group's computers have been updated to accommodate document imaging. This project is still ongoing and running to timetable with implementation due later in 2006. Moreover, the Warwickshire Pension Fund website was officially launched by the Investment Board Chairman, Councillor Chris Davis, in June 2005 and is kept regularly updated. In the first four months of 2006, the average monthly 'hits' on the site's individual areas average 3,200. Interest in the site peaked at 3,700 hits at the time of the Unison strike in March 2006. Our IT enhancement continues with the project to implement AXISe online commencing in late 2006/early 2007.

The Fund

An interim actuarial review of the Fund was carried out in 2005/06. This is a prelude to the triennial actuarial valuation that will be commenced as at 31 March 2007 with employer contribution rates to take effect from 1 April 2008. The Fund itself achieved a return of 26.3% compared with the Fund benchmark of 25.7%, an out-performance of 0.6%. The average local authority fund performance in 2005/06 was 24.8%

Governance

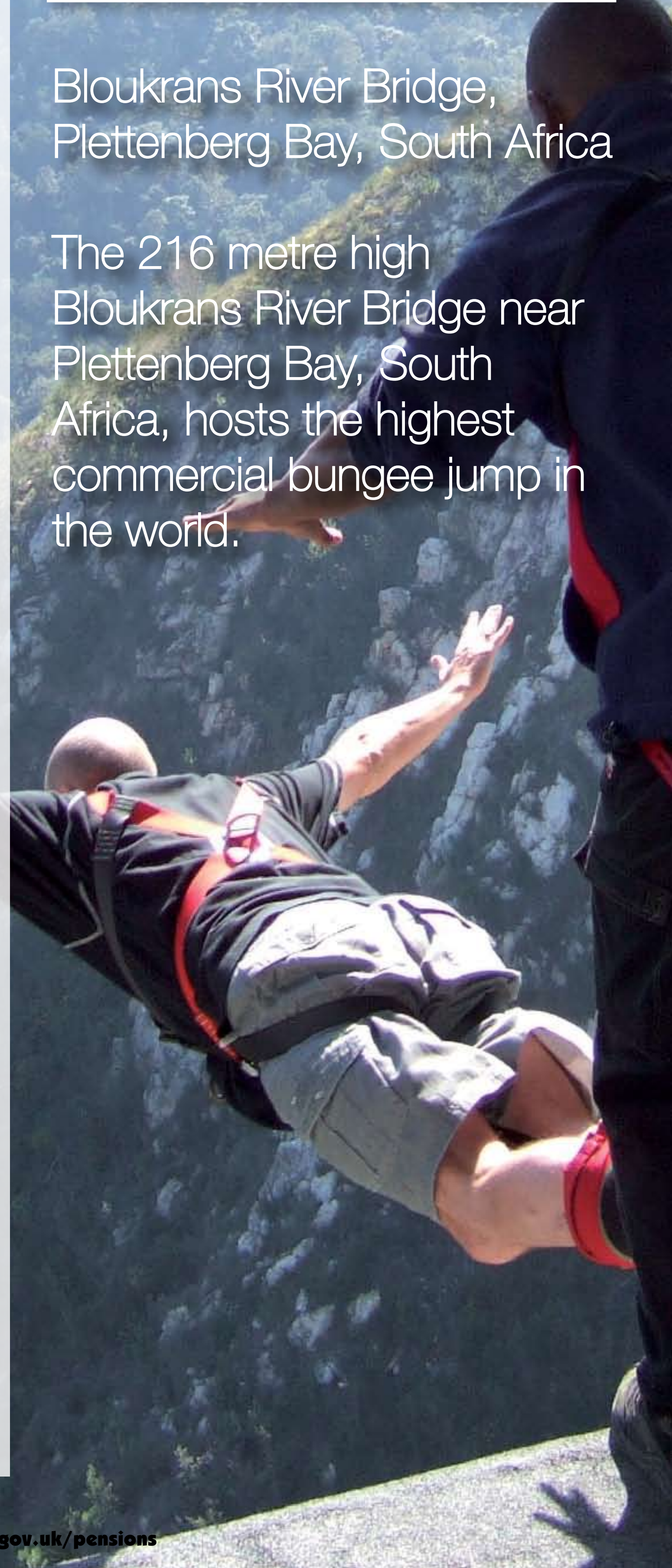
The Pension Fund Investment Board had a particularly busy year. Pre-meetings are now held at fund manager offices on a quarterly basis in order to take advantage of member training opportunities. Official meetings are always held at Shire Hall as a requirement of the Council's Constitution. A full review of the Pension Fund's corporate governance process was carried out and reported to the Investment Board on 17 February 2006. The Pension Fund's new Governance Policy is available on the Pension Fund website. The Pension Fund's Annual Statement of Accounts was produced satisfactorily according to closedown timetable deadlines with no audit issues.

Highlights 2005/06

- Annual benefit statements issued to all members
- Governance and communications policies published
- Annual Meeting of the Pension Fund
- IT based systems developed and implemented
- Website launched
- Investment out-performance

Feedback

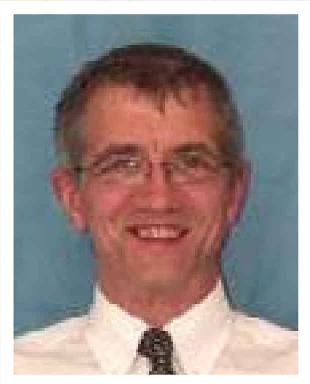
We welcome any feedback and these should be directed to me at: **philtriggs@warwickshire.gov.uk**



Bloukrans River Bridge, Plettenberg Bay, South Africa

The 216 metre high Bloukrans River Bridge near Plettenberg Bay, South Africa, hosts the highest commercial bungee jump in the world.

Report from the Pension Services Manager



Neil Buxton
Pension Services Manager

The past twelve months has been one of significant change in the Pension Services Group. Since our last Annual Report, two senior members of the team have retired. The Pensions Group sends its best wishes to Dennis Musgrave and Carol Weller.

In January 2006, the majority of our work procedures were transferred to a workflow system (Task Manager on the CLASS AXISe system). This system follows the progress of a task through the office from inception through to completion. For example, if a scheme member should contact the pensions office requesting an update of an existing enquiry then any member of the Pensions Group can answer that question without having to refer to a manual file. Task Manager will be further expanded over the next twelve months and the existing office processes will be reviewed for effectiveness.

Our systems will be further enhanced with the planned introduction of a document imaging system. This will mean that all correspondence received by the Pension Services Group will be scanned and viewed electronically. We are still on track to provide an online service for members and employers to enhance our website service, but we are at present trying to resolve some security issues with our IT experts.

Our active membership has risen marginally by 1.8% to 13,761. Overall membership (including pensioners and those with frozen benefits) has increased by 4.8% to 27,561. There has been an increase in the overall membership as legislation (introduced in April 2004) reduced the maximum period for a refund down to three months and this resulted in an increase in the number of frozen benefit cases. Details of the fund's membership are available on pages 12 and 13.

Members of the Local Government Pension Scheme have faced a great deal of uncertainty for the couple of years about how the Scheme will evolve to face the challenges of longevity and spiralling costs falling on the employers and the council tax payer. We have seen the introduction, withdrawal and subsequent reintroduction of regulations (known euphemistically as the "Hokey Cokey regulations"), concerning the earliest date a member can retire.

Whilst the "in, out, in, out" is taking place, the scheme is set to radically change from 2008 with the introduction of a new pension scheme. Although a Government Minister gave assurances that the new LGPS will remain a final salary scheme, the Department for Communities and Local Government (formerly the Office of the Deputy Prime Minister) is quoted as saying, "nothing will be ruled out" in the review of the scheme. The Pension Services Group continues to extol the virtues of being an active member of what is a very good occupational pension scheme but all the uncertainty over the future provisions of the scheme make this an increasingly difficult task.

Results of our key performance monitoring in 2005/2006 are shown in the table below.

Activity	Target	Results in 2005/2006
Pay retirement benefits with 5 days of receiving all relevant information	100%	90%
Pay refunds within 5 days of receiving all relevant information	100%	99%
Notify dependents of entitlement for death in service within 5 days of receiving all relevant information	100%	98%
Supply written estimates with 10 days of request	100%	90%
Financial performance	To breakeven	Achieved

Golden Gate Bridge, San Francisco

The bridge opened in May 1937 and spans San Francisco Bay. It is 1.7 miles long and was the longest span in the world from its completion until the Verrazano Narrows Bridge was built in New York in 1964. It is art deco in design and painted in vermil-lion orange. The colour was selected to blend with the bridge's setting.

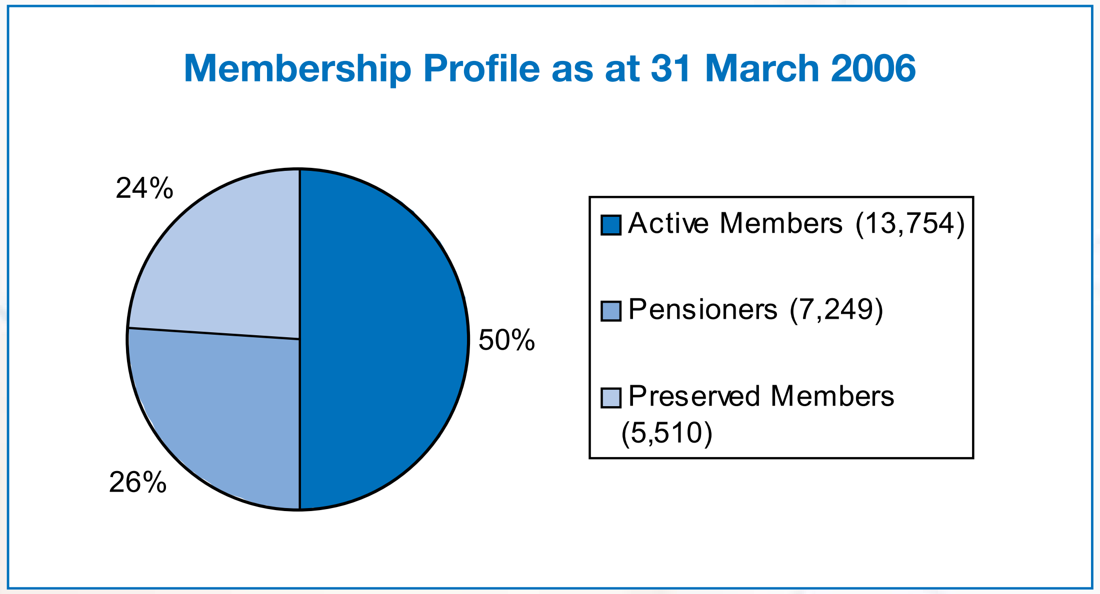
Analysis of Scheme Membership Profiles

Definitions of Membership types:

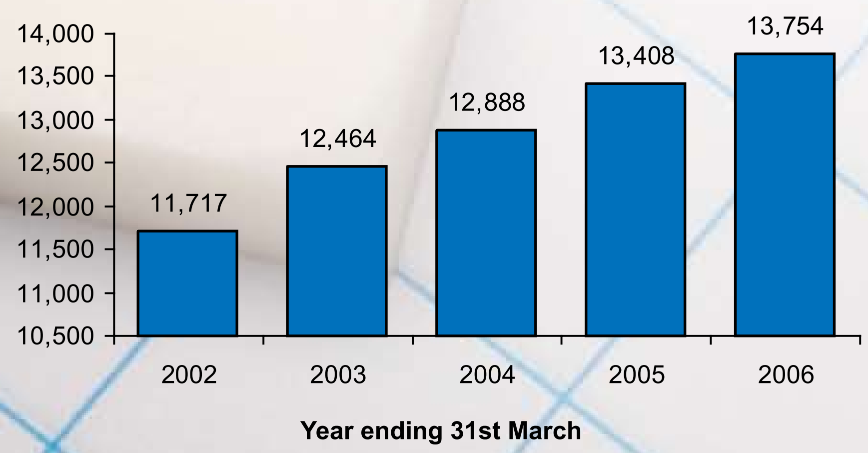
Active Members
– number of current employees contributing to the fund.

Pensioners
– retired members who are in receipt of pensions and other benefits.

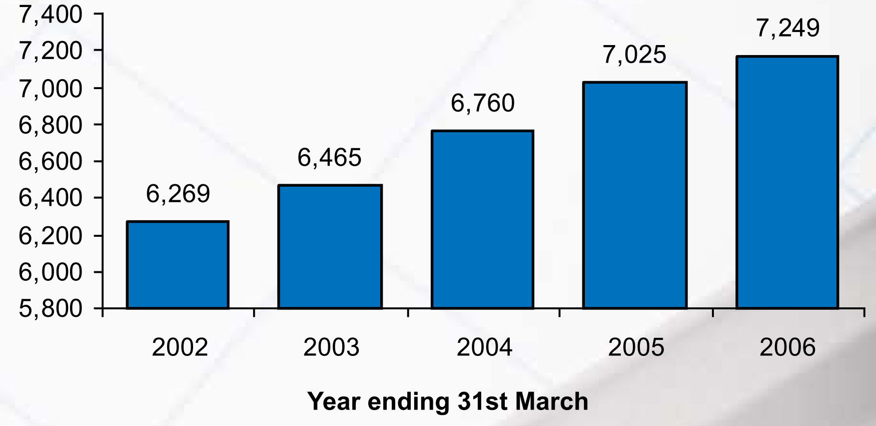
Preserved Members
– former employees who have had their pension rights ‘frozen’ and will be entitled to a pension when they retire. Undecided leavers are also included in preserved members.



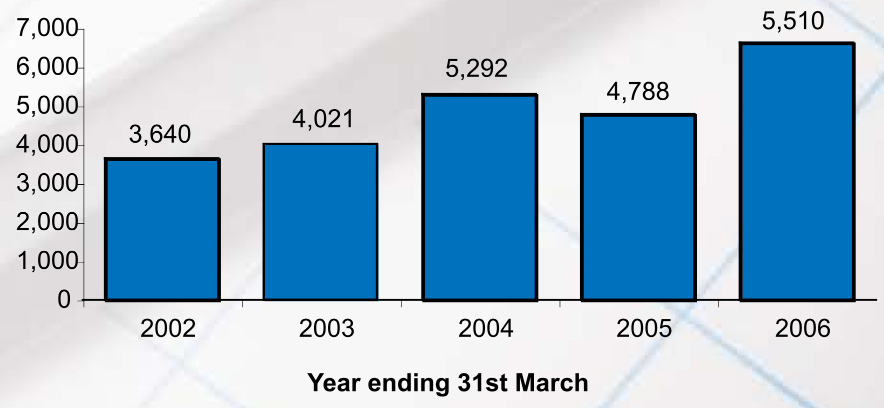
Active Membership in the last 5 years



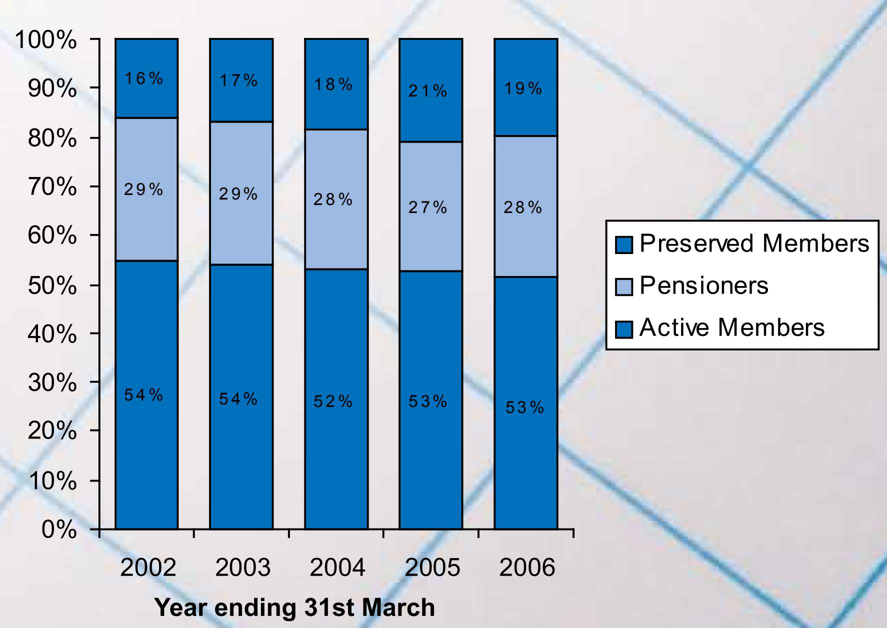
Number of Pensioners in the last 5 years



Preserved Members over the last 5 years



Scheme Membership profile over the last 5 years



Participating Employers

The Treasurer of Warwickshire County Council on behalf of the County Council, the five district councils and 56 other public service organisations administers the Warwickshire Pension Fund.

Administering Authority

Warwickshire County Council

Current Scheduled Bodies effectiveness

District Councils

North Warwickshire Borough Council
Nuneaton & Bedworth Borough Council
Rugby Borough Council
Stratford-On-Avon District Council
Warwick District Council

Other Scheduled Bodies

Atherstone Town Council
Beaudesert and Henley-In-Arden Joint Parish Council
Bidford upon Avon Parish Council
Coleshill Town Council
King Edward IV College, Nuneaton
Lapworth Parish Council
Long Itchington Parish Council
North Warwickshire and Hinckley College
Royal Leamington Spa Town Council
Ryton on Dunsmore Parish Council
Southam Town Council
Stratford-upon-Avon College
Stratford-upon-Avon Town Council
Warwickshire College
Warwickshire Police Authority
Warwickshire Probation Service
Warwickshire Valuation Tribunal
Wellesbourne Parish Council
Whitnash Town Council

Current Admitted Bodies

Bedworth and District Citizens Advice Bureau
Carillion Highways Maintenance
Heart of England Housing and Care Ltd
Heart of England Housing Group Ltd
Mid Warwickshire MENCAP
National Association of Youth Clubs
North Warwickshire Citizens Advice Bureau
North Warwickshire Council for Voluntary Service
Nuneaton and Bedworth Leisure Trust
Nuneaton and Bedworth Council for Voluntary Service
Nuneaton Citizens Advice Bureau
Rugby Citizens Advice Bureau
Rugby Council for Voluntary Service
Rugby MENCAP Hostels
Rugby MIND and Rugby Mental Health Association
Rugby Town Centre Company Limited
Solihull School
South Warwickshire Housing Association Ltd
South Warwickshire Tourism Ltd
Stratford and District MENCAP
Stratford-upon-Avon Council for Voluntary Service
Stratford-upon-Avon Citizens Advice Bureau
Stratford-upon-Avon Town Trust Co Ltd
The Rowan Organisation
Warwick District Citizens Advice Bureau
Warwick District Racial Equality Council
Warwick Schools
Warwickshire Association for the Blind
Warwickshire Care Services Ltd
Warwickshire Welfare Rights Service
Westfield Community Development Association

Other bodies with pensioners but no pensionable employees

Remnant Water Authority
People in Action
Severn Trent Water Authority
Solihull Metropolitan Borough Council
St Paul's College
Nuneaton Mencap

Sydney Harbour Bridge, Australia

After six years in the making, the bridge was opened on 19 March 1932. Known by locals as the 'Coathanger', it is the world's largest (but not the longest) steel arch bridge. Its total length including approach spans is 1,149 metres with an arch span of 503 metres. The top of the arch is 134 metres above sea level. The bridge is constructed of 53,000 tonne of steel and contains 6 million hand driven rivets.

Pension Fund Investment Board

The Role of the Investment Board

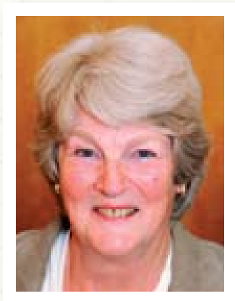
The Investment Board oversees the general framework within which the Fund is managed and sets the investment policy. The Board also monitors the work of the fund managers and the investment performance for which they are responsible.

Membership of the Pension Fund Investment Board in the financial year 2005/06

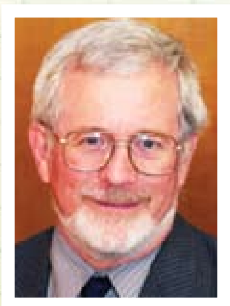
Councillor Chris Davis
(Liberal Democrat)
Chairman

Councillor George Atkinson
(Conservative)

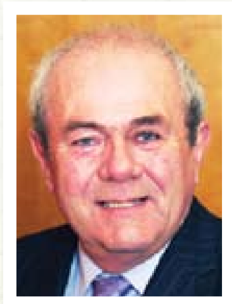
Councillor Mrs Helen McCarthy
(Conservative)



Councillor Bob Hicks
(Labour)



Councillor Brian Moss
(Labour)



Tower Bridge, London

The bridge was completed in 1894 and at the time it was the only crossing over the River Thames. It is one of the most famous bascule (see-saw) bridges ever built. The Tower Bridge is the only movable bridge of the 29 bridges on the Thames River. When the bridge opened to river traffic in 1894, it was raised and lowered 1,000 times per year. Today, few ships actually travel on the Thames, so the bridge opens less than 100 times per year. In 1952, a London bus had to leap from one bascule to the other when the bridge began to rise with the bus still on it. Luckily, no one was injured.

www.warwickshire.gov.uk/pensions

Staff, Advisors and Investment Managers

The management and administration of the Pension Fund is delegated to the County Treasurer. The Treasury and Pensions Group within the County Treasurer's Department has responsibility for day-to-day management.

Management and Administration

David Clarke BSc (Econ) Hons CPFA, County Treasurer

Oliver Winters CPFA, Head of Finance

Phil Triggs CPFA, Group Manager (Treasury and Pensions)

Neil Buxton MIPPM, Pension Services Manager

Mathew Dawson MAAT, Principal Accountant

Pension Fund Investment Team:
Jennifer Turner, Jennifer Leung, Christine Gough

Membership Team:
Dawn Clutton, Sarah Kirby, Chris Holmes, Lisa Webb, Kelly Brown, Sheila Taylor

Benefits Team:
Karen Aston, Joy Batchelor, Anthony Hall

Police and Fire Schemes:
Helen Cox

Communications:
Hazel Haycox, Linda Radley, Toni Field

Investment Advisors

Independent Advisors: Peter Jones, Keith Shephed

Actuary: Chris Hull, Mercer Human Resource Consulting

External Consultant: Jonathan Fish, Mercer Investment Consulting

Investment Managers

UK Equities – State Street Global Advisors and Threadneedle Asset Management

Global Equities – UBS Global Asset Management and MFS Investment Management

Fixed Income – UBS Global Asset Management

Passive Index Tracker – Barclays Global Investors

Clifton Suspension Bridge, Bristol

The bridge spans the Avon Gorge and was designed by one of Britain's most famous engineers, Isambard Kingdom Brunel. The foundation stone was laid in 1831, but political and financial problems in the construction meant Brunel had been dead for five years before the bridge was finally completed as a memorial to him in 1864.

The LGPS 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 Regulations 1997. The statutory responsibility for the LGPS fall under the remit of the Department for Communities and Local Government, formerly the Office of the Deputy Prime Minister.

The Warwickshire Pension Fund is administered by the County Treasurer on behalf of Warwickshire County Council, the five district councils and 58 other public service organisations. The administration of the fund is carried out through the Pension Fund Investment Board who meets regularly throughout the year and is made up of elected Warwickshire County Council Members.

At 31 March 2006, the total membership of the fund stood at 26,373 and the total value of the Fund's net assets amounted to £945.2 million. Of the 26,513 members 13,754 are active members currently contributing to the fund, 5,510 are members with deferred pension rights, and 7,249 are members receiving pensions.

The scheme is open to all local authority employees (except teachers, police officers and fire-fighters 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. Casual employees must make an election to join the scheme if they so wish.

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 Pensions Section at Shire Hall, Warwick, telephone (01926) 412234, email pensions@warwickshire.gov.uk, website www.warwickshiregov.uk/pensions.

The core benefits of the scheme are:-

- A guaranteed pension based on final pay and the length of time in the scheme.
- A tax-free lump sum of three times the annual pension.
- Life assurance cover of at least twice members yearly pay from the day they join the scheme.
- Pensions for spouses or children.
- An entitlement paid early if a member has to stop work permanently due to ill health.
- Pensions increases in line with inflation (measured by the Retail Price Index).
- Pensions are payable from age 50 with employers consent.

Cost of membership

Employees contribute 6% of their pensionable pay and receive tax relief on their contributions. Manual workers who joined the scheme prior to 1 April 1998 and paid contributions of 5% continue to pay this rate whilst in the same job.

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, Mercer Human Resource Consulting. In 2004/2005 the contribution rates for employers in the Warwickshire Pension Fund ranged from 5% to 17.1%, based on the last valuation as at 31 March 2001. Contribution rates have been revised from 1 April 2005 following the actuarial valuation as at 31 March 2004. Employer rates now range from 2.4% to 57.2%.

The Viaduc de Millau, France

The Viaduc de Millau is a cable-stayed suspension bridge hung from a single, central line of 154 cable-stays attached to seven pylons each atop a pier. It is the world's tallest bridge, crossing the River Tarn at an altitude of 270 metres. It has the world's tallest piers and also has the world's highest road deck. The bridge was designed by Sir Norman Foster and officially opened on 14 December 2004. It is 2,460 metres long and spans a valley in the Massif Central mountain range, forming the final link in the A75 highway from Paris to Barcelona. Its construction time was just thirty-eight months and it cost around 400 million Euros to build.

Investment report for the year ended 31 March 2006

Economic Background

During the last twelve months, the global economy has expanded at a rate consistent with its long-run average. The gap between the economies of Asia, North America and Europe still exists but has diminished.

Asia has continued to expand at a robust pace fuelled primarily by the rapid ongoing economic expansion in China. Elsewhere, the revival in Japan's economic fortunes is still on track and the US economic backdrop remains healthy. It is encouraging to note that Continental Europe has enjoyed a reacceleration in economic activity in recent months. During the last twelve months, UK growth has slowed to around 2.0%, slightly below its long-term trend. However, the outlook for the UK is unclear as labour market statistics point to a further deterioration in activity while leading indicators, such as recent housing market activity, suggest conditions are improving.

Against this background of solid global economic activity, inflationary pressures have begun to build, albeit slowly, driven by a combination of ongoing labour market tightness and rising commodity prices. Authorities have responded to this development by tightening monetary policy. During the last twelve months, the US Federal Reserve has raised interest rates by 2% to 4.75%. It also appears that we are close to the end of the zero-interest rate policy adopted by the Bank of Japan.

The robust nature of corporate profit growth has been a key feature of the latest phase of global economic expansion. This has led to an increase in corporate activity and more cash being returned to shareholders. It has also led to the suggestion that there may have been a structural improvement in profitability. However, we believe that, although profits are likely to continue to grow, the rate of increase will probably be slow.

Market Returns

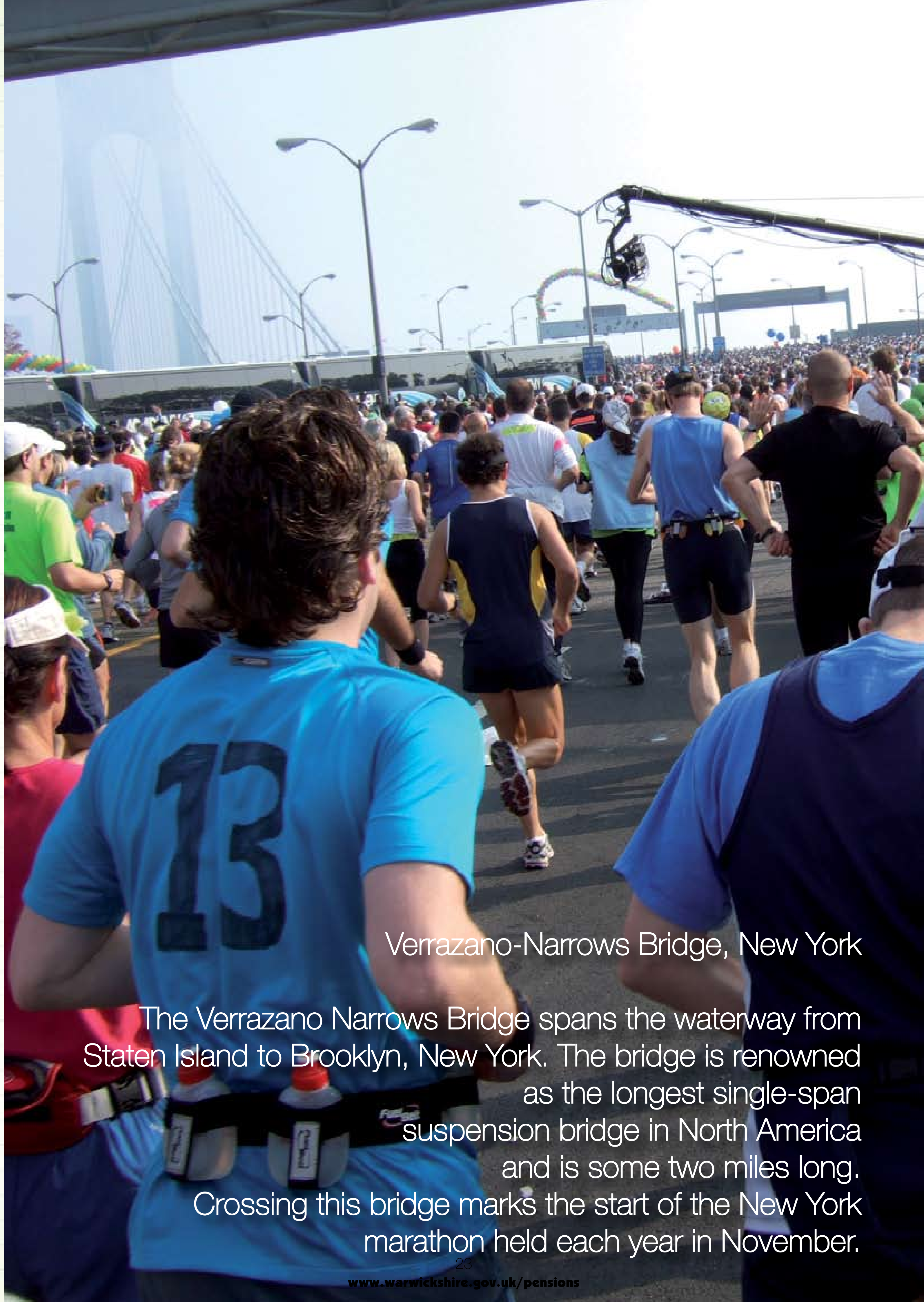
During the year to 31 March 2006, global equity and bond markets enjoyed a third year of particularly strong performance. In sterling terms, equity returns were +28.0% in the UK, +23.0% in the US, +48.1% in Japan and +35.5% in Europe. UK bonds returned +7.4% and index-linked gilts returned +8.4%. Elsewhere, German bonds returned +3.9%, US bonds +11.1%, and Japanese bonds -2.1%. Property enjoyed another strong year, returning an estimated +20.9%.

Outlook

Higher interest rates, rising commodity prices and high levels of consumer indebtedness remain the primary downside risks preventing the global economy from sustaining its current healthy rate of economic expansion. The extent to which these factors impact growth is a key factor driving the outlook from this point onwards.

Investment Return Compared to the Local Authority Universe 2005/2006

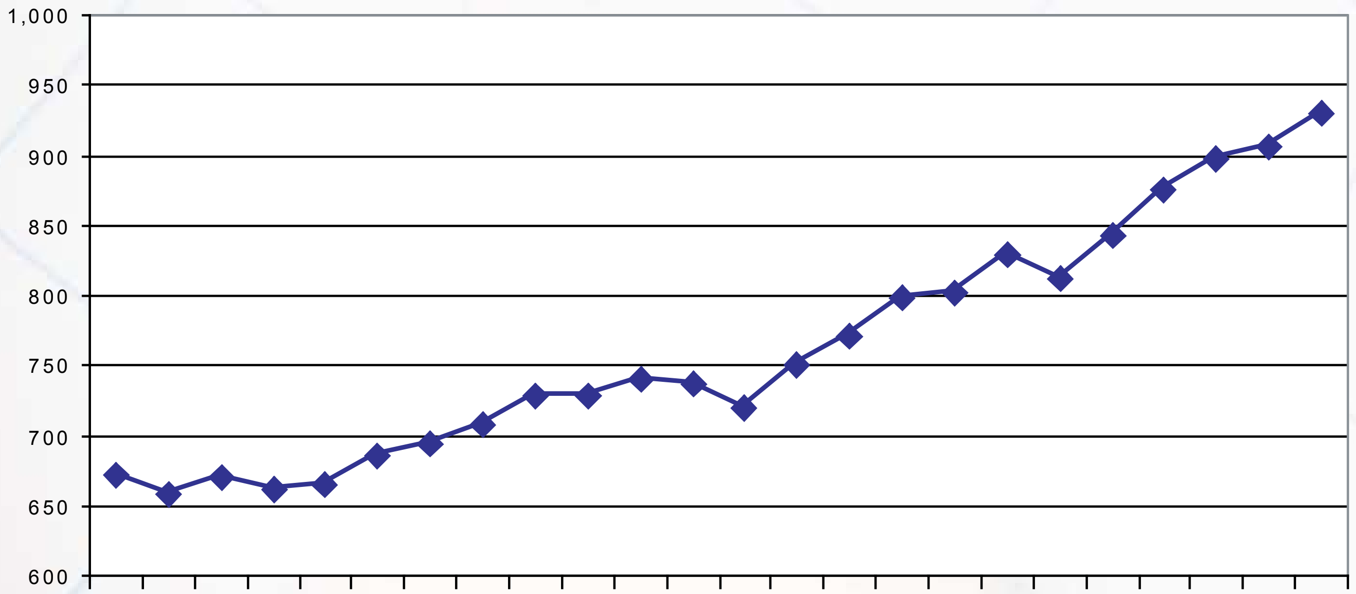
	1 Year Return	5 Year Return
Warwickshire	+26.3%	+6.4%
Local Authority Universe	+24.9%	+6.7%
Out/under performance	+1.4%	-0.3%



Verrazano-Narrows Bridge, New York

The Verrazano Narrows Bridge spans the waterway from Staten Island to Brooklyn, New York. The bridge is renowned as the longest single-span suspension bridge in North America and is some two miles long. Crossing this bridge marks the start of the New York marathon held each year in November.

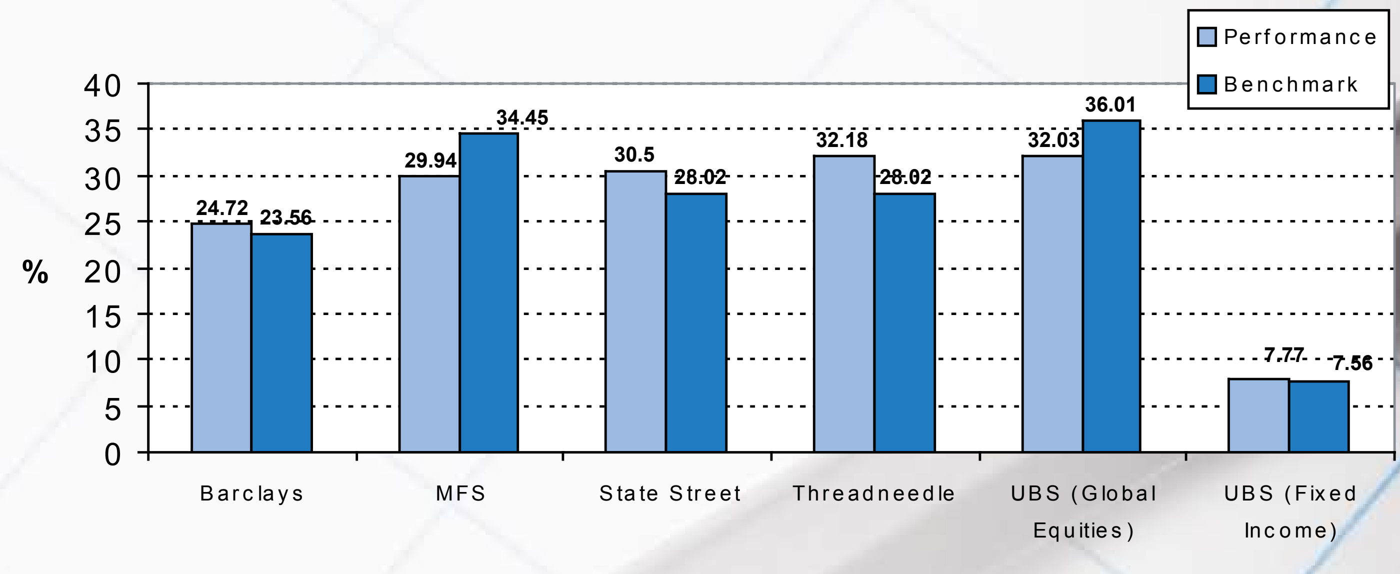
Total Fund Value 30 April 2004 to 31 March 2006



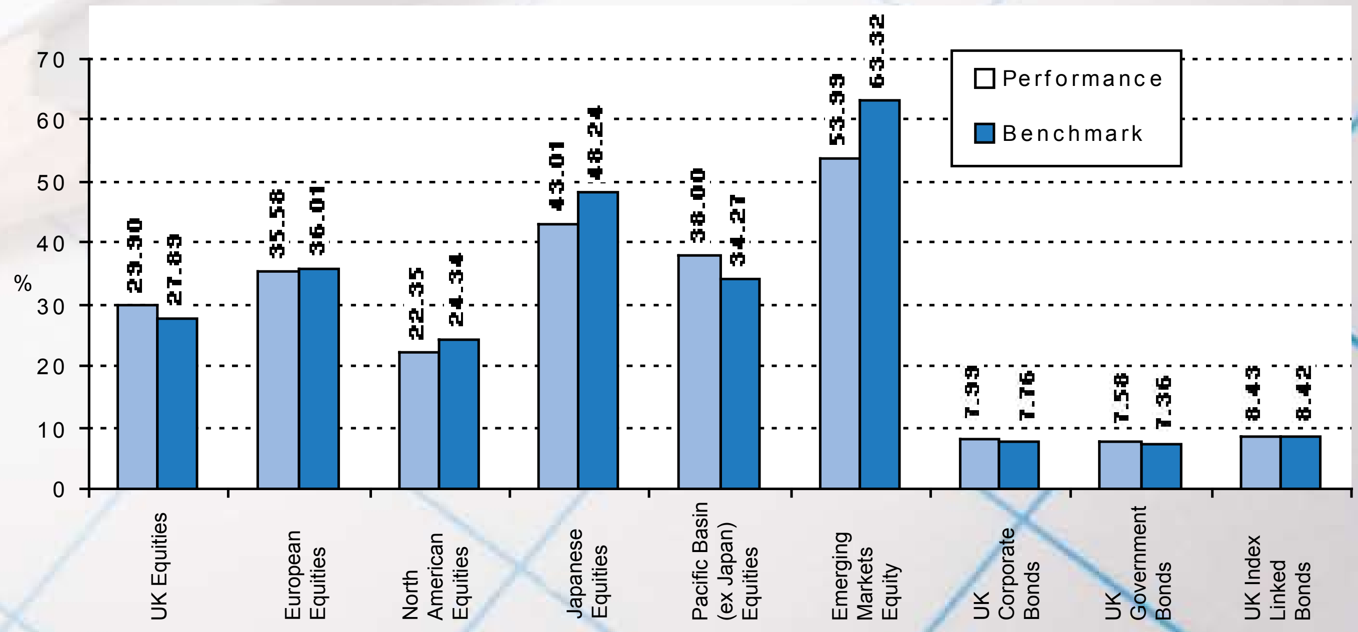
Top Ten Holdings
By Market Value as at 31 March 2006

		£m
1	BP	26.5
2	SHELL	18.8
3	GLAXOSMITHKLINE	16.4
4	HSBC	15.8
5	VODAFONE	10.8
6	ROYAL BANK OF SCOTLAND	10.8
7	BARCLAYS	10.3
8	STANDARD CHARTERED	7.6
9	ASTRAZENECA	7.4
10	ANGLO AMERICAN PLC	7.3

Fund Manager Performance for the Year Ending 31 March 2006



Performance by Asset Type for the Year Ending 31 March 2006



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 1998. The Authority has consulted with such persons as it considers appropriate including obtaining written advice from Mercer Investment Consulting and independent 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 April 2002 and in accordance with SI 1852 (2002).

Annex 2 sets out the role of the investment consultant.

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 two independent advisors, the Council's investment consultant (Mercer Investment Consulting) 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 County Treasurer. The County Treasurer also has a statutory duty to ensure that proper financial arrangements are in place to manage the Fund. The Pension Fund Investment Board meets four times a year at the conclusion of each quarter. The four active investment managers will attend alternate meetings.

The Pension Fund Investment Board is supported in its role by the Consultative Panel consisting of elected member 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 markets that over time are likely to give better returns.

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

(iv) Have sufficiently liquid resources available to meet the Fund's liabilities.

(v) For the overall Fund to outperform the benchmark set out in 3.3, by 1.1% per annum over rolling three-year periods.

3.2 Risk

There are various risks to which any pension fund is exposed. The Authority has considered the following risks and believes that they do not exceed an acceptable level:

(i) The risk of any deterioration in the funding level of the Fund.

(ii) The risk that the investment managers, in their day-to-day management of the assets, will not achieve the rate of investment return expected by the Authority. The Authority recognises that the use of active investment managers involves such a risk. To limit its exposure to the risk of active managers underperforming, the Authority invests approximately 22% of the Fund's investments on an index-tracking basis, producing a level of certainty in achieving the specific market rate of return at a relatively low cost. The remaining 78% is placed with a number of external active managers, where it is believed that the risk of underperformance is outweighed by the potential gains from successful active management.

(iii) Any investment decision carries with it risks of different types (for example,risk of underperformance, risk from mis matching, risk from under funding). The Authority recognises these different types of risk and seeks to minimise them as far as possible by regular monitoring of the performance of the fund managers, seeking advice from the actuary on the suitability of the assets with regard to the Fund's liabilities and ensuring that the Fund's portfolio is suitably diversified.

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 3 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-Tracker % %	UK Equity Specialists %	Global Equity Specialists % %	Fixed Income %	Total %
UK Equities	2.00	32.00	3.50		37.50
Overseas Equities	11.00		26.50		37.50
European	8.50		6.50		15.00
North American	1.25		10.00		11.25
Far East/Emergi Markets	1.25		10.00		11.25
UK Corporate Bonds	2.00			8.00	10.00
UK Fixed Interest	2.00			8.00	10.00
UK Index-Linked	5.00				5.00
Total	22.00	32.0	30.00	16.00	100.00

4 Management of the Assets

4.1 Rationale for 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.

4.2 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 managers appointed are listed below.

Manager	Role	Proportion of Fund
Barclays Global Investors ("BGI")	Multi-asset Passive Portfolio	22%
State Street Global Advisors ("SSGA")	Active UK Equity Portfolio	16%
Threadneedle Investments ("Threadneedle")	Active UK Equity Portfolio	16%
MFS Investment Management ("MFS")	Active Global Equity Portfolio	15%
UBS Global Asset Management ("UBS")	Active Global Equity Portfolio	15%
UBS Global Asset Management ("UBS")	Active Bond Portfolio	16%

The investment managers' mandates include the following guidelines:

BGI

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

	Benchmark (%)	Index
UK Equities	9.0	FTSE All-Share Index
European (ex UK) Equities	38.5	FTSE AW Developed Europe (ex UK) Index North
American Equities	6.0 *	FTSE AW USA Index FTSE AW Canada Index
Japanese Equities	3.0	FTSE AW Japan Index Pacific Basin (ex Japan)
Equities	1.5	FTSE AW Developed Pacific (ex Japan) Index
Emerging Markets Equities	1.5	IFC Investable Index (ex Malaysia) UK Corporate
Bonds	9.0	iBoxx Sterling Non Gilts All Stocks years Index
UK Fixed Interest Gilts	9.0	FTSE A All Stocks Fixed Interest Gilt Index UK
Index Linked Gilts	22.5	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.

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

In addition, BGI will be expected to maintain the overall Fund benchmark (details given in section 3.3) by rebalancing its assets under management, i.e., the passive investment manager will act as a "Swing Manager" on behalf of the Fund. Therefore, the above mandate will only apply initially; the ongoing mandate will vary with swing management.

SSGA and Threadneedle

The details of the UK equity mandates are:

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

The out-performance target for each UK equity mandate is FTSE All Share Index +1.5% per annum (gross of fees) over rolling three-year periods.

UBS (Global Equity)

The details of the global equity mandate are:

	Benchmark (%)	Allowable Range (%)	Index
European (inc UK) Equities	30.56	+/- 10.0	FTSE AW Developed Europe Index
North American Equities	30.56	+/- 10.0	FTSE AW Developed North America Index
Pacific Basin (inc Japan) Equities	30.55	+/- 10.0	FTSE AW Developed Pacific (ex Japan) Index
Emerging Markets Equities	8.33	+/- 3.0	FTSE AW All Emerging Index
Cash	0.00	+/- 5.0	
Total	100.00		

Totals affected by rounding

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

MFS (Global Equity)

The details of the global equity mandate are:

	Benchmark (%)	Allowable Range (%)	Index
European (inc UK) Equities	36.11	+/- 10.0	FTSE AW Developed Europe Index
North American Equities	36.11	+/- 10.0	FTSE AW Developed North America Index
Japanese Equities	15.00	+/- 5.0	FTSE AW Developed Japan Index
Pacific Basin (ex Japan) Equities	4.45	+/- 3.0	FTSE AW Developed Pacific (ex Japan) Index
Emerging Markets Equities	8.33	+/- 3.0	FTSE AW All Emerging Index
Cash	0.00	+/- 5.0	
Total	100.00		

Totals affected by rounding

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

4.3 Investment Restrictions

The investment managers are prohibited from holding investments not defined as “investments” in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended).

The investment managers’ investment decisions are further constrained by a maximum 5% limit on any single investment and they cannot invest in property or in derivatives (options, futures etc).

4.4 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. There is no current policy on realising investments to meet benefit payments as the fund has positive cashflow from employee/employer contributions.

4.5 Monitoring and Review

The performance of the Fund's investment managers is independently measured by Russell Mellon, 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 investment managers twice 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.

Mercer Investment Consulting is retained as investment consultant to assist the Authority in fulfilling its responsibility for monitoring the investment managers. In addition, 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.

The performance of the Fund's advisers is not formally monitored as no decisions are delegated to them.

5 Social, Environmental and Ethically Responsible Investment

The PFIB has on a number of occasions considered the issue of socially responsible investment. On each occasion, the PFIB has concluded not to pursue an active socially responsible investment strategy. The main areas of consideration in arriving at this decision are as follows:

- The requirement to act in the best interests of the Fund's members is, to a large extent, interpreted as being their best financial interest;
- A socially responsible approach to investments does not have to mean disinvesting in a company. Shareholder voting can be used to influence a company towards socially responsible behaviour;
- It is almost impossible to draw up a set of ethical criteria that would satisfy all members of the Fund;
- The belief that in the medium to long term companies that fail to adopt a socially responsible approach to their operations will not be viable.

6 Corporate Governance

(i) The Authority recognises its responsibility as an institutional investor to support and encourage good corporate governance practices in the companies in which it invests. The Authority considers that good corporate governance can contribute to business prosperity by encouraging accountability between boards, shareholders and other stakeholders. Good corporate governance also plays a major role in encouraging corporate responsibility to shareholders, employees and wider society.

(ii) Responsibility for voting has been delegated to the investment managers under the following remit:

"When exercising or procuring the exercise of any voting rights attaching to the investments of the Fund, the manager shall at all time vote in line with their internal guidelines. The Authority has reviewed and is happy with the managers' internal guidelines.

The manager shall submit a quarterly report containing details and reasons for any decision by the Manager to exercise any voting rights against the management or consciously abstain from exercising any voting rights attached to any investments of the Fund."

(iii) The Investment Board will receive a report on the use of a Corporate Governance Service for analysis of governance issues and executing its proxy voting rights *. The Fund is also a member of the National Association of Pension Funds.

* future decision to be taken.

(iv) The Authority also supports the incorporation of the principles of the US Department of Labor Interpretive Bulleting and includes this requirement in the investment manager agreements.

7 Fee Structures

7.1 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.

7.2 Investment Consultant Fees

Mercer Investment Consulting fees are either based on fixed quotes for particular projects or, more normally, on a time cost basis.

8 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.

9 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.

PRINCIPLES FOR INVESTMENT DECISION MAKING

This statement shows how the Warwickshire Pension Fund currently complies with the Principles for Investment Decision Making in accordance with the CIPFA guidance published in April 2002 and in accordance with SI 1852 (2002).

Principle	Old Compliance	Current Compliance
1. Effective decision making		
1a. Decisions should be taken only by persons or organisations with the skills, information and resources necessary to make them effectively. Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.	✓ Investment decisions delegated to managers, ongoing training programme for Board members to be developed.	✓ Investment decisions delegated to managers. On going training undertaken by Board members.
1b. Trustees should ensure they have sufficient in-house staff to support them in their investment responsibilities.	✓	✓
Trustees should also be paid, unless there are specific reasons to the contrary.	✓	✓ As part of member allowances
1c. It is good practice for trustee boards should have an investment sub-committee to provide the appropriate focus.	✓	✓ The Pension Board's main focus is investment
1d. Trustees should assess whether they have the right set of skills, both individually and collectively, and the right structure and processes to carry out their roles effectively.	See 1a above.	✓
They should draw up a forward looking business plan.	✗	✓ To be complied for 2005/06
2. Clear objectives		
2a. Trustees should set out an overall investment objective for the fund that: • represents their best judgement of what is necessary to meet the funds liabilities given their understanding of the contributions likely to be received from employers and employees; and • takes account of their attitude to risk, specifically their willingness to accept under performance due to market conditions	New targets being approved by the Board on 16/9/02 which will be related to fund liabilities	✓
2b. Objectives for the overall fund should not be expressed in terms which have no relationship to the fund's liabilities, such as performance relative to other pension funds, or to a market index	See note above.	✓

Principle	Old Compliance	Current Compliance
3. Focus on asset allocation		
3a. Strategic asset allocation decisions should receive a level of attention (and, where relevant, advisory or management fees) that fully reflect the contribution they can make towards achieving the fund's investment object.	✗ The Board currently delegates all asset allocation decisions to the fund managers. Fund managers do, of course, give asset allocation a high level of attention	✓ Asset allocation is now the responsibility of the Board
3b. Decision makers should consider a full range of investment opportunities, not excluding from consideration any major asset class, including private equities	✓ All asset classes allowed except property	✓ Alternative investments have been fully considered and are currently intentionally excluded
3c. Asset allocation should reflect the fund's own characteristics, not the average allocation of other funds	✗ Asset allocation not currently specified to managers	✓
4. Expert advice		
4a. Contracts for actuarial services and investment advice should be opened to separate competition	✓	✓ Currently provided by the same firm but are treated as separate contracts
4b The fund should be prepared to pay sufficient fees for each service to attract a broad range of kinds of potential providers	✓	✓
5. Explicit mandates		
5a. Trustees should agree with both internal and external investment managers an explicit written mandate covering agreement between trustees and managers on:		
• An objective, benchmark and risk parameters that together with all other mandates are coherent with the fund's aggregate objective and risk tolerances	✓ but currently under review	✓
• The managers approach in attempting to achieving the objective	✗	✓
• Clear timescales of measurements and evaluation, such that the mandate will not be terminated before the expiry of the evaluation timescale for underperformance alone	✓	✓

Principle	Old Compliance	Current Compliance
5. Explicit mandates 5b. The mandate and trust deed and rules should not exclude the use of any set of financial instruments, without clear justification in the light of specific circumstances of the fund.	✗ Property currently excluded	✓
5c. Trustees, or those to whom they have delegated the task, should have a full understanding of the transaction related costs they incur, including commissions. They should understand all the options open to them in respect of these costs, and should have an active strategy – whether through direct financial incentives or otherwise – for ensuring these costs are properly controlled without jeopardising the fund's other objectives.	Investigations currently under way on transaction costs of the fund	✗
5d. Trustees should not without good reason permit soft commissions to be paid in respect of their fund's transactions.	✗ The practice of allowing soft commissions is an internal process for each manager which it is very difficult for clients to influence	✓ Soft Commissions are not employed
6. Activism 6a. The mandate and trust deed and rules should incorporate the principles of the US Dept of Labour Interpretive Bulletin on activism	Board approved the inclusion of activism at their meeting of 16/9/02	✓
6b. Trustees should also ensure that managers have an explicit strategy, elucidating the circumstances in which they will intervene in a company; the approach they will use in doing so; and measure the effectiveness of this strategy	See above	✓ Corporate Governance Strategy is currently being complied

Principle	Old Compliance	Current Compliance
7. Appropriate benchmarks Trustees should: 7a explicity consider, in consultation with their fund managers, whether the benchmarks they have selected are appropriate; in particular, whether the construction of the index creates incentives for sub-optimal investment strategies	See 2a	✓
7b if setting limits on divergence from an index, ensure they reflect the approximations involved in index construction and selection	N/a Being considered following the Best Value Review	✓
7c consider explicity for each asset class investment, whether active or passive investment would be more appropriate given the effciency, liquidity and level of transaction costs in the market concerned	✗ All assets classes actively managed but under review following the Best Value Review	✓
7d whether they believe active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving managers the freedom to pursue genuinely active strategies	✓	✓
8. Performance measurement 8a Trustees should arrange for the measurement of the fund and make formal assessments of their own procedures and decisions as trustees	✓ detailed performance measurement undertaken by WM Co. ✗ for self assessments	✓ ✗ for self assessments
8b They should also arrange for formal assesment of the performance and decision making delegated to advisers and managers	✓ for fund managers, no decisions delegated to advisers	✓ for fund managers, no decisions delegated to advisers

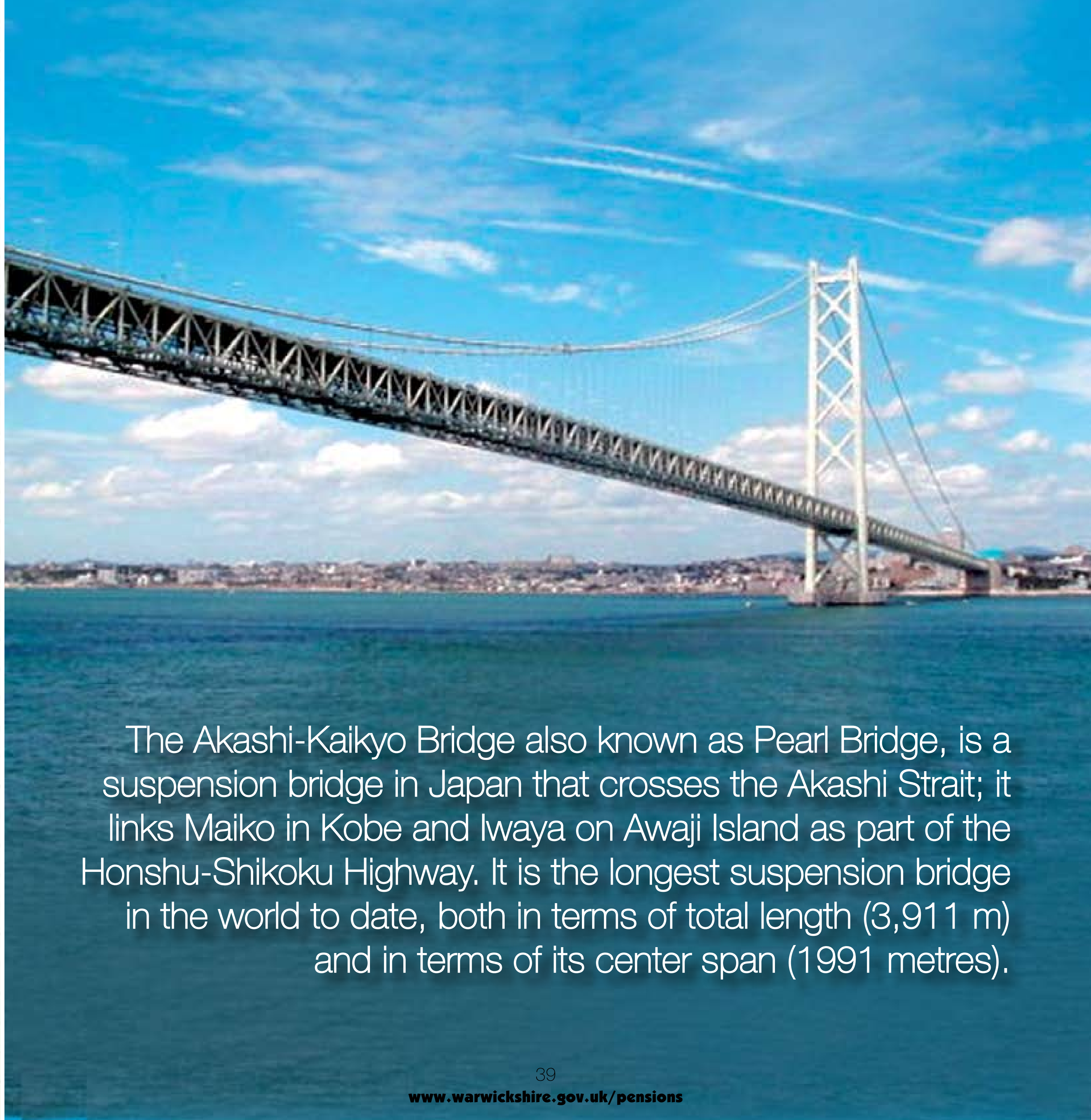
Principle	Old Compliance	Current Compliance
9. Transparency		
9a A strengthened SIP should set out:		
• who is taking which decisions and why this structure has been selected	✓	✓
• the fund's investment objective	✓	✓
• the fund's planned asset allocation strategy, including projected investment returns on each asset class, and how the strategy has been arrived at	✗	✓
• the mandates given to all advisers and managers	✓	✓
9b The nature of the fee structures in place for all managers and advisers and why this set of structures has been selected	✓	✓
10. Regular reporting		
10a Trustees should publish their SIP and the results of their monitoring of advisers and managers	✓ SIP published ✗ does not apply to monitoring of managers as this is felt to be confidential information	✓ SIP published ✗ does not apply to monitoring of managers as this is felt to be confidential information
10b They should send them annually to members of the fund, including an explanation of why the fund has chosen to depart from any of these Principles	✓ copies to be sent to all employers annually	✓ copies to be sent to all employers annually via Annual Report

Annex 2

Role of Investment Consultant

Mercer 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.



The Akashi-Kaikyo Bridge also known as Pearl Bridge, is a suspension bridge in Japan that crosses the Akashi Strait; it links Maiko in Kobe and Iwaya on Awaji Island as part of the Honshu-Shikoku Highway. It is the longest suspension bridge in the world to date, both in terms of total length (3,911 m) and in terms of its center span (1991 metres).

Funding Strategy Statement (FSS) (Approved by Pension Fund Investment Board 22 November 2004)

1 Introduction

1.1 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 Scheme), in accordance with Regulation 76A of the Local Government Pension Scheme Regulations 1997 (as amended) and the guidance paper issued in March 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

1.2 The Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 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 Scheme, 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 Scheme published under Regulation 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended).
- 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 SIP.

1.3 Benefits payable under the Scheme are guaranteed by statute and thereby the pensions promise is secure. The FSS adresses 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.

1.4 The Scheme is a defined benefit final salary scheme under which the benefits are specified in the governing legislation. This consists of the Local Government Pension Scheme Regulations 1997 (as amended), (“the Regulations”). The required levels of employee contributions are also specified in the Regulations.

1.5 Employer contributions are determined in accordance with the Regulations (principally Regulation 77), which require that an actuarial valuation is completed every three years by the actuary. This should include a rates and adjustments certificate. Contributions to the Scheme 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

2.1 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.

2.2 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 long-term view of funding those liabilities.

2.3 The intention is for this strategy to be both cohesive and comprehensive for the Scheme as a whole, recognising that there will be conflicting objectives that 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 Pension Fund

3.1 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.

3.2 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.

3.3 These are defined in the Local Government Pension Scheme Regulations 1997 (as amended) and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended).

4 Responsibilities of the key parties

4.1 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 actuary;
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties; and
- monitor all aspects of the Scheme's performance and funding and amend the FSS and the SIP.

4.2 The Individual Employer should:

- deduct contributions from employees' pay correctly;
- 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 actual and planned changes to membership which affect future funding.

4.3 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 interrelationship between the FSS and the SIP

5 Solvency issues and target funding levels

5.1 To meet the requirements of the Regulations, the Administering Authority's long-term funding objective is to achieve and then maintain assets equal to 100% of projected accrued liabilities, assessed on an ongoing basis including allowance for projected final pay.

5.2 The current actuarial valuation of the Scheme is effective as at 31 March 2004. The preliminary results of the valuation indicate that overall the assets of the Scheme represented 82% of projected accrued liabilities at the valuation date.

5.3 The key financial assumptions making up the funding strategy and as adopted for the 31 March 2004 actuarial valuation are:

	In respect of past service liabilities	In respect of future service liabilities
Fixed interest gilts yield:	4.6%	n/a
Index linked gilts real yield:	1.8%	n/a
Asset Out-performance Assumption Pre Retirement	2.5%	n/a
Asset Out-performance Assumption Post Retirement	1.0%	n/a
Real Earnings Inflation	1.75%	1.75%
Discount rate (pre retirement)	7.1%	6.5%
Discount rate (post retirement)	5.6%	6.5%
Price Inflation	2.8%	2.5%
Earnings Inflation	4.55%	4.25%
Pension Increases	2.8%	2.5%

5.4 Underlying these assumptions are the following two tenets:

- that the Scheme 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.

5.5 The asset out-performance assumptions represent the allowance made, in calculating the past service liabilities, 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.

5.6 In relation to future service (i.e. calculation of the future service contribution rate) the assumptions 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 4.0% per annum, with a long term average assumption for price inflation of 2.5% per annum. This approach means that 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 the market conditions applying as at the 2004 valuation date 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 past service liabilities.

5.7 Full details of the assumptions adopted for the 2004 valuation will be set out in the actuary's formal report, which is made available to all employers in the Scheme.

5.8 As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. In attributing the overall investment performance obtained on the assets of the Scheme 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 Scheme as a whole.

5.9 The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2004 actuarial valuation:

- The total employer contribution rate will be made up of an element in respect of the ongoing accrual of benefits for current members, plus an addition in respect of deficit recovery (or if applicable an offset in respect of surplus).

- The following employer groupings will be adopted for smaller employers in the Fund:

  Resolution Bodies - Parish and Town Councils

  Admitted Bodies – Associated with WCC Social Services

- A maximum deficit recovery period of 25 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 shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted.

- Where increases in employer contribution rates are required from 1 April 2005, following completion of the 2004 actuarial valuation, the increase from the rates of contribution payable in the year 2004/05 may be implemented in steps, over a maximum period of six years.

- On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme 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 Scheme to another participating employer.

5.10 In determining the above objectives the Administering Authority has regard to:

- the responses made to the consultation with employers on the FSS principles

- the supplementary guidance on the funding strategy issued by the CIPFA Pensions Panel in November 2004

- 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.

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

6.1 The results of the 2004 valuation show the liabilities to be 82% covered by the current assets, with the funding deficit of 18% being covered by future deficit contributions. In assessing the value of the Scheme's liabilities in the valuation, allowance has been made for asset outperformance as described in Section 5, taking into account the investment strategy adopted by the Scheme, as set out in the SIP.

6.2 It is not possible to construct a portfolio of investments that produces a stream of income exactly matching the expected liability outgoings. However, it is possible to construct a portfolio that 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.

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

6.4 If, at the valuation date, the Scheme had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to make any allowance for outperformance of the investments. On this basis of assessment, the assessed value of the Scheme's liabilities at the 2004 valuation would have been significantly higher, by approximately 35% and the declared funding level would be correspondingly reduced to approximately 60%.

6.5 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.

6.6 The current benchmark investment strategy, as set out in the SIP, is summarised below:

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 3 years, after each actuarial valuation. The Authority believes that the following investment strategy is currently appropriate for controlling the risks identified in 7.4, given the liability profile of the Fund and its financial position.

Asset Class	Index-Tracker %	%	UK Equity Specialists %	Global Equity Specialists %	%	Fixed Income %	Total %	%
UK Equities		2.00	32.00		3.50			37.50
Overseas Equities		11.00			26.50			37.50
European	8.50			6.50			15.00	
North American	1.25			10.00			11.25	
Far East/ Emerging Markets	1.25			10.00			11.25	
UK Corporate Bonds		2.00				8.00		10.00
UK Fixed Interest		2.00				8.00		10.00
UK Index- Linked		5.00						5.00
Total		22.00	32.00	30.00		16.00		100.00

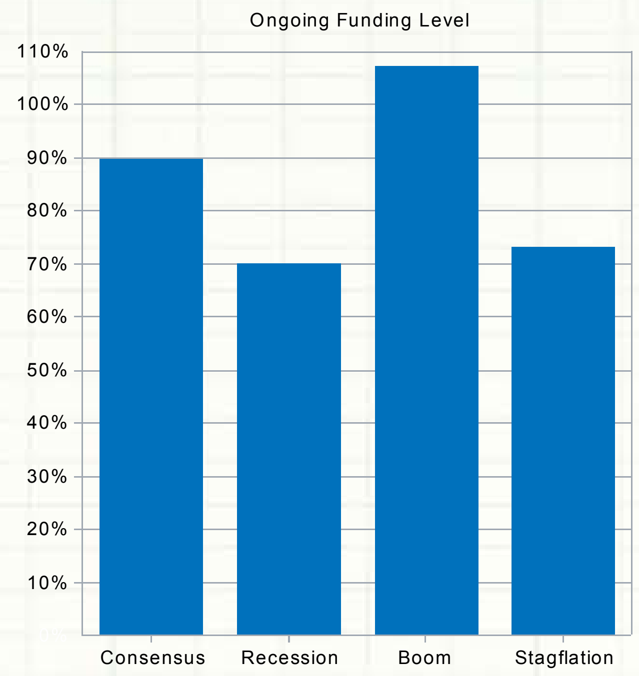
6.7 The funding strategy adopted for the 2004 valuation is based on an assumed asset out-performance of 2.5% in respect of liabilities pre-retirement, and 1.0% in respect of post-retirement liabilities. Based on the liability profile of the Scheme at the valuation, this equates to an overall asset out-performance allowance to keep pace with liabilities of 1.9% p.a. The Administering Authority believes that this is a reasonable and prudent allowance for asset out-performance, based on the investment strategy adopted as set out in the SIP.

7 Identification of risks and counter-measures

7.1 The funding of defined benefits is by its nature uncertain. Funding of the Scheme 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.

7.2 The Administering Authority has been advised by the actuary that the greatest risk to the Scheme's funding is the investment risk inherent in the predominantly equity based strategy, so that actual asset outperformance between successive valuations could diverge significantly from the overall 1.9% per annum currently required on the basis of the 2004 valuation assumptions.

7.3 The following chart shows the Scheme's projected funding level after three years from the 2004 valuation under various future economic scenarios, based on employer contribution rates adopting a 25 year recovery period, without phasing of increases. It should, however, be borne in mind that these figures are projections, not estimates, and day to day changes in market conditions can have a marked effect on valuation results over relatively short periods of time.



7.4 The following risks specific to the Scheme have been identified. Each will be carefully monitored with the awareness that each may 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 reallocations 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, e.g., more favour able benefits package, potential new etrants to scheme, e.g., part-time employees;
- Changes to national pension requirements and/or Inland Revenue 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. Regular consideration will be given to the following areas:
- Frequency of meetings
- Member training
- Decision procedures
- Changes in Investment Board membership

8 Monitoring and Review

8.1 The Administering Authority has taken advice from the actuary in preparing this Statement, and has also consulted with the Investment Board and the representatives of all scheduled and admitted bodies.

8.2 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.

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

Statement by Consulting Actuary

C R Hull
Fellow of the Institute of Actuaries
Mercer Human Resource Consulting Limited

An actuarial valuation of the Warwickshire County Council Pension Fund was carried out as at 31 March 2004 to determine the contribution rates with effect from 1 April 2005 to 31 March 2008. The results of the valuation are contained in our report dated 23 March 2005.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets represented 82% of the Fund's accrued liabilities at the valuation date. The valuation also showed that a common rate of contribution of 10.4% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The average contribution rate required to be paid to the Fund is the common rate, plus an additional 4.0% of pensionable pay (14.4% of pensionable pay in total) in respect of the accrued funding deficiency, payable for a period of 25 years.
In practice, each individual employer's position is assessed separately and the contributions required are set out on our report dated 23 March 2005. In addition to the contribution rates shown, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employer.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process.The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions were as follows:

	For past service liabilities	For future service liabilities
Rate of return on investments:		
- pre retirement	7.1% per annum	6.5% per annum
-post retirement	5.6% per annum	6.5% per annum
Rate of pay increases:	4.55% per annum	4.25% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension):	2.8% per annum	2.5% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2007. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2008.

Supplementary note on the 31 March 2005 Interim Review and changes to the LGPS

2005 Interim Review
An interim actuarial review of the Fund was carried out as at 31 March 2005, as set out in my report dated October 2005. The results in the interim review report are based on summary membership details and other accounting information which is readily available, and are therefore approximate in nature.

Our interim review report set out updated funding results as at 31 March 2005 for the Fund as a whole, showing a slight fall in funding level from 82% as at the 2004 valuation to 81%. The method and assumptions adopted for the interim review were consistent with those used for the 2004 valuation.

Changes to the LGPS
The results of the 2004 actuarial valuation were cast on the basis that the removal from the Scheme of the Rule of 85 retirement provisions was effective from 1 April 2005. As is discussed in more detail in our interim review report, these changes had originally been brought in with effect from 1 April 2005, but were subsequently revoked by the Office of the Deputy Prime Minister, so that the Rule of 85 provisions were reinstated. Additional costs are therefore being incurred from 1 April 2005 by employers as a result of this revocation, and these additional costs will persist until the Rule of 85 retirement terms are removed from the Scheme in the manner originally intended.

At the time of writing, the latest position on these changes to the LGPS is as follows:

- The reinstatement of Rule of 85 Age removal, to be effective from 1 October 2006 for new entrants and from 1 April 2008 for existing members, as set out in draft regulations issued in May 2006.
- Extended protection put in place for existing members attaining age 60/Rule of 85 age by 31 March 2016, with tapering protection up to 31 March 2020 for members who miss the 2016 date, again based on the draft Regulations.
- Other changes to the LGPS introduced from April 2006, in particular, additional flexibility for members to take an increased lump sum on retirement.

When revoking the original Rule of 85 Age removal the Government committed to bring forward other changes to the LGPS so that no additional costs resulting from revocation would fall on LGPS participating employers, nor on tax payers.

The April 2006 changes to the Scheme confirmed the Government's proposed solution to meet this commitment. This is to allow increased flexibility for members to commute part of their pension for additional lump sum at retirement, with effect from 6 April 2006. The terms for this conversion are such that, to the extent that members take up this option, retirement benefits will be less costly to provide.

Consultation is continuing regarding both the protections to apply to existing members from the change in Rule of 85, and also the "New Look" LGPS to be introduced from 2008.

The financial implications of these changes will be taken into account at the next full actuarial valuation, as at 31 March 2007. Revised employer contributions will then be implemented on the basis of that valuation with effect from 1 April 2008.

So you're living by numbers

And numbers you answer to

You can count all the numbers.

You bet that someone's counting you.

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 County Treasurer, 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 2006;

- manage the affairs of the Fund to secure economic, efficient use of resources and safe guard its assets.

In preparing the Statement of Accounts the County Treasurer 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 2006 and its income and expenditure for the year then ended.

D. Clarke

Dave Clarke
County Treasurer

Pooh Bridge, Ashdown Forest, Hartfield

The bridge was originally built in 1907 by J C Osman. It was restored in 1979 for East Sussex County Council, and totally rebuilt in 1999. A.A. Milne lived in a house in Hartfield, close to Ashdown Forest. When his son Christopher was a child, they would visit the bridge and play Poohsticks. Thousands of people visit the bridge every year with the surrounding area now totally bare of twigs and small branches. Visitors are now asked to bring their own Poohsticks with them when they visit.

Accounting report

The following statements comprise the accounts for the Warwickshire County Council Pension Fund. The accounts cover the financial year from 1 April 2005 to 31 March 2006.

The accounts were prepared in accordance with the CIPFA Code of Practice on Local Authority Accounts in the United Kingdom published by the Chartered Institute of Public Finance and Accountancy.

The accounts have been compiled on an accruals basis. They do not take account of liabilities to pay pensions and other benefits in the future.

The accounts are set out in the following order:

- **Pension Fund Account,** which discloses the income to and expenditure from the fund relating to scheme members and to the investment and administration of the fund. The account also reconciles the fund's net assets at the start of the year to net assets at the end of the year.
- **Net Asset Statement,** which discloses type and value of all net assets at the end of the year.
- **Notes to the Fund Account,** provide supporting details and analysis of the figures in the Fund accounts and Net Asset Statement.

London Bridge, Arizona

Fund Account

2004/2005 £m	Revenue account	2005/2006 £m
	Income to the fund	
	Contributions and Receivable	
-23.7	From employers	-27.4
-12.0	From members	-12.6
-7.5	Individual transfers in from other schemes	-11.8
-43.2	**Income to the fund**	**-51.8**
	Spending by the fund	
	Benefits Payable:	
25.8	Pensions	27.4
4.2	Commutation of pensions and lump sum retirement benefits	5.2
0.5	Lum sum death benefits	0.6
	Payments to and on account of leavers	
0.2	Refunds of contributions to people who leave the scheme	0.2
6.9	Individual transfers out to other schemes	7.9
1.1	**Administration expenses borne by the scheme**	1.1
38.7	**Spending by the fund**	**42.4**
-4.5	**Net additions from dealing with members**	**-9.4**
	Return on investments:	
-3.7	Interest from fixed interest securities/bonds	0.0
-14.1	Dividend from Equities	-14.2
0.0	Income from Pooled Investment Vehicles	-0.1
-1.1	Interest on Cash Deposits	-0.8
	Change in market value of investments:	
-21.4	Realised (profit) or loss on sales	-52.4
-31.4	Unrealised (profit) or loss on investments	127.8
	Taxation	
0.0	Irrecoverable withholding tax	1.3
2.1	**Investment management expenses**	2.4
-69.6	**Net returns on investments**	**-191.6**
-74.1	**Net increase in funding during the year**	**-201.0**

2004/2005 £m	Pension Fund Net Asset Statement	2005/2006 £m
74.1 670.1	Net increase in the fund during the year Add: Opening net assets of the scheme	201.0 744.2
744.2	**Net assets at the end of the year**	**945.2**

Net Asset Statement

2004/2005 £m	Net Asset Statement	2005/2006 £m
	Investments (Market Value)	
3.1	Fixed Interest Securities	2.3
446.2	Stocks and Shares	588.4
2.8	Unit Trusts	4.3
92.7	Unitised Insurance Policies	123.6
182.6	Other Managed Funds	202.1
7.7	Other and Deposits	6.1
1.1	Other Investments	2.8
736.2		**926.6**
	Current Assets and Liabilities	
7.8	Cash	15.4
1.1	Debtors	1.2
-0.9	Creditors	-1.0
8.0		15.6
744.2	**Net Assets at End of Year**	**945.2**

Notes to the Accounts

1 Operations and membership

We administer the statutory Warwickshire County Council Pension Fund (a defined benefit scheme established under the Local Government Pension Scheme Regulations 1997). The fund is open to the employees of the County Council, the five district and borough councils and 56 other public service organisations.

A list of scheduled and admitted bodies is provided in chapter 5. The fund does not cover teachers, police officers or firefighters as these staff have different pension arrangements.

The management and administration of the pension fund is overseen by the Pension Fund Investment Board. The board is made up of five county councillors. Two specialist advisors provide advice and guidance to the board as well as the County Treasurer and his staff.

At 31/3/05	Membership	At 31/3/06
13,508	Number of members contributing to the fund	13,754
6,994	Number of pensioners paid by the fund	7,249
5,793	Number of ex-members whose pension rights are 'frozen' until they retire	5,510

2 Accounting policies

The accounts of the pension fund contain the information set out in the Code of Practice for Local Authority Accounting and the Statement of Recommended Practice 2005 (Local Government SORP). The Local Government SORP 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 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 our 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 Valuation of investments

We value stocks and shares traded through the Stock Exchange Electronic Trading Service (SETS) based on the latest mid-market price. We value other quoted investments based on the mid-market value quoted on the relevant stock market.

We value pooled investments at the average of the 'bid' and 'offer' price provided by the relevant fund manager. This reflects the market value of the underlying investments. The bid-offer spread is the difference between the price at which stocks and shares can be sold (bid price) and bought (offer price).

The fund managers value unquoted securities at the end of the financial year in line with generally accepted guidelines.

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. We include this separately.

Property investments are not held by the pension fund.

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.

e Contributions

We account for normal contributions from members and employers in the payroll month 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 rules of the scheme, 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 can choose whether 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.

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	UK stocks and shares	Percentage of the fund
Threadneedle Investments	UK stocks and shares	Percentage of the fund
UBS Global Asset Management	Global stocks and shares	Percentage of the fund
MFS Investment Management	Global stocks and shares	Percentage of the fund
UBS Global Asset Management	Fixed income	Percentage of the fund
Barclays Global Investors	Passive index tracker	Percentage of the fund
Hendersons Global Investors (old mandate)	Active balanced	Percentage of the fund

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. At the 31 March 2004 actuarial valuation, the actuary decided that the funding level was at 82%. A revised schedule of employers' contribution rates came into force from 1 April 2005. The major reason for the fall in the funding level is the poor performance of investment returns against assumptions, over the years following the March 2001 valuation.

During 2005/2006, we paid employers' contributions at a rate of 11.7%. The district and borough councils paid employers' contributions at rates ranging between 10.0% and 11.8%.

The assumptions used for the March 2004 actuarial valuation were as follows:

Actuarial valuation	Past service % a year	Future service % a year
Rate of return on investments - before retirement	7.10%	6.50%
Rate of return on investments - after retirement	5.60%	6.50%
Salary and earnings increases	4.55%	4.25%
Rate of increase in pensions	2.80%	2.50%

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 2004 actuarial valuation, the fund's assets were valued at £670.1 million

4 Fund manager holdings

2004/2005 £ Millions	%	Market value of external Investments	2005/2006 £ Millions	%
0.2	0.0	Henderson Global Investors	0.2	0.0
0.0	0.0	UBS Global Asset Management	0.0	0.0
122.1	16.6	State Street Global Advisors (UK Equities)	159.3	17.1
118.6	16.1	Threadneedle Investments (UK Equities)	156.7	16.9
114.4	15.5	UBS Global Asset Management (Global Equities)	151.1	16.3
110.9	15.1	MFS Investment Management (Global Equities)	144.2	15.5
109.4	14.9	UBS Global Asset Management (Fixed Interest)	117.9	12.7
160.6	21.8	Barclays Global Investors (Index Tracker)	200.2	21.5
736.2	**100.0**		**929.6**	**100.0**

5 Investments

	Value 1 April 2005	Purchase at cost	Sales proceeds	Realised profit or (loss)	Unrealised profit or (loss)	Increase in Debtors or (Creditors)	Value 31 March 2006
Fixed-interest securities	3.1	0.0	0.0	-0.5	-0.3	0.0	2.3
Stocks and shares	446.2	377.0	-361.9	-51.9	75.2	0.0	588.4
Managed funds	278.1	0.1	-2.0	0.9	52.9	0.0	330.0
Cash and deposits	7.7	111.6	-113.3	0.1	0.0	0.0	6.1
Other investments	1.1	0.0	0.0	0.0	0.0	1.7	2.8
Total	736.2	488.7	-477.2	52.4	127.8	1.7	929.6

The opening balances for stocks and shares and managed funds have been restated to take account of a misstatement between the two categories of investments in 2004/2005 of £0.4 million.

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.

2004/2005 £m		2005/2006 £m
	Fixed-interest securities	
0.0	UK Public Sector	0.0
2.2	UK Other	2.3
0.0	Overseas Public Sector	0.0
0.9	Overseas Other	0.0
3.1		**2.3**
	Stocks and Shares	
265.2	UK quoted	322.4
181.0	Overseas quoted	266.0
446.2		**588.4**
	Index-Linked Securities	
0.0	UK quoted	0.0
0.0	Overseas quoted	0.0
0.0		**0.0**
	Managed Funds	
2.8	Unit Funds	4.3
182.6	Managed Funds	202.1
92.7	Unitised Insurance Policies	123.6
278.1		**330.0**
	Cash and Desposits	
6.3	Sterling	3.6
1.4	Foreign Currency	2.5
7.7		**6.1**
	Other Investments	
7.6	Debtors	6.2
-6.5	Foreign Currency	-3.4
1.1		**2.8**

The opening balances for stocks and shares and managed funds have been restated to take account of a misstatement between the two categories of investments in 2004/2005 of £0.4 million.

6 Contributions and benefits

2004/2005 £m	Contributions we receive	2005/2006 £m
	Administering authority	
12.9	~ From employers	15.7
6.9	~ From employees	7.4
19.8		**23.1**
	Scheduled bodies	
9.4	~ From employers	10.2
4.5	~ From employees	4.6
13.9		**14.8**
	Admitted bodies	
1.4	~ From employers	1.4
0.6	~ From employees	0.6
2.0		**2.0**
	Non Scheduled bodies	
0.0	~ From employers	0.1
0.0	~ From employees	0.0
0.0		0.1
35.7	**Total**	**40.0**

The total contributions we received from employers was £27.4 million (£23.7 million in 2004/2005) and £12.6 million (£12.0 million in 2004/2005) from employees.

Employees' contributions during the year included payments of £0.2 million to buy added years (£0.2 million in 2004/2005).

Employers' contributions during the year included £2.0 million received from employers for compensation to the fund for those retiring early and being made redundant (£0.9 million in 2004/2005).

2004/2005 £m	Benefits to be paid	2005/2006 £m
	Administering authority	
16.3	~ Pension Paid (including lump sums)	17.9
4.1	~ Transfers out	4.7
20.4		**22.6**
	Scheduled bodies	
13.0	~ Pension Paid (including lump sums)	13.9
2.4	~ Transfers out	2.6
15.4		**16.5**
	Admitted bodies	
1.2	~ Pension paid (including lump sums)	1.2
0.4	~ Transfers out	0.6
1.6		**1.8**
	Non Scheduled bodies	
0.0	~ Pension Paid (including lump sums)	0.2
0.0	~ Transfers out	0.0
0.0		0.2
37.4	**Total**	**41.1**

The total pensions paid out (including lump sums) was £33.2 million (£30.5 million in 2004/2005) and the total transfers out was £7.9 million (£6.9 million in 2004/2005).

7 Statement of investment principles

The Investment Board approved a statement of investment principles on 22 November 2004. You can get a copy by writing to the Resources Directorate, PO Box 3, Shire Hall, Warwick CV34 4RH.

Alternatively, you can view the pension fund website on www. warwickshire.gov.uk/pensions.

8 Organisations contributing to the fund

A list of contributing organisations is provided in chapter 5.

9 Bulk Transfer out of the Fund

The Magistrates' Courts left the county council to join the Civil Service on 1 April 2005. The pension fund will keep all the pensions benefits for employees of Magistrates' Courts in the pension fund and we expect to make a bulk transfer in the future. We do not yet know the timing and amount of the transfer. The fund's actuaries and the Government's actuaries are currently working on the details.

10 Additional Voluntary Contributions

In 2005/2006, 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 £1.3 million in Equitable Life, and £2.0 million in Standard Life on 31 March 2006. The pension fund accounts also do not include additional voluntary contributions.

11 Other disclosures

There were no material related party transactions during the year.

The fund commenced a programme of stock lending in August 2005 through its custodian banker ABN AMRO Mellon. At 31 March 2006 the fund had stock valued at £61.3m which was lent out to third parties. A total income of £21,000 was generated up to 31 March 2006.

The fund does not hold any property.

The fund currently has no external borrowing.

During the year 2005/06 the pension fund paid refunds of contributions to employees of £119,000 net of tax. A refund of £62,000 was also paid to State Earnings Related Pension Scheme (SERPS).

During the year 2005/06 the fund earned £11,000 in interest from fixed interest securities.

12 Investment performance

Investment performance	Our pension fund %	Warwickshire Benchmark %
Yearly return on investments for 2005/2006	26.3%	25.7%

Note: A five-year period is considered to be suitable for a fair comparison as performance can go up and down considerably from year to year.

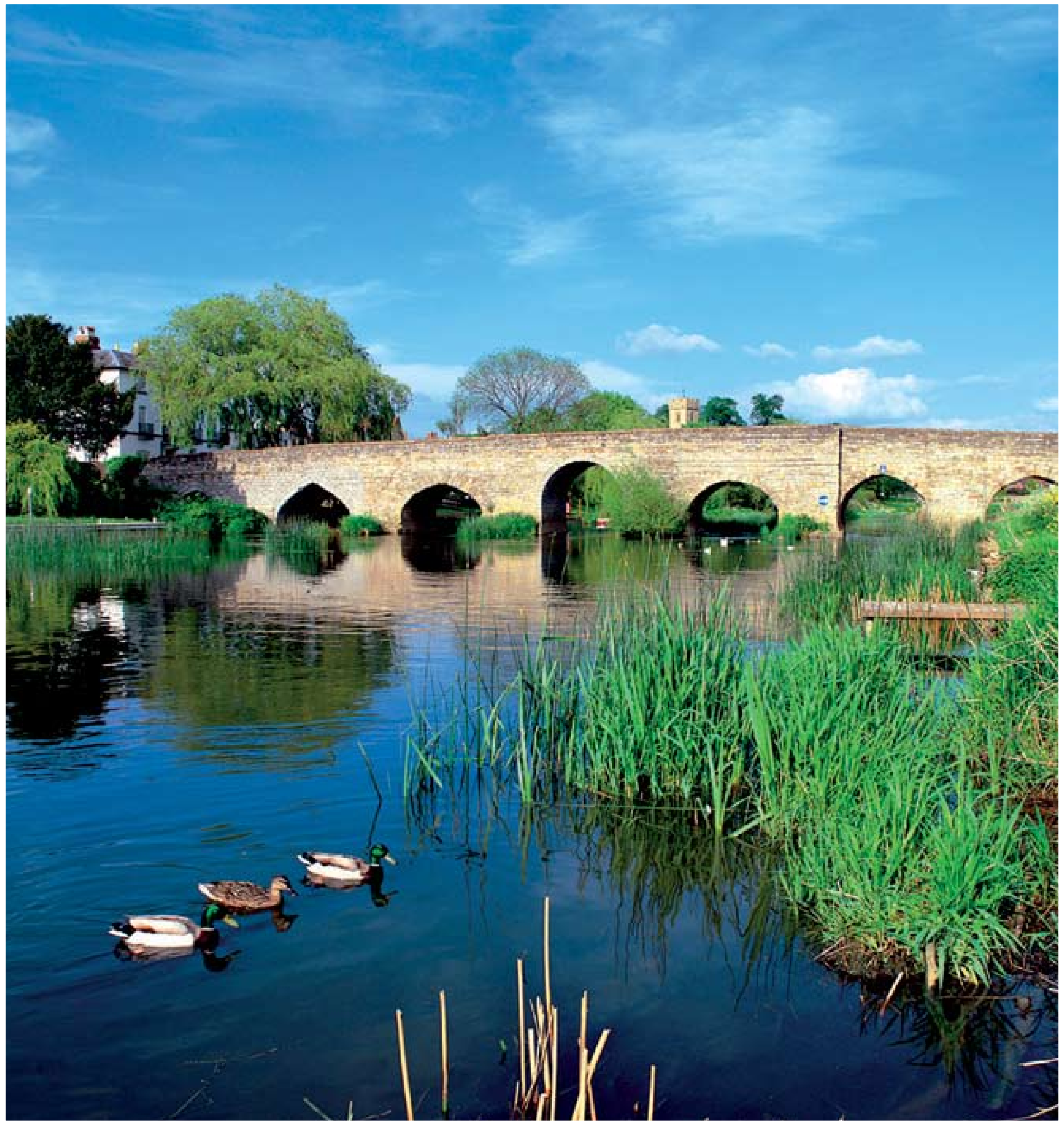
As part of restructuring the pension fund, we set new specialist benchmarks (standards to measure performance against) for the fund. Overall in the financial year 2005/2006, the fund had a return of 26.3% compared with the fund's specific benchmark of 24.8%.

13 Contingent liability

It is anticipated that contingent liability of £0.4 million will be requested 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 two years 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 and contact with these former members to arrange to pay refunds to them.

Auditors report

The Auditors report from The Audit Commission on the Fund is included in Warwickshire County Council's Annual Statement of Accounts.



Bridge in Bidford-On-Avon, Warwickshire

Communications

We communicate with our scheme members in various ways:

- Periodic newsletters are produced for scheme members and pensioners.
- 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 and meet with members and employers as requested.
- Scheme updates and other relevant information are forwarded to all employers.
- A presentation by Pension Services staff on the pension scheme is included in the Warwickshire County Council Induction programme.
- 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.
- 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.
- A Pension Fund Annual Report is produced and distributed to all scheme employers. Additional copies are available to other interested parties if requested.

In the pipeline:

- A review of annual benefit statements will take place to bring scheme members up to date. It is planned for state benefits to be included on the improved statement.
- Limited internet access to allow members to view their membership records will be investigated.
- Further expansion of our communication in partnership with neighbouring authorities will take place.

Key Dates for 2006/2007

Pension Fund Investment Board Meetings:

- 22 May, Shire Hall
- 31 July, Shire Hall
- 14 November, Shire Hall
- February/March 2007 (date yet to be decided), Shire Hall

Pension Fund Investment Board Seminars:

- To be decided

Annual Employers meeting:

- 24 November, Shire Hall

Contact Details:
Pensions Services Group
Warwickshire County Council
Resources Directorate
PO Box 3
Shire Hall
Warwick
CV34 4RH

Telephone Number: 01926 412234 Benefits Team
01926 476897 Membership Team
01926 738836 Communications
01926 412227 Investments

Fax Number: 01926 412962
E-mail: pensions@warwickshire.gov.uk
Website: www.warwickshire.gov.uk/pensions

Hertford Bridge in New College Lane, Oxford, is often referred to as the "Bridge of Signs" because of its supposed similarity to the famous bridge of the same name in Venice. However, Hertford Bridge was never intended to be a replica of the Venetian bridge and many believe it looks more similar to Rialto Bridge in the same city. The bridge links together Old and New quadrangles of Hertford College. The bridge and much of its current architecture, was designed by Sir Thomas Jackson. It was completed in 1914.

Final Word

As Englishman had been in the USA for thirty years. Walking one day in New York, he kicked a Coke bottle and out popped a genie, who said, "Master, you have one wish."

The man thought for a moment and said, "Well, I have been in the States for a long time and have never been home to England because I have a morbid fear of flying and when I came off the boat, I had been so seasick I vowed never to go on a boat again. Please could you build me a bridge from New York to Southampton so that I can drive my car over there.

The genie thought for sometime, then said he thought that it would be very difficult with the maritime weather, huge engineering problems, the deep Atlantic Ocean, the sheer scale and size of the bridge's construction, etc. Would the man think again.

The man thought for a while and said,
"I belong to a pension scheme but have never really understood it, or indeed, pensions in general. Could you make it possible for me to understand everything there is to know on the regulatory background, investment techniques, actuarial theory, accounting, derivatives, stocks and shares, the whole nine yards?"

After a significant pause for thought, the genie said, "And what colour would you like your bridge, master?"

The Oresund Bridge

The Oresund Bridge

The Oresund Bridge is a combined two-track rail and four-lane road bridge across the Oresund strait. The bridge-tunnel is the longest combined road and rail bridge in Europe and connects the two metropolitan areas of the Oresund Region, the Danish capital of Copenhagen with the Swedish city of Malmö. The international European route E20 runs across the bridge. The bridge has one of the longest cable-stayed main spans in the world at 490 metres. The height of the highest pillar is 204 metres. The total length of the bridge is 7,845 metres, which is approximately half the distance between the Swedish and Danish landmasses, and its weight is 82 million kilograms. The bridge has a vertical clearance of 57 metres.

Glossary of Terms

Accrued interest
Interest earned on a bond since the last interest payment date. If the bond is sold, the accrued interest is paid (gross of tax) to the seller at the time of the transaction in addition to the clean price of the bond.

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.

Actuarial valuation
A review of the assets and liabilities of a pension fund to determine the future rate of contributions required.

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.

Annualised return
The rate of return for any given period expressed as the equivalent average return per year. Note that this is not a simple arithmetic calculation.

Arbitrage
Seeking to exploit price differences between different markets in similar instruments. Modern arbitrage frequently involves derivatives.

Asset allocation
The apportionment of a fund's assets between asset classes and/or world markets. The long-term strategic asset allocation of a fund will reflect the fund's investment objectives. In the short term, the fund manager can aim to add value through tactical asset allocation decisions.

Asset class
A collective term for investments of a similar type. The main asset classes are equities (shares), bonds, cash and property.

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.

Base rate
The minimum reference rate at which commercial banks will lend money to their customers. Most loans are expressed in terms of a percentage over base rate. The greater the perceived credit risk of the borrower, the greater the number of percentage points over base rate that will be charged. In the UK, the Bank of England's Monetary Policy Committee (MPC) sets the repo rate.

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

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
Beta is the measure of a stock or fund's risk relative to its benchmark. If a stock has a beta of 1.2, it will move on average 1.2 times the market movement. If the market appreciates by 10%, therefore, the stock will appreciate by 12%. Stocks or portfolios which have a negative correlation to the market have negative betas.

Bid-offer spread
The difference between the price at which financial securities and units in a pooled fund can be sold (bid price) and bought (offer price). Compare with single price.

Blue chip
The name used to describe companies that are perceived to be high quality.

Bond
A certificate of debt issued by a company, government, of other institution. A bond holder is a creditor of the issuer and receives interest at a rate stated at the time of issue.

Book cost
The historic cost of the assets when purchased.

Bottom-up
An approach to investment which is based on the selection of individual stocks, rather than sector or country selection. Asset allocation is thus a by-product of the particular stocks chosen. Compare with top-down.

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

CPI
Consumer Price Index – the US equivalent of the UK's RPI which measures the change in the price level of a basket of goods. There are some differences in the UK and US calculation methodology.

Certificate
The document evidencing ownership of stocks, shares or unit trusts confirming relevant registration details. See also Crest.

Certificate of deposit
CD for short, issued by banks and building societies. CDs have a secondary market, the holder of a CD is able to sell it to a third party in order to realise cash before the maturity date of the CD.

Comission
Amounts paid to brokers for undertaking transactions.

Concentrated portfolio
A portfolio that holds fewer stocks than normal, with the aim of achieving a higher performance target but with a commensurate increase in risk.

Corporate bond
Strictly speaking, corporate bonds are those issued by companies. Generally, however, the term is used to cover all bonds other than those issued by governments in their own currencies. Therefore the 'credit' sector, as it is often known, includes issues by companies, supranational organisations and government agencies. The key feature that distinguishes corporate bonds from government bonds is the risk of default – see credit risk.

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. See also SRI.

Counterparty
The other party with whom a transaction is made.

Coupon
The regular interest payment due on a bond. Expressed as a percentage of the nominal value of the stock.

Custody
Administering of securities by a financial institution. The custodian keeps a record of a client's investments and may also collect income, process tax reclaims and provide other services, according to client instructions. The custodian physically holds the securities for safe-keeping.

DMO
The UK Debt Management Office (DMO) carries out the government' s debt management policy to minimise the government's borrowing costs over the longer term.

Debenture
A bond backed by a prior claim on the assets of the issuer or,in some circumstances, by specific assets of the issuer. Adebenture holder is entitled to appoint a receiver if necessary.

Default risk
The risk that an issuer of bonds whether government or corporate will fail to make payments either of regular coupon payments or final principal. Credit rating agencies grade companies and government issues to show the likelihood of this event. An investor can diversify away much of this risk by holding a variety of issues to mitigate the default of any one issue.

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
Instruments based on the movement of an underlying asset. Futures, options and swaps are just two of the basic types. Derivatives are either exchange traded or over the counter contracts.

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

Dividend
The part of a company's after tax earnings which is distributed to the shareholders in the form of cash or shares. The directors of the company decide how much dividend is to be paid and when. The dividend is neither automatic nor guaranteed for ordinary shareholders.

Dividend yield
The return that the annual dividend of a share represents in relation to the current share price. Calculated by dividing the annual dividend per share by the current market price.

Domestic bond
A bond issued in the country and currency in which the borrower is domiciled.

Dow Jones
The 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.

Earnings per share
A common way of expressing company profits – dividing the profits after tax by the number of shares in issue. Earnings per share is the basis for the calculation of the PE ratio (price/earnings ratio).

Equity
The capital of a company belonging to the ordinary shareholders who have voting rights allowing them to influence the management of the company.

Euro
The name of the single European currency introduced on 1 January 1999, initially in the form of bank money only. On 1 January 2002, euro notes and coins were issued in participating countries where they are now the sole legal tender. Participating countries are Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain and Greece. See also EMU.

Eurobond
A bond issued in a currency or market other than that of the country of origin of the issuer. The name derives from the first issuers of such bonds - American companies issuing bonds in European currencies.

European Central Bank (ECB)
Has sole responsibility for defining monetary policy and controlling interest rates for those countries participating in EMU. Has responsibility for issuing notes in euros.

External management
Where a scheme hires firms of investment managers to manage assets on its behalf. Compare with internal management.

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
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.

FSA
The Financial Services Authority, the sole statutory regulator of financial services in the UK. The FSA replaced other regulators such as IMRO, PIA and SFA.

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.

Fixed deposit
A cash deposit which is made for a fixed period of time at a fixed rate of interest.

Fixed interest
An income stream which remains constant during the life of the asset, such as income derived from bonds, annuities and preference shares.

Forward contract
A transaction in which two parties agree to the purchase and sale of a commodity or asset at some future time under such conditions as the two agree.

Futures contract
An obligation to make or take delivery of a specified quantity of an underlying asset at a particular time in the future and at a price agreed upon when the contract was made. Exchange-traded futures contracts have standard terms.

GIPS
Global Investment Performance Standards set out a voluntary code which aims to achieve fair representation and full disclosure of performance records. This code provides a number of key ethical principles when quoting figures. UKIPS is the UK's version of this code which requires all performance claims to be verified by an external agency.

Gilts, gilt-edged securities
The familiar name given to sterling-denominated marketable bonds issued by the British government.

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.

HICP
Harmonised Indices of Consumer Prices. Published by Eurostat, to measure price changes on a comparable basis across EU member states and the EMU area as a whole. It is the measure monitored by the European Central Bank (ECB) in setting monetary policy. HICP have a slightly different basket of goods and calculation methodology to the UK's RPI measure of inflation. The Chancellor has indicated an intention to move the UK inflation target to the HICP definition.

Hang Seng Index
An index of the share price of largest securities listed on the Hong Kong Stock Exchange.

Hedging
A strategy that aims to reduce potential losses in an investment transaction. For example, a forward currency transaction might be executed when dealing in overseas shares or bonds to avoid losses due to exchange rate movements.

Index
A calculation of the average price of shares, bonds, or other assets in a specified market to provide an indication of the average performance and general trends in the market.

Indexation
A style of fund management that aims to construct a portfolio to provide the same return as that of a chosen market index. This can be achieved on a full replication or sampling basis. Full replication involves buying all the stocks in the index in the same proportions in which they make up the index. Sampling means using statistical methods to choose an appropriate portfolio to best match index performance. Indexation is also known as passive management. See also tracker fund and compare with active management.

Index-linked gilts
Both the interest payments (coupons) and the value of the eventual capital repayment for index-linked gilts are adjusted in line with the change in inflation, as measured by the retail prices index (RPI). Investors are thus protected against the value of their investment being eroded by inflation.

Inflation
A measure of the increase in prices of goods and services over time. See also RPI, CPI and HICP.

Internal management
Where a scheme employs its own staff to manage the assets of all or part of the scheme. Compare with external management.

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

Liability
A financial obligation or cash outlay that must be made at a specific time to satisfy the contractual terms of such an obligation. In the case of a pension fund, liabilities are linked to the age structure of scheme members.

Liability matching
An investment strategy that aims to result in a change in the value of the assets that matches the change in value of the pension scheme's liabilities. In practice, perfect matching is rarely possible or practical. See also targeted return strategy.

Liquidity
The capability of a market to accommodate supply and demand without unreasonable price changes. Liquidity is a vital requirement for healthy capital markets.

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

Managed fund
Has a variety of meanings, but most commonly refers to a multi-asset pooled fund or an investment contract under which an insurance company offers participation in one or more pooled funds.

Mandate
The agreement between a client and investment manager laying down how the fund is to be managed. May include performance targets by reference to a benchmark.

Mature scheme
A pension scheme with a high proportion of pensioners and a low proportion of current members. In a mature scheme contributions are normally less than or equal to benefits paid out.

Maturity
End of the life of a fixed interest security at which point it is repaid. Also known as redemption. Maturity can also mean the end of the life of a future or option.

Median
The median is the value of the middle item in a population. It is a measure of central tendency that is unaffected by extreme values at either end of the population. See also percentile.

Mid-cap
Used to describe collectively those companies of mediumsized market capitalisation. See also small-cap.

Minimum Funding Requirement (MFR)
A requirement introduced in the Pensions Act 1995 in an attempt to ensure that pension schemes have sufficient assets to meet their liabilities. It was modified in 2002 and is expected to be replaced by end 2004.

Monetary Policy Committee (MPC)
The Monetary Policy Committee (MPC) of the Bank of England sets the UK repo rate with the objective of achieving a stated inflation target.

Money market
A general term for the banks and other institutions that accept cash deposits.

Multi-asset management
Where a manager is responsible for most asset classes and is measured against a peer group benchmark (balanced management) or customised benchmark which specifies a fixed asset allocation (the manager may or may not have discretion to vary the allocation around this benchmark).Compare with specialist management.

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 various measures are in the process of being implemented in the industry. Issues covered included soft commission, trustee and custodian appointments, and asset allocation amongst others.

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

Nominal rate of return
A rate of return expressed only in monetary terms, i.e. not adjusted for inflation. Compare with real rate of return.

Nominal value
Sometimes known as par value, this is the face value of a security as opposed to its market value. In the case of a bond it represents the principal sum due on redemption.

Ordinary shares
Securities which represent an ownership interest in a company. If the company has also issued preference shares, both have ownership rights.

PE ratio
Price/earnings ratio. A ratio used to value a company's shares. It is calculated by dividing the current market price by the earnings per share.

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

Par value
See nominal value.

Passive management
A style of investment management that seeks to attain performance equal to market or index returns. See also indexation and tracker fund. Compare with active management.

Pension fund
A collective term for the assets set aside today to pay a retirement income in the future. Assets are set aside in this way to benefit from long-term investment returns and from the tax incentives offered by the government to encourage saving for retirement. A pension fund may be established by an employer (occupational pension fund) or by an individual (personal pension or stakeholder pension).

Percentile
A measure of a 100th part of a population. For example, to make comparisons between pension funds easy, performance measurers rank funds into percentiles. The top 1% of funds will be in the first percentile, while the bottom 1% will be in the 100th percentile. Other similar measures are deciles (one tenth parts of the population) and quartiles (one quarter parts). See also median (the 50th percentile).

Preference share
Preference shares rank before ordinary shares in respect of dividend payments and, usually, capital repayment. Dividends on preference shares are at a fixed rate and the shares do not normally carry voting rights unless the dividend is in arrears.

Proxy
A written authorisation given by a shareholder to someone else to vote on his behalf at a company's annual general meeting (AGM) or special meeting (EGM).

RPI
The headline index used in the UK to measure inflation (the change in the value of a basket of goods). This is the index used for index-linked gilts There are several variants of RPI: RPI-X is the rate of inflation in the UK, excluding mortgage interest rates. This is the inflation measure watched by the Bank of England in its remit to control inflation to a target rate set by the Chancellor of the Exchequer. RPI-Y is as RPI-X, but excluding changes in indirect taxation such as VAT. See also HICP.

Real rate of return
The return over and above inflation.

Redemption
The repayment of the principal sum outstanding on a bond. The date on which this occurs is the redemption date.

Repo rate
Short for "sale and repurchase agreement". The Bank of England implements monetary policy by lending to the Banking system at the official repo rate chosen by the Monetary Policy Committee (MPC). Banks sell assets to the Bank of England with an agreement to buy them back in about a fortnight's time, and the repo rate is the rate of interest implied by the difference between the sale and repurchase price in these transactions.

Return
The value received (income plus capital) annually from an investment, usually expressed as a percentage. See also total return.

Return on equity
A method of valuation of company accounts which can determine how a company is spending its money, calculated by dividing a company's net income by its stockholder equity.

Rights issue
When existing shareholders are given rights to purchase the new shares in proportion to their existing holding. Compare with bonus issue.

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.

Councillors holding the special sercurity camera on the new Maple Park footbridge, Nuneaton.

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 the possibility of default.

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 and offers advice and suggestions on improving the quality of communication in their annual report as a whole.

SRI
Socially responsible investment. Investment policies or restrictions that take account of the social, environmental and other impacts that a company's activities can have on its employees, consumers and the environment. Legislation requires pension funds to disclose the extent to which they take these factors into account in their investment activities.
See also corporate governance.

Share
A stake in a company which confers ownership rights on the holder. Shares are also know as equities.

Small-cap
Used to describe collectively those companies of small market capitalisation. See also mid-cap.

Soft commission
An arrangement whereby a broker offers to pay some of a pension fund or a fund manager's costs (e.g. subscriptions to information services) if a certain amount of business is directed to the broker. See also commission recapture.

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.

Spot price
The present physical market price of the relevant commodity, currency, or investment instrument.

Stamp duty
An ad valorem duty, currently 0.5%, on purchases and certain transfers of UK shares. Levied by the government and payable by the buyer only.

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 opportunites.

Stock selection
The process of deciding which stocks to buy within an asset class.

Style
The philosophy behind the way in which a manager manages the fund. For example, see value manager and growth manager.

Switching costs
The costs of buying and selling investments in order to implement a change in investment strategy.

Top-down
The opposite to bottom-up, where emphasis is placed primarily upon sector or country selection, with stock selection taking place subsequently.

Total return
Essentially, a combination of capital return and income return. To be precise, the aggregate increase (or decrease) in the value of the portfolio resulting from the net appreciation (or depreciation) of the principal of the fund, plus the net income during the period. This is expressed as a percentage of the value of the fund at the start of the period.

Tracker fund
A fund which aims to match the investment performance of a particular market index. See also indexation and passive management.

Transaction costs
Those costs associated with managing a portfolio, notably stamp duty and commissions.

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

Treasury bill
Treasury bills are short-term debt instruments issued by the UK or other governments. They provide a return to the investor by virtue of being issued at a discount to theirfinal redemption value.

Unquoted securities
Shares which are dealt in the market but which are not subject to any listing requirements and are given noofficial status.

Valuation
A summary of an investment portfolio showing the holdings and their value as at a certain date.

Value manager
A fund manager who aims to select stocks that he believes to have potential that is not reflected in the current price. Compare with growth manager and momentum manager.

Voting rights
Ordinary shares usually have associated voting rights that enable the holder to influence the management of the company. See also corporate governance.

Yield
A measure of the income return earned on an investment. In the case of a share the yield expresses the annual dividend payment as a percentage of the market price of the share. In the case of a property, it is the rental income as a percentage of the capital value. In the case of a bond the running yield (or flat or current yield) is the annual interest payable as a percentage of the current market price. The redemption yield (or yield to maturity) allows for any gain or loss of capital which will be realised at the maturity date.

Glossary provided by UBS Global Asset Management

Canal Bridge, Birmingham

Living Bridge, New York

Publication date: October 2006
Division: Treasury and Pension Funding
Directorate: Resources
Contact: Mathew Dawson

designed by amber leahy@design2print, WCC. ref 31823
design2print@warwickshire.gov.uk