The following poem is written by, Pensions Supervisor, Karen Aston

Report from the Benefits Team Supervisor

Four of us work in the Benefits Team
We get through paper, ream after ream
New rules arrive from HMRC
Get it wrong, you pay a fee
New forms if you want to retire
Fill them in, have you the desire?
If you want, you can commute
And get a larger sum of loot
We've faced the challenge, our work is done
At times we felt we would do a run
But that was the lull before the storm
Round the corner, more tasks to perform
Pensions payroll is now HRMS
Our skills and patience put to test
But ours is a will in which to succeed
Customer satisfaction is our creed

Smith Street, Warwick 1962

Contents

Chairman's Statement

by Chris Davis Chairman of the Pension Fund Board

I am pleased to report that the financial year 2006/2007 has proved to be another year of achievement and success for Warwickshire County Council Pension Fund.

Your board has welcomed Councillor Appleton as a new trustee in replacement for Councillor Atkinson. We have been engaged in a very busy period of activity. Our annual meeting in November 2006 was well attended and again provided our various employer organisations and other stakeholders with an opportunity to learn and pose questions about the health of the Fund.

Indeed the Fund has continued to make steady progress in line with the continued recovery of equities, our main investment. Although in general our fund managers have shown some shortfall on the benchmarks set for them, the value is now over the magic £1 billion mark figure.

This is a considerable improvement on the figures at the depth of the market fall a few years ago and to try and reduce such a variation your Board has followed actuarial advice to increase diversification and has undertaken the process of investing in Property Funds and a Fund of Hedge Funds. This amounts in total to about 10% of the Fund and should produce a less volatile outcome in the future and more stable contribution rates.

Next year we will be seeing the first results of moving into these so-called "alternative"

investments and our actuary will be carrying out the triennial 2007 actuarial valuation

As in previous years, we continue to review our Governance policy and Investment Principles as set out in the Myner's report. In particular, we have taken the opportunity to have regular update and topical issue training sessions at fund manager locations in London.

May I thank Board members and Pensions and Resources Directorate staff for their help and support during another successful year. The continued excellence of our staff is illustrated by the fact that for the second year in succession we reached the final stage of the Local Government Chronicle Pension Fund of the Year Award. Perhaps next year will be third time lucky!

Pensions Officer, Anthony Hall, started his motorcycle racing during the mid-season of 1987 on a Honda CR125 motocross bike in which he competed in the junior privateer class until the end of the 1992 season.

At the start of the 1993 season, he made a jump up to the 250cc category on a Kawasaki KX250 in the senior privateer class and was in the top ten standings when he left. His ambition now is to compete in road racing or superbikes. He has partaken in race days in the South of France, the Catalan circuit in Spain and every racing circuit in the UK.

Anthony is pictured at Cadwell Park race circuit in Lincolnshire.

Introduction

by Dave Clarke

Last summer I dropped in to an art exhibition while on holiday. The exhibits were oil paintings by local artists.

Wandering around the gallery, I was struck by the fact that the standard was mixed and overall not very high. Part way around my tour of the gallery a member of staff gave me a leaflet which introduced each of the artists. It transpired that all of the artists had some form of learning or physical disability.

I went back to the start of the exhibition and viewed each of the paintings in a new light. I was no longer looking at paintings of questionable quality. I was looking at pieces of art which were truly exceptional, bearing in mind the individual artists. The work they had produced was a major achievement.

2006/2007 is the second complete year of pension fund investments under the new investment structure. One of the hardest aspects of the new investment arrangements is the move to an independent performance benchmark. Local authorities have a long tradition of comparing themselves against other local authorities. This approach is wrong as each local authority pension fund is starting from a different position. Its funding level is unique to that pension fund as is its appetite for risk. Warwickshire therefore took the difficult choice to set a benchmark that relates to the characteristics of our fund. We no longer compare ourselves to other pension funds.

Having said that our overall benchmark returned 6.2% during 2006/2007.

The Warwickshire Fund was short of this by only 0.9% returning 5.3%. The markets have had a good run during 2006/2007 and a return of 5.3% would normally be considered a success. However, when compared against the benchmark, it is not such a good achievement.

Looking forward to 2007/2008 we will be revaluing the fund during the year. This will show whether our funding level (i.e. the amount of assets we have compared to our future liabilities) has increased from the 82% at the time of the last valuation. While a funding level at 82% may not sound great, this was calculated just after the drop in the investment markets in 2003/2004 and was still one of the highest funded local government pension schemes at that time.

So, a bit like my viewing of the work of local artists, it is essential to understand the background in order to assess whether something can be judged as a success or not.

In September 2006, Investment Board member, Brian Moss, covered 450 kilometres down the cycle path alongside the Danube from Regensburg in Germany to Vienna in Austria. Accompanied by his wife, Margaret, the journey took eight days.

Report from the Group Manager

by Phil Triggs Group Manager, Treasury and Pensions

The financial year 2006/07 has been a very productive 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 Local Government Chronicle Pension Fund Awards, culminating in a placing again in the top three shortlist. The Treasury and Pensions Group was rightly very proud of this achievement.

Achievements

Our theme for the report this year is Achievement and Success.

The fund diversified this year into fund of hedge funds and fund of property funds. The transition process was completed on 30 March 2007 at minimal cost to the fund. The restructuring is the Council's first venture into alternative assets and comes as a result of the Pension Fund Investment Board's wish to diversify the fund and reduce the investment risk of the fund's assets. With an actuarial valuation being carried out in 2007 and an asset/liability study to follow at the conclusion of the valuation, the Board will revisit the fund's asset structure early in 2008.

With regard to the office administration, the Group's Task Manager workflow system has been implemented to most processes and all of the Group's computers have been updated to accommodate document imaging systems. This project is still ongoing with implementation due later in 2007. The Pension Fund website has now been up and running for two years. It is utilised for keeping the membership up-to-date, with further development in the future envisaged.

The communications process continues with newsletters sent to current, preserved and retired

members. A new communications strategy was approved by the Investment Board in February 2006 and all standard booklets, information sheets and pro forma documentation are continuously reviewed and updated.

The Warwickshire Pension Fund held its third Annual Meeting on 24 November 2006. Representatives from the District Councils and the 56 scheduled and admitted bodies were invited to a morning of presentations from the Director of Resources 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.

The Fund

An interim actuarial review of the Fund was carried out in 2006/07. 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 5.3% compared with the Fund benchmark of 6.2%, an under-performance of 0.9%. The average local authority fund performance in 2006/07 was 6.7%

Governance

The Pension Fund Investment Board had a very 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. The Pension Fund's 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 2006/07

- Pension Fund restructured with ventures into alternative investments (hedge funds and property)
- Governance and communications policies published
- Annual Meeting of the Pension Fund
- IT based systems developed and implemented
- Website developed

Feedback

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

Chris Davis addressed the NAPF Local Authority Conference held at the Belfry, Warwickshire on 1 May 2006. His address looked at new challenges for the future regarding the Local Government Pension Scheme.

Report from the Pensions Services Manager

by Neil Buxton Pension Services Manager

The theme for this year's report is achievement and success and my report will hopefully reflect the Pension Services Team's achievements over the twelve months to the 31 March 2007.

Looking back at previous reports, I note that I have often referred to the changes that have occurred and how they impact on our work and the service that we provide. The last twelve months are no exception and, indeed, the changes to our working practices have been radical.

The introduction of "Tax Simplification" by Her Majesty's Revenue and Customs is seen by some as a misnomer but it has had a major impact on the speed at which a retirement case takes to actually come into payment. A member retiring since the 6 April 2006 is bombarded with information about Lifetime Allowances and has to declare all other pension rights in payment or otherwise before the team can start to calculate the first stage of the retirement package.

Changes to the Local Government Pension Scheme have themselves added yet further complications before a retired staff member can get their hands on their retirement cheque. Retirees now have the opportunity to take a larger lump sum in exchange for a reduced pension. Although freedom of choice is to be welcomed, this additional step on the ladder can further delay the payment of the benefits.

As if the above changes were not enough, the County Council's new Human Resources and Payroll system has resulted in an overhaul of systems and procedures for both the Benefit and Membership teams.

In view of all the above, the Benefits team has reviewed its practices and it is to its credit that the payment of the vast majority of benefits are being paid

Pensions Supervisor, Dawn Clutton, is an Assistant Guide Leader of a local Guide Unit, the 5th Leamington. She took Guides from her District to an International camp hosted at Blackwell Court, Warwickshire in July 2006.

On 1 August 1907, Scouting's founder, Robert Baden-Powell, blew his kudu horn on Brownsea Island at 08:00 to open the world's first Scout camp. Soon thereafter, Scouting and Guiding began to spread quickly around the world and now exists in 216 countries and territories. 2007 is the centenary of Scouting and Guiding and on 1 August 2007, 40,000 scouts and guides will join together at 8am to remember that first camp on Brownsea Island.

as promptly as possible with in excess of 90% of retirements paid within five days of all the relevant information being received.

The Membership team has started to reap the benefits of the new integrated payroll system with a marked improvement in the flow of information in respect of County employees. This means that members' pension records now better reflect their pay records.

Another continuum from previous years is the continuing change to the current scheme and the new scheme from April 2008. Since last year's report, we now know that the "New Look LGPS" will continue to be a final salary pension scheme although benefits from April 2008 will accrue at 1/60th with no automatic lump sum.

Notwithstanding the imminent actuarial valuation, there is no doubt that the focus of the next twelve months will be the new scheme. Although the new scheme regulations have been issued, there is no doubt there will be many amendments before April 2008.

The new scheme will present the external support team with perhaps its greatest challenge to date. Not only have the changes to be communicated to the members effectively, but also to the employers as there are many significant changes that will have an impact on their practices. The Pension Services Team is already starting to compile information for the employers and employees.

A major success for the Pension Services Team is the newsletter issued to our retired members. We encourage audience participation in the "Ragged Staff" and I am pleased to say that many of our retired members send articles about their pastimes, poems they have written and books they have had published.

And so, these are our achievements and successes, in the main coping with the day-to-day humdrum of administering an ever-changing scheme.

Participating Employers

The Treasurer of Warwickshire County Council on behalf of the County Council, the five district councils and 55 other public service organisations administers the Warwickshire Pension Fund.

Administering Authority

Warwickshire County Council

Current Scheduled Bodies

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

Long Itchington Parish Council

Mancetter Parish Council

North Warwickshire and Hinckley College

Ryton on Dunsmore Parish Council

Royal Leamington Spa Town 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

North Warwickshire Council for Voluntary Service

Nuneaton and Bedworth Leisure Trust

Nuneaton and Bedworth Council for Voluntary Service

Rugby Citizens Advice Bureau

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 Schools

Warwickshire Association for the Blind

Warwickshire Care Services Ltd

Warwickshire Welfare Rights Service

Westfield Community Development Association

UK Youth (National Association of Youth Clubs)

Other bodies with pensioners but no pensionable employees

Lapworth Parish Council

North Warwickshire Citizens Advice Bureau

Nuneaton Mencap

People in Action

Remnant Water Authority

Rugby Council for Voluntary Service

Rugby MENCAP Hostels

Rugby MIND and Rugby Mental Health Association

Severn Trent Water Plc

Solihull Metropolitan Borough Council

St Paul's College

The Treasury and Pensions Group gathered together for the annual Group Away Day at Moreton Manor on 24 January 2007. The day was facilitated by Kate Hull Rodgers, a management consultant who put the Group through its paces with many interesting, discussions, practical tasks and scenarios.

Kate Hull Rodgers is pictured here at the Cleethorpes Race for Life held on 10 June 2007. She was raising funds for Cancer Research. The reader's eye will be drawn naturally to her.

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.

Councillor Chris Davis
(Liberal Democrat)
Chairman

Councillor John Appleton
(Conservative)

Councillor Mrs Helen McCarthy
(Conservative)

Councillor Bob Hicks
(Labour)

Councillor Brian Moss
(Labour)

Achievement and Success

Investment Risk

by Mat Dawson

As the financial year 2006/07 was coming to a close, the Warwickshire Pension Fund broke the age-old tradition of investing purely in equities and bonds. The Pension Fund Investment Board appointed a Fund of Hedge Funds Manager (see glossary under Hedge Funds) and two Fund of Property Funds Managers. Many funds including ours are diversifying into what are known as Alternative Investments. These are asset classes that have the ability to make positive returns in periods when mainstream assets are not performing so well.

Our aim is to spread risk and protect ourselves against unforeseen events and circumstances. Investments do not simply bear one risk, there is more than one way that an investment can lose value. I will explain some major risks below:

Equity Risk

If equity markets are performing poorly then it is very likely that all companies in the affected index will be under-performing. A company's stock can be performing well and delivering healthy returns but if the market as a whole is out of favour with investors, then the knock-on effect will likely be a reduced valuation in equity price. A hedge fund manager is able to minimise this risk by taking out short positions in the affected sector/ index. By short position, we mean he/she sells the stock.

Commodity Risk

Mega-cap and large-cap companies are the biggest purchasers of commodities (e.g. milk, grain, steel, copper). The price on these raw materials has a direct impact on the purchaser's ability to trade effectively as the customers will often bear the brunt of price hikes resulting in lost customer goodwill and increased competition. This will in turn affect the value of a company.

Currency Risk

If the security is held overseas then the correlation between sterling and the local currency will have an impact on the value of that security. This can be favourable or adverse but is still a risk factor. This risk can be minimised in a Fund of Hedge Funds as the manager will have the ability to "hedge" against the risk by transferring it to another investor who wishes to take the on the risk in its own investment strategy.

Interest Rate Risk

Interest rates can have an impact on the value of equities as they have a direct correlation with a company's borrowing. Higher interest rates mean higher interest charges, which will affect the company's profitability and liquidity, leaving it less attractive to a potential investor.

Manager Risk

This is the risk that the Board selects a poor manager. To minimise this risk there is extensive research undertaken when new managers are appointed. We pay for extensive knowledge on potential managers by an expert investment consultant who also attends interviews along with an independent advisor and senior council officers.

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, Strategic Director of Resources

Oliver Winters CPFA, Head of Finance

Phil Triggs CPFA, Group Manager (Treasury and Pensions)

Neil Buxton, Pensions Administration Manager

Mathew Dawson MAAT, Principal Accountant

Pension Fund Investment Team:

Jennifer Turner, Jennifer Leung, Christine Gough

Membership Team: Dawn Clutton, Sarah Kirby, Lisa Webb, Kelly Brown, Simon Harry, Sheila Taylor

Benefits Team: Karen Aston, Joy Batchelor, Anthony Hall, Chris Holmes

Police and Fire Schemes: Helen Cox

Communications: Hazel Haycox, Linda Radley, Ian Morris

Investment Advisors

Independent Advisor: Peter Jones

Actuary: Chris Hull, Mercer Human Resource Consulting

External Consultants: Mike Reid, Mercer Investment Consulting

Investment Managers

UK Equities
State Street Global Advisors and
Threadneedle Investments

Global Equities
UBS Global Asset Management
MFS Investment Management

Fixed Income
UBS Global Asset Management

Passive Index Tracker
Barclays Global Investors

Fund of Hedge Funds
Blackstone Group International

UK Property
Schroder Investment
Management
Threadneedle Investments

Principal accountant, Mathew Dawson, is a photographer. His favourite achievement in photography is to get a good picture from a camera costing less than a take-away curry (another one of his hobbies).

The picture shown below was taken with a Lomo Smena 8m which is a gem of a camera made in the former Soviet Union.

They are cult cameras renowned for their great colour reproduction and quirky operation. He bought one on an auction site for the grand total of £3.99 plus postage from the Ukraine. It arrived with its original box and a helpful manual (in Russian!). Luckily he is friends with the owner of an old fashioned camera shop in Warwick and managed to get it working easily

Everything on the camera is totally manual but using it is simple. The aperture is set according to the film speed and shutter speed is set according to the small weather pictures on the lens – simple! And there is no need for batteries or a memory card!

This picture was taken at Broadagog Beach on the North Coast of Cornwall (who also produce a fantastic annual Pension Fund Report).

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 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 2007, the total membership of the fund stood at 28,426 and the total value of the Fund's net assets amounted to £945.2 million. Of the 28,426 members 14,861 are active members currently contributing to the fund, 6,175 are members with deferred pension rights, and 7,390 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% and 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 range from 5% to 17.1%, based on the last valuation as at 31 March 2001. Contribution rates have been revised from 1 April 2006 following the actuarial valuation as at 31 March 2004. Employer rates now range from 4.7% to 57.2%.

Group Manager, Phil Triggs addressed the Local Government Chronicle Pension Fund Symposium held at Dunston Hall, Norwich on 29 June 2006. His speech argued the case for equities as a pension fund asset class.

Investment report for the year ended 31 March 2007

Economic Background

Global economic conditions during the twelve months to 31 March 2007 have been favourable. The global economy has expanded by approximately 3.5%, driven by Emerging Asia and the US. However, of some significance has been the sustained improvement in economic conditions within Continental Europe. The region is now making a more meaningful contribution to global growth than for some time, thanks to firmer domestic demand conditions and growing economic ties with Emerging Europe.

Against this background, inflationary pressures have continued to build, primarily through higher commodity prices and tight labour market conditions. Monetary policy authorities have responded by tightening monetary conditions. During the last 12 months, the US Federal Reserve has raised interest rates by 0.5% to 5.25%, its highest rate since 2001. We have also witnessed the end of Japan's zero-interest policy long adopted by the central bank as the overnight call rate was raised to 0.5%. Elsewhere, it appears the European Central Bank and the Bank of England are ready and willing to continue their recent phase of policy tightening as well.

The robust nature of corporate profit growth has been a key feature of the latest global economic expansion phase. However, recent data would suggest that global profit margins may have peaked, reflecting the ongoing rise in inputs costs. Despite this, many regions continue to experience profits as a share of GDP at or close to historic highs. 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. Whilst there is some evidence to support this notion, this will only become clearer as the profit cycle shifts from expansion to contraction.

During the course of the last twelve months, equity markets

globally have performed well. Bond markets have also fared reasonably well during this period. Returns from overseas assets have been impacted by the strength of sterling whilst UK property again performed strongly.

Tighter monetary conditions, concerns regarding the outlook for the US housing market and high levels of US consumer indebtedness remain the primary downside risks preventing the global economy from sustaining its current trend rate of economic expansion. The extent to which these dynamics impact growth is a key factor driving the outlook from this point onwards. Furthermore, the first signs of a peak in the global profits cycle represent an additional source of concern with regard to the outlook for equity markets. A meaningful deceleration in profits growth tends to be accompanied by equity market weakness.

Investment Return Compared to the Local Authority Universe 2006/2007

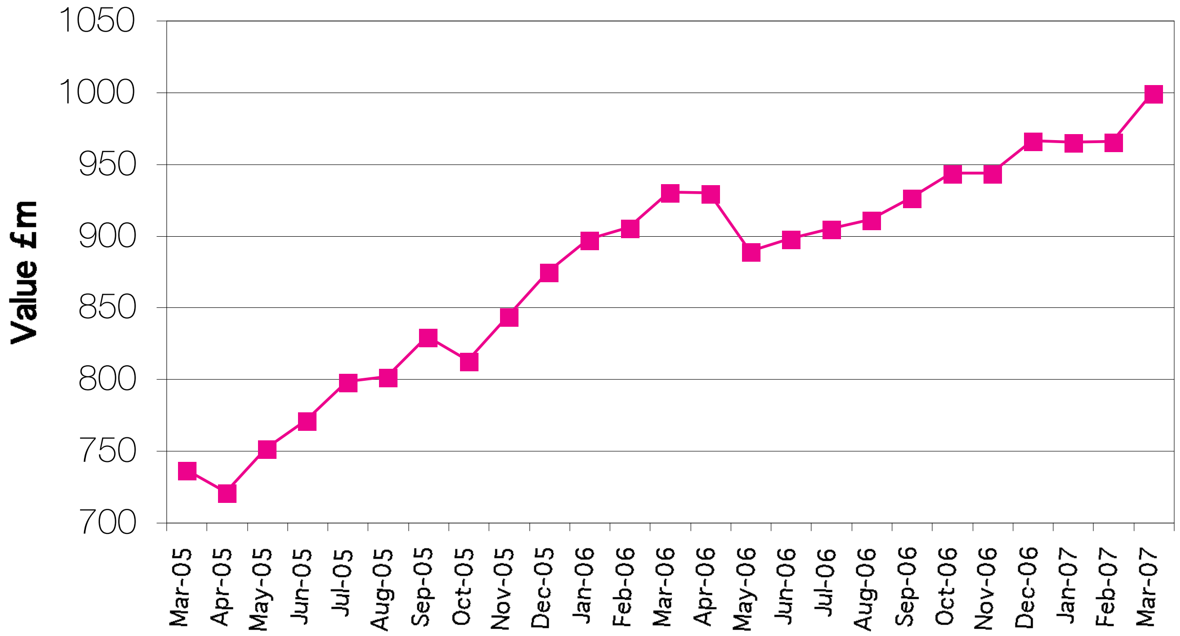
	1 Year Return	5 Year Return
Warwickshire	5.3%	7.4%
Warwickshire's Benchmark	6.2%	7.7%
Local Authority Universe	6.7%	7.7%
Out/under performance	-1.4%	-0.3%

How many times have you scratched a competition card with the hope of winning that "luxury holiday", only to be disappointed and wonder if there are any winning tickets?

Pensions Services Manager, Neil Buxton, won a scratch card competition from a cat food company, which helped him fund his luxury wedding and honeymoon on the paradise island of Praslin in the Seychelles.

There are winners.

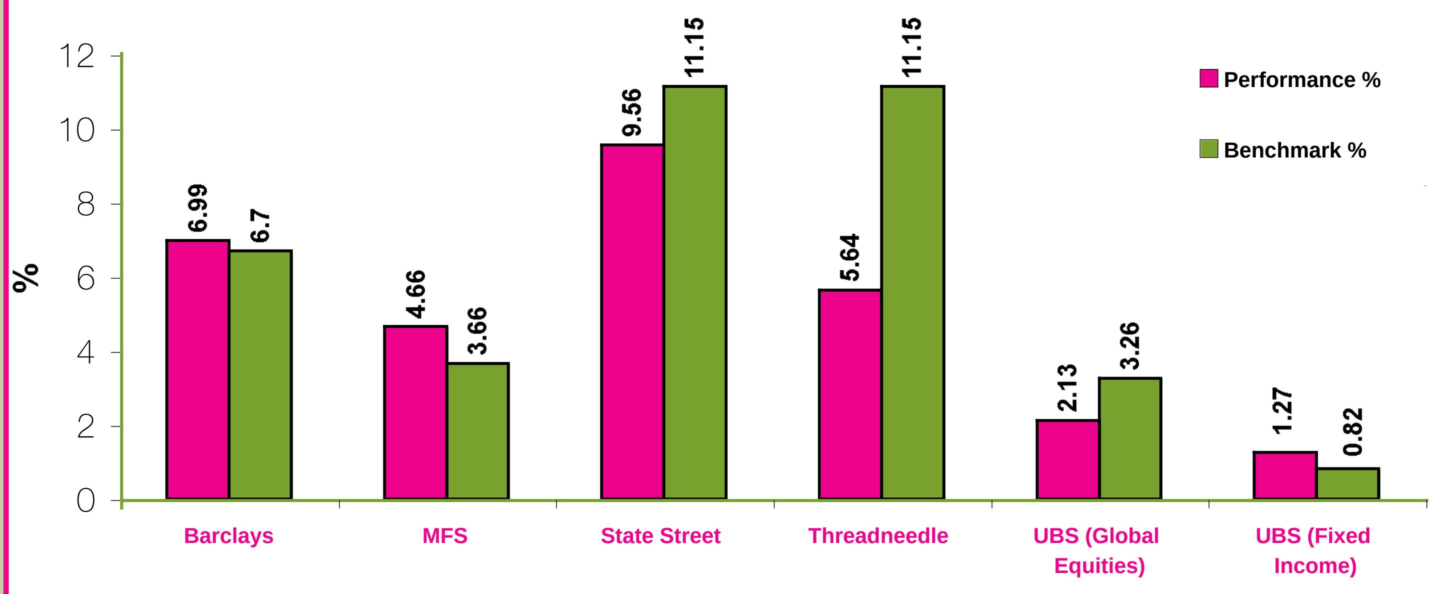
Total Fund Value 31 March 2005 to 31 March 2007



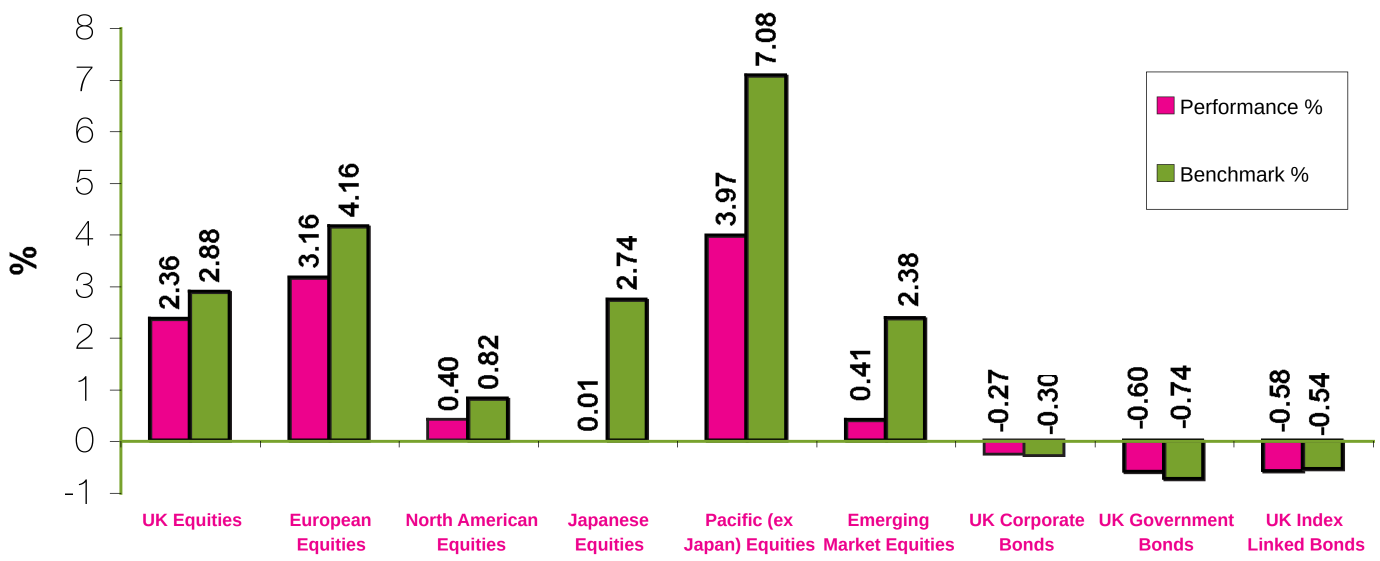
Top Ten Holdings By Market Value as at 31 March 2007

		£m
1	BP	14.8
2	SHELL	14.2
3	VODAFONE	13.4
4	GLAXOSMITHKLINE	12.9
5	HSBC	11.1
6	ROYAL BANK OF SCOTLAND	9.6
7	BARCLAYS	9.4
8	NATIONAL GRID	7.5
9	XSTRATA	7.5
10	ASTRAZENECA	7.3

Fund Manager Performance for the Year Ending 31 March 2007



Performance by Asset Type for the Year Ending 31 March 2007



Statement of Investment Principles

APPENDIX 1

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 an independent advisor, 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 Strategic Director of Resources. The Strategic Director of Resources also has a statutory duty to ensure that proper financial arrangements are in place to manage the Fund. The Pension Board Investment Board meets four times a year at the conclusion of each quarter. The eight active investment managers will attend meetings on a regular basis.

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

1.1 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 relative to the liabilities.

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

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

(v) For the overall Fund to outperform the benchmark set out in 3.3, by 1.3% per annum over rolling three-year periods.

2.2 1.1 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 21% 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 79% 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 mismatching, 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	Alternative Assets	Fixed Income	Total
UK Equities		2.00	27.00	3.50			32.50
Overseas Equities		10.00		22.50			32.50
	European	7.50		5.50			13.00
	North American	1.25		8.50			9.75
	Far East/Emerging Markets	1.25		8.50			9.75
Property					5.00		5.00
Hedge Funds					5.00		5.00
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		**21.00**	**27.00**	**26.00**	**10.00**	**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	21%
State Street Global Advisors ("SSGA")	Active UK Equity Portfolio	13.5%
Threadneedle Investments ("Threadneedle")	Active UK Equity Portfolio	13.5%
MFS Investment Management ("MFS")	Active Global Equity Portfolio	13%
UBS Global Asset Management ("UBS")	Active Global Equity Portfolio	13%
UBS Global Asset Management ("UBS")	Active Bond Portfolio	16%
Schroder Investment Management ("Schroder")	Active Property (Multi-Manager) Portfolio	2.5%
Threadneedle Investments ("Threadneedle")	Active Property Portfolio	2.5%
Blackstone Alternative Asset Management ("Blackstone")	Active Fund of Hedge Funds Portfolio	5%

The investment managers' mandates include the following guidelines:

BGI (Multi-Asset Passive)

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

	Benchmark (%)	Index
UK Equities	9.5	FTSE All-Share Index
European (ex UK) Equities	35.5	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	9.5	iBoxx Sterling Non Gilts All Stocks years Index
UK Fixed Interest Gilts	9.5	FTSE A All Stocks Fixed Interest Gilt Index
UK Index Linked Gilts	24.0	FTSE A All Stocks Index Linked Gilt Index
Total	**100.0**	

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

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, excluding the proportion of the assets invested in property and fund of hedge funds, (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. Due to the nature of the Fund's investment in property and fund of hedge funds, the allocations to Schroder, Threadneedle and Blackstone are monitored separately.

SSGA and Threadneedle

The details of the UK equity mandates are:

	Benchmark (%)	**Allowable Range (%)**	
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:

		Allowable Range (%)	**Index**
European (inc UK) Equities	30.56	+/- 10.0	FTSE Europe Developed (inc UK) Index
North American Equities	30.56	+/- 10.0	FTSE AW Developed North America Index
Pacific Basin (inc Japan) Equities	30.55	+/- 10.0	FTSE Asia Pacific Developed Pacific (inc 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:

		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.

UBS (Bonds)

The details of the bond mandate are:

	Benchmark (%)	Allowable Range (%)	Index
UK Corporate Bonds	50.0	+/- 20.0	iBoxx Sterling Non-Gilts All Stocks Index
UK Fixed Interest Gilts	50.0	+/- 20.0	FTSE A All Stocks Fixed Interest Gilt Index
Cash	0.0	+/- 15.0	
Total	**100.0**		

The out-performance target for the bond mandate is 1.0% per annum (gross of fees) over rolling three-year periods above the return of the indices weighted by the benchmark allocation.

Schroder (Property – Multi-Manager)

The details of the multi-manager property mandate are:

	Benchmark (%)	Index
Property Multi-Manager	100.0	HSBC/AREF Pooled Funds Indices – Balanced Funds Weighted Average
Total	**100.0**	

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

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

Threadneedle (Property)

The details of the property mandate are:

	Benchmark (%)	Index
Property	100.0	HSBC/AREF All Balanced Funds Index
Total	**100.0**	

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

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

Blackstone (Fund of Hedge Funds)

The details of the fund of hedge funds mandate are:

	Benchmark (%)	Index
Fund of hedge funds	100.0	UK LIBID 7 Day Notice
Total	**100.0**	

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

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). All investment managers are permitted to utilise derivatives in the efficient management of portfolios.

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

4.4 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 Mellon Analytical Solutions (formerly 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 at least once a year to review their actions together with the reasons for the background behind the investment performance. The investment managers also provide monthly and quarterly reports and give additional presentations to the Authority as appropriate.

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.

1960's Warwick Market Place

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).

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 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 that 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.	✓
They should draw up a forward-looking business plan.	✓
2. Clear objectives	
2a Trustees should set out an overall investment objective for the fund that:	✓ Targets are related to fund liabilities.
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	
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	

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.	✓ Asset allocation is 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	✓ Alternative investments including property have been fully considered and are now included in the Fund benchmark.
3c. Asset allocation should reflect the fund's own characteristics, not the average allocation of other funds	✓
4. Expert advice	
4a. Contracts for actuarial services and investment advice should be opened to separate competition.	✓ Currently provided by the same firm but 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	✓
The managers approach in attempting to achieve the objective	✓
Clear timescales of measurement and evaluation, such that the mandate will not be terminated before the expiry of the evaluation timescale for underperformance alone.	✓ ✓
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.	✓
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.	✓
5d. Trustees should not without good reason permit soft commissions to be paid in respect of their fund's transactions.	✓

6. Activism 6a. The mandate & trust deed should incorporate the principles of the US Dept of Labor Interpretive Bulletin on activism 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.	✓ Board approved the inclusion of activism at their meeting of 16/09/02. ✓ Corporate Governance strategy is currently being compiled.
7. Appropriate benchmarks Trustees should: 7a. explicitly 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 7b. if setting limits on divergence from an index, ensure they reflect the approximations involved in index construction and selection 7c. consider explicitly for each asset class invested, whether active or passive investment would be more appropriate given the efficiency, liquidity and level of transaction costs in the market concerned 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. 8b. They should also arrange for a formal assessment of the performance and decision-making delegated to advisers and managers.	✓ Detailed performance measurement undertaken by Mellon Analytical Solutions. ✓ ✓ For fund managers, no decisions delegated to advisers.

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	✓ SIP published
and the results of their monitoring of advisers and managers.	✘ 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 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.

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 addresses the issue of managing the need to fund those benefits over the long term whilst, at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

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

Pensions Officer, Simon Harry is a keen Rugby player and plays for Leamington. One Saturday in February 2007, in the thick of a tough season and facing a possible relegation battle, Leamington achieved a significant victory. They beat the team who were then placed second in the league, scoring 37 points to 15. This team victory gave Simon a sense of personal achievement because in his first league start for the club in the previous October, the same opponents beat them heavily. To turn things around so dramatically was a great success for the team and the sense of achievement it provided is what team sport is all about. Simon is pictured on the right.

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 outgo. 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 outperformance 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.

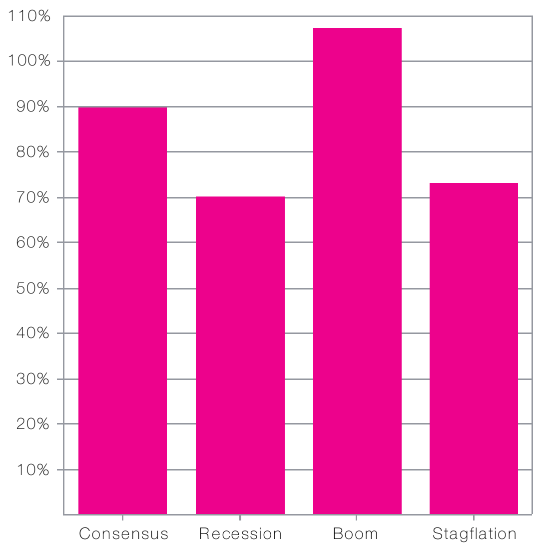
7 Identification of risks and counter-measures

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.

Ongoing Funding Level



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 favourable benefits package, potential new entrants 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 they 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.

Randolph Adolphus Turpin achieved the title of boxing Middleweight Champion of the World by defeating Sugar Ray Robinson in 1951. This was only one of many titles held by this amazing man.

Born locally in Royal Leamington Spa, a statue was erected to commemorate the world title and is visible from the filing room of Warwickshire County Council's Pensions Service. During the early fifties he was probably Britain's finest boxer for many years.

Statement by the consulting Actuary

Accounts for the year ended 31 March 2006

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 -post retirement	 7.1% per annum 5.6% per annum	 6.5% 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.

C R Hull

Fellow of the Institute of Actuaries

Mercer Human Resource Consulting Limited

Accounts for the year ended 31 March 2006

Statement by Consulting Actuary

Supplementary note on the 31 March 2006 Interim Review and changes to the LGPS

2006 Interim Review

An interim actuarial review of the Fund was carried out as at 31 March 2006 and details were set out in my report dated September 2006. The results in the interim review report were based on summary membership details and other accounting information which was readily available, and were therefore approximate in nature.

The interim review report set out updated funding results as at 31 March 2006 for the Fund as a whole. This showed a funding level of 88.5% which was an improvement from the funding level of 80.8% at the 2005 interim review and 81.5% at the 2004 valuation. The method and assumptions adopted for the interim review were consistent with those used for the 2004 valuation.

The Interim Review also reported on the potential outcomes for the full actuarial valuation of the Fund as at 31 March 2007 based on indicative results and the changes proposed for the LGPS from April 2008 (see below). Projecting the 2006 Interim Review forward, an estimate of the funding level as at 31 March 2007 has also been carried out, showing a slight improvement in the funding level to 89.1%. However, this improvement must be viewed with caution. The method and assumptions adopted for calculating this funding level are consistent with those used for the 2004 valuation, but these will be reviewed as part of the 2007 valuation and may be strengthened in some respects, e.g. for longevity improvements. The cost of future service benefits when assessed at the 2007 valuation will also be affected by any such review of assumptions, and also by the changes to the scheme from April 2008, which overall act to increase employer costs. The 2007 valuation will be based on full membership data and audited accounts and will be completed later this year.

New Look LGPS 2008

Regulations were laid on 4 April 2007 setting out the details of the new structure of the LGPS going forward from 1 April 2008. The key principles are that the LGPS will remain a final salary scheme whereby pension will be calculated using an accrual rate of 60ths for each year of service after 1 April 2008. There will be no separate retirement lump sum as at present, other than in relation to pre 2008 service. However, members will be able to give up part of their pension and receive a cash lump sum in exchange. The normal pension age will be 65 with no Rule of 85 retirement provisions except for certain protected categories of members.

There will also be changes to member contributions and to other provisions, notably in the areas of ill health and death benefits. The flexible or phased retirement provisions will also be extended.

Members' benefits for service to 31 March 2008 will remain on the existing structure of 80ths accrual and a lump sum based on 3/80ths, and will also continue to be payable under the Rule of 85 provisions (except for joiners on or after 1 October 2006 for whom the rule of 85 provisions do not apply).

C R Hull

Fellow of the Institute of Actuaries

Mercer Human Resource Consulting Limited

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 2007;
- manage the affairs of the Fund to secure economic, efficient use of resources and safeguard 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 2007 and its income and expenditure for the year then ended.

Dave Clarke

County Treasurer

Group Manager, Phil Triggs flew across the English Channel for the first time on 25 July 2006. Flying from RAF Halton to Le Touquet (the traditional French destination for first time cross Channel pilots), Phil landed at the small airport in the early afternoon, took in some French scenery and a light lunch and then flew back to RAF Halton Buckinghamshire, arriving back in the early evening.

Accounting report

The following statements comprise the accounts for the Warwickshire County Council Pension Fund. The accounts cover the financial year from 1 April 2006 to 31 March 2007.

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 as 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.

Pension fund accounts

Fund Account

2005/2006	Revenue account	2006/2007
£ millions		**£ millions**
	Income to the fund	
	Contributions receivable (funds due to us during the year):	
-27.4	from employers	-29.7
-12.6	from employees	-13.4
-11.8	individual transfers in from other schemes	-9.6
-51.8	**Income to the fund**	**-52.7**
	Spending by the fund	
	Benefits to be paid:	
27.4	Pension payments	29.5
5.2	Commutation of pensions and lump-sum retirement benefits	7.5
0.6	Lump sum death benefits	0.6
	Payments to and on behalf of leavers	
0.2	Refunds of contributions to people who leave the scheme	0.3
7.9	Individual transfers out of the scheme	5.7
1.1	**Administration expenses borne by the scheme**	1.3
42.4	**Spending by the fund**	**44.9**
-9.4	**Net additions from dealing with members**	**-7.8**
	Return on investments:	
-14.2	Dividends from equities	-19.6
-0.1	Income from pooled investment vehicles	-0.0
-0.8	Interest on cash deposits	-1.3
	Change in market value of investments:	
-52.4	Realised profit (-) or loss on sales	-76.8
-127.8	Unrealised profit (-) or loss on investments	45.3
	Taxation	
1.3	Tax we cannot claim back	1.7
2.4	Investment management expenses	2.9
-191.6	Net returns on investments	-47.8
-201.0	**Net increase in funding during the year**	**-55.6**

2005/2006 £ millions	Pension fund net assets	2006/2007 £ millions
201.0	Net increase in funding during the year	55.6
744.2	Add opening net assets of the scheme	945.2
945.2	Net assets at the end of the year	1,000.8

Net Asset Statement

As at 31 March 2006 £ millions	Net assets statement	As at 31 March 2007 £ millions
	Investments (market value)	
2.3	Fixed interest securities	3.1
588.4	Stocks and shares	515.6
4.3	Unit trusts	4.6
325.7	Managed funds	399.7
6.1	Cash and deposits	71.2
2.8	Other investments	4.9
929.6		**999.1**
	Current assets and liabilities	
15.4	Cash	1.1
1.2	Debtors	1.7
-1.0	Creditors	-1.1
15.6		**1.7**
945.2	**Net assets at the end of the year**	**1,000.8**

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 55 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. A specialist advisors provide advice and guidance to the board as well as the County Treasurer and his staff.

As at 31 March 2006	Membership	As at 31 March 2007
13,754	Number of members contributing to the fund	14,861
7,249	Number of pensioners paid by the fund	7,390
5,510	Number of ex-members whose pension rights are 'frozen' until they retire	6,175

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 2006 (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 held by the fund in pooled investment vehicles.

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

Pennies from Heaven

The County Council introduced the scheme in 2006 for employees to round down their net pay and for the pennies to be donated to local nominated charities. In 2007 the Pension Fund Investment Board gave its approval for retired members to be included in the Pennies from Heaven scheme.

The initiative is supporting two local hospices: the Mary Evans Hospice in North Warwickshire and the Myton Hospice in the South of the County.

Over 800 retired members have pledged their "pennies" to these charities, raising on average £400 per month. Together with the gift aid donation from the Government, we hope to raise in the region of £6,000 per year.

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
Schroder Investment Management	Fund of funds (UK Property)	Percentage of the fund
Threadneedle Investments	Fund of funds (UK Property)	Percentage of the fund
Blackstone Group International	Fund of funds (Hedge Funds)	Percentage of the fund
BlackRock Investment Management	Transition manager	Flat fee

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 concluded 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 2006/2007, we paid employers' contributions at a rate of 12.2%. The district and borough councils paid employers' contributions at rates ranging between 11.3% and 12.8%.

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

2005/2006 £ millions	%	Market value of external investments	2006/2007 £ millions	%
0.2	0.0	Henderson Global Investors	0.2	0.0
159.3	17.1	State Street Global Advisors (UK Equities)	137.1	13.7
156.7	16.9	Threadneedle Investments (UK Equities)	137.3	13.7
151.1	16.3	UBS Global Asset Management (Global Equities)	129.3	12.9
144.2	15.5	MFS Investment Management (Global Equities)	130.3	13.0
117.9	12.7	UBS Global Asset Management (Fixed Interest)	155.3	15.6
200.2	21.5	Barclays Global Investors (Index Tracker)	209.4	21.0
0.0	0.0	BlackRock Investment Management (Transition Manager)	24.6	2.5
0.0	0.0	Threadneedle Investments (Property)	24.5	2.5
0.0	0.0	Schroder Investment Management (Property)	2.1	0.2
0.0	0.0	Blackstone Group International (Hedge Funds)	49.0	4.9
929.6	**100.0**	**Total**	**999.1**	**100.0**

5 Investments

	Value 1 April 2006	Purchases at cost	Sales proceeds	Realised profit or loss (-)	Unrealised profit or loss (-)	Increase in debtors or (creditors)	Value 31 March 2007
	£ millions	£ millions	£ millions	£ millions	£ millions	£ millions	£ millions
Fixed interest securities	2.3	0.9	0.0	0.0	-0.1	0.0	3.1
Stocks and shares	588.4	502.8	-591.7	65.2	-49.3	0.0	515.6
Managed funds/Unit Trusts	330.0	87.2	-28.9	11.9	4.1	0.0	404.3
Cash and deposits	6.1	416.8	-351.3	-0.4	0.0	0.0	71.2
Other investments	2.8	0.0	0.0	0.0	0.0	2.1	4.9
Total	**929.6**	**1,007.7**	**-971.9**	**76.7**	**-45.3**	**2.1**	**999.1**

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.

2005/2006 £ millions		2006/2007 £ millions
	Fixed-interest securities	
0.0	UK public sector	0.0
2.3	UK other	0.0
0.0	Overseas public sector	0.0
0.0	Overseas other	3.1
2.3		**3.1**
	Stocks and shares	
322.4	UK quoted	276.5
266.0	Overseas quoted	239.1
588.4		**515.6**
	Managed funds	
4.3	Unit trusts - other	4.6
202.1	Managed funds	307.0
123.6	Unitised insurance policies	92.7
330.0		**404.3**
	Cash and deposits	
3.6	Sterling	64.7
2.5	Foreign currency	6.5
6.1		**71.2**
	Other investments	
6.2	Debtors	20.0
-3.4	Creditors	-15.1
2.8		**4.9**

6 Contributions and benefits

2005/2006 £ millions	Contributions we receive	2006/2007 £ millions
	Administering authority	
15.7	~ From employers	16.9
7.4	~ From employees	7.8
23.1		24.7
	Scheduled bodies	
10.2	~ From employers	11.2
4.6	~ From employees	4.9
14.8		16.1
	Admitted bodies	
1.4	~ From employers	1.5
0.6	~ From employees	0.7
2.0		2.2
	Non-scheduled bodies	
0.1	~ From employers	0.1
0.0	~ From employees	0.0
0.1		0.1
40.0	**Total**	**43.1**

The total contributions we received from employers was £29.7 million (£27.4 million in 2005/2006) and £13.4 million (£12.6 million in 2005/2006) from employees.

Employees' contributions during the year included payments of £0.2 million to buy added years (£0.2 million in 2005/2006).

Employers' contributions during the year included £1.7 million received from employers for compensation to the fund for those retiring early and being made redundant (£2.0 million in 2005/2006).

2005/2006 £ millions	Benefits to be paid	2006/2007 £ millions
	Administering authority	
17.9	~ Pension paid (including lump sums)	21.0
4.7	~ Transfers out	3.5
22.6		24.5
	Scheduled bodies	
13.9	~ Pension paid (including lump sums)	15.1
2.6	~ Transfers out	2.0
16.5		17.1
	Admitted bodies	
1.2	~ Pension paid (including lump sums)	1.4
0.6	~ Transfers out	0.2
1.8		1.6
	Non-scheduled bodies	
0.2	~ Pension paid (including lump sums)	0.2
0.0	~ Transfers out	0.0
0.2		0.2
41.1	**Total**	**43.4**

The total pensions paid out (including lump sums) was £37.7 million (£33.2 million in 2005/2006) and the total transfers out was £5.7 million (£7.9 million in 2005/2006).

7 Statement of investment principles

The board approved a Statement of Investment Principles on 18 May 2007. 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 2006/2007, 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 £1.1 million in Equitable Life, and £2.3 million in Standard Life on 31 March 2007. The pension fund accounts do not include additional voluntary contributions. During the year 2006/07 employees contributed £186,489 in additional voluntary contributions to Standard Life and £26,473 to Equitable Life.

11 Other disclosures

There were no material related party transactions during the year.

The fund started a programme of stock lending in August 2005 through its custodian banker ABN AMRO Mellon. At 31 March 2007, the fund had stock valued at £4.4 million (£61.3 million at 31 March 2006), which was lent out to other organisations. This generated a total income of £96,734 up to 31 March 2007.

The fund does not hold any property directly. The fund does however hold property in the form of pooled funds.

During the year 2006/07 the fund re-invested income from fixed interest securities within the pooled units of the fund.

The fund currently has no outstanding loans to external organisations.

During the year 2006/2007, the pension fund paid refunds of contributions to employees of £34,800 (after tax has been deducted). A refund of £25,000 was also paid to the State Earnings Related Pension Scheme (SERPS). During the year the fund also paid out £212,000 of tax expenditure, which related to prior years.

12 Investment performance

Investment performance	Our pension fund	Our benchmark	Local Authority Average
	%	%	%
Yearly return on investments for 2006/2007	5.3%	6.2%	6.7%

Overall in the financial year 2006/2007, the fund had a return of 5.3% compared with the fund's specific benchmark of 6.2%.

Auditors report

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

Communications

We communicate with our scheme members in various ways:

- Periodic newsletters are produced for scheme members, pensioners and preserved beneficiaries at their home address.
- All new employees are given a leaflet about the LGPS.
- Scheme booklets are distributed to all scheme members.
- An annual meeting is held for all pension fund employers.
- An annual report is produced.
- Pension Services staff present to 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.
- A benefit statement is issued to all current members and deferred beneficiaries.
- The pensions website is available allowing employers and members to access key pensions information and to stay up to date with changes to the scheme.
- 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:

- Limited internet access to allow members to view their membership records will be investigated.

Key Dates for 2007/2008

Pension Fund Investment Board Meetings:

- 18 May, Shire Hall
- 3 August, Shire Hall
- 26 November, Shire Hall
- February/March 2008 (date yet to be decided), Shire Hall

Pension Fund Investment Board Seminars:

- 17 May, MFS
- 2 August, Threadneedle
- 22 November, Barclays

Annual Employers meeting:

- 23 November, Shire Hall

Contact Details:

Treasury and Pensions Group
Warwickshire County Council
Resources Department
PO Box 3
Shire Hall
Warwick
CV34 4RH

Telephone Number:

01926 412234 Benefits Team
01926 412682 Membership Team
01926 738836 Communications
01926 412227 Investments

Fax Number: 01926 412962

E-mail: pensions@warwickshire.gov.uk

Website: www.warwickshire.gov.uk/pensions

Senior Pensions Officer, Sarah Kirby, gives her take on the work of the Pensions Group in 2006/07.

I joined the Treasury and Pensions Group in January 2005 as a Pensions Officer. I already had experience in Local Government Pension Scheme administration so felt quite confident about the job and hoped that I could bring some new ideas to the office.

When I came to Warwickshire, I had just gained an OCR Certificate in Local Government Pension Scheme administration, which was through a course run by the London Pensions Fund Authority. I was keen to develop this further so I got my manager's support to study for the IPP Diploma in Local Government Pensions Management. I started this in September 2005 and I have now finally qualified.

My previous experience meant that I was quickly promoted to Senior Pensions Officer in November 2005. This was the start of a major shake-up to the Pensions Group, which saw three very experienced members of staff retire, and one leave for career progression. In total, we lost over 90 years worth of experience within two years.

Due to several internal promotions, we have recruited five new Pensions Officers since January 2006 who are making excellent progress. It is always a very daunting experience taking your first steps into LGPS administration, as there always seems to be one crisis after another from the moment you start. The last couple of years have been no exception.

We went live with the Task Management module from 1 January 2006. This is a system of monitoring the workflow coming in and out of the office. There were some teething problems to start with but now it is used as an indispensable tool to managing the workload. There are also useful reports that can be produced, which can be used for benchmarking and monitoring performance. By using data of this nature, we will be able to assess ways in which to improve performance in the future.

And then there was the 2006 'hokey cokey' regulations, which were brought in and out, in and out. Well, you know the rest.

During all of this time there was also a new payroll system being introduced. The idea of the new payroll system was to incorporate the functions of payroll and human resources onto one system. This was gradually filtered in with the first department going live in July 2005 and all other departments having completed the transition by August 2006.

There were some disconcerting problems with the new system. At first, it appeared that it could not produce the relevant data required for pensions. This had an effect on staff morale as the workload built up and sometimes it seemed impossible to carry out the simplest of duties. However, after many consultations, we are now at the stage where reports are being produced for pensions, which are extremely detailed and constructive. After a difficult year of coping with the development, we are now reaping the rewards.

The challenge we are currently facing is the triennial valuation, which is our top priority. We are making good progress on this.

Document Imaging is the next big project for the team. After the valuation period, we are

going to go full steam ahead to get this in place. When this is introduced, we will be a 'paperless' office and it will really bring the Group into the 21st century.

Staff and customers will benefit from such a system. Incoming post will be scanned onto the computer, linked to the task management system and allocated to the relevant member of staff. Time will not be consumed with filing or searching for missing paperwork as it will be available at the touch of a button. This means when you contact the office, your queries will be dealt with in a prompt and efficient manner.

I have recently moved away from the day-to-day administration and have taken up a post in the Communications Team. I am always keen to utilise new technology and use innovative approaches to change and development. I think that the next couple of years will see a lot of the old traditions replaced with bright, new effective ways of working. My main focus will be on staff development and improving customer service. It is a very exciting outlook and I am happy and proud to be a part of it.

Glossary

An a to Z of investment terms

Italic type indicates a cross-reference within this glossary

A

Absolute return

Any investment strategy that aims to achieve a given level of long-term return, rather than a return relative to a specific ***benchmark, index*** or ***inflation*** measure.

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***.

Active risk

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

Actuarial valuation

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

Alpha

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

Alternative investments

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

Arbitrage

Price anomalies can arise between different markets for similar instruments. Arbitrage aims to exploit these differences. Modern arbitrage frequently involves ***derivatives***.

Asset allocation

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

Asset class

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

Asset/liability modelling

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

B

Balanced management

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

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.

Best execution

The duty of ***brokers*** to provide the lowest available price (when buying stock) or the highest available price (when selling stock) for their customers. Also applies to a fund manager's duty to get the best deal for his clients.

Beta

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

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, or other institution. A ***bond*** holder is a creditor of the issuer and receives interest at a rate stated at the time of issue.

Leamington FC (known as The Brakes) became the first team to complete the league-cup double in the 13-year history of the Midland Football Alliance. They capped an incredible season by winning the Championship by 17 points and added the League Cup in front of a 1,000 strong crowd at Walsall's Bescott Stadium. The Brakes also lifted the Mayor's Charity Cup by beating a Coventry City XI at their home ground at the New Windmill Stadium, Leamington.

The origin of the nickname "The Brakes" comes from the financial backing of Lockheed, a car part manufacturer, back in 1937.

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. Thus, the sector or country weightings are a by-product of the particular stocks chosen. Compare with ***top-down***.

Broker

A firm that provides investment ***research*** and ***execution*** services.

Bull market

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

C

CFA

Chartered Financial Analyst. The CFA Institute awards this industry qualification, which requires 3 years of industry experience and 3 exams.

Certificate

The document evidencing ownership of stocks, ***shares*** or ***unit trust***s confirming relevant registration details. See also ***Crest.***

Chinese walls

Controls over communications put in place in financial institutions that offer a wide range of services which could lead to conflicts of interest.

Churning

Excessive dealing in ***securities*** leading to abnormally high turnover of the portfolio. This is considered undesirable for pension funds and could lead to a loss of tax-exempt status.

Class action

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

Combined Code

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

Commission

Amounts paid to ***brokers*** for undertaking transactions.

Commission recapture

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

Commodity

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

Contract note

Written confirmation of the purchase or sale of an investment.

Core portfolio

A portfolio normally invested in a controlled manner to provide stable returns (possibly by ***indexation***). The core portfolio generally represents the bulk of a fund's assets. The remainder of the fund's assets (often called the satellite portfolio) can then be managed in a more aggressive way, in search of higher returns. This arrangement is called a core/satellite approach.

Corporate 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.

Currency overlay

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

Currency risk

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

Custody/Custodian

Custody is the administration of ***securities*** by a financial institution; known as the custodian. The custodian is the primary record keeper of a client's investments and collects income, processes tax reclaims and provides other services, according to client instructions. The custodian physically holds the securities for safe-keeping.

Customised benchmark

A ***benchmark*** specifically constructed by a client rather than using an industry standard.

D

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 company 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 impact of the default of any one issuer.

Deficit

In the context of pensions, a scheme is in deficit when the assets are assessed to be insufficient to meet the value of the ***liabilities***. Compare with ***surplus***.

Defined benefit scheme

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

Defined contribution scheme

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

Derivatives

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

Diversification

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

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.

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***.

E

Enhanced indexation

An investment strategy by which managers aim to add incremental performance to an ***index*** return. Techniques range from trading strategies, whereby managers seek to add performance in managing index constituent changes, to ***arbitrage*** between similar stocks and low risk ***active*** fund management based upon a combination of quantitative and ***fundamental analysis***.

Equity

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

External management

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

F

FRAG 21

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

FRS 17

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.

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.

G

Gilts

Gilt-edged securities; the familiar name given to sterling-denominated marketable ***bonds*** issued by the British government.

Government bonds

Bonds issued by governments or quasi-government institutions.

Growth manager

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

H

Hedge Funds

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

Hedging

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

High yield bond

A speculative ***bond*** with a ***credit rating*** below ***investment grade.***

I

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***.

Internal management

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

L

Liability driven investing (LDI)

Any investment strategy that has as its ***benchmark*** something that is in some way specific to the ***liabilities*** of the pension scheme. The aim is that the changes in value of the investments will be closely related to the changes in the value of the ***liabilities***.

London Stock Exchange (LSE)

The UK's main exchange for trading in ***shares.***

Long position

A long position means that the investor actually holds the security or derivative. Compare with ***short position***.

M

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.***

Mature scheme

A pension scheme with a high proportion of pensioners and deferred members, and a low proportion of current members.

Minimum Funding Requirement (MFR)

A requirement introduced in the Pensions Act 1995 in an attempt to ensure that pension schemes had sufficient assets to meet their liabilities. It was modified in 2002 and replaced with a new scheme-specific funding requirement under the Pensions Act 2004.

Myners Report

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

N

NAPF

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

O

OEIC

Open Ended Investment Company. A ***collective investment scheme*** structured as a limited company in which investors can buy and sell shares on an ongoing basis. Compare with ***unit trust***.

P

PPF

The Pension Protection Fund was launched on 6 April 2005. It is a statutory fund established under the provisions of the Pensions Act 2004. The PPF was established to pay (subject to various limits) the pension entitlements of members of eligible defined benefit pension schemes, should the sponsoring employer become insolvent, where there are insufficient assets in the pension scheme. The PPF is funded by a levy on all eligible schemes.

PRAG

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

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).

Private equity

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

Property unit trusts (PUTs)

Pooled investment vehicles that enable investors to hold a stake in a diversified portfolio of properties.

R

REIT

Real Estate Investment Trust. An efficient investment vehicle for property investment. Originated in the US but now used in other countries and in the process of being established in the UK.

S

SORP

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

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.

Segregated fund

Where the assets of a particular fund are managed independently of those of other funds under the fund manager's control. Compare with ***pooled fund***.

Short position

A short position exists when an investor has sold stock that they do not own in anticipation of being able to buy it later at a lower price. In order to do this, the investor first borrows, for a fee, the stock from another investor who does own it. "Going short" means to take a short position. Compare with ***long position.***

Soft commission

An arrangement whereby a ***broker*** offered 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 was directed to the ***broker***. The ***Myners Review*** identified such arrangements as a potential conflict of interest, largely because they are not sufficiently transparent. From June 2006, an ***FSA*** directive banned the use of soft commission arrangements.

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***.

Stakeholder pension

A type of personal pension with capped charges, originally designed for lower paid individuals to encourage them to save for their retirement. Anyone whether employed, self employed or unemployed is eligible for this scheme. All companies are required by law to provide at least a stakeholder scheme if they have five or more employees.

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 make***rs to cover ***short positions*** or take ***arbitrage*** opportunities.

Swap

A swap is a type of ***derivative*** where two parties agree to exchange assets or cashflows over an agreed period. Swaps can be based on ***equity*** indices, ***bonds*** of different ***maturities***, baskets of ***securities***, individual securities, or interest rates. As with other ***derivatives***, swaps can be used to gain a desired exposure without trading in the underlying assets. Swap-based strategies are offered by some investment banks as potential solutions for reducing pension schemes' ***risk*** relative to their ***liabilities***.

T

Top-down

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

Tracker fund

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

Tracking error

A measure of ***volatility*** of fund

Red Nose Day is the main way in which Comic Relief raises funds. The day culminates in a live event on BBC1, starting in the evening and going through into the early hours of the morning. The first "Red Nose Day" was on 5 February 1988 and raised £15 million. The TV show was hosted by Lenny Henry, Griff Rhys Jones and Jonathan Ross.

Red Nose Day 2007 has so far managed to raise over £63 Million for charity with money going to help people from both the UK and Africa. This has been a great achievement for Comic Relief. The Treasury and Pensions Group held a Red Clothes Day with each member of our team paying £1 to dress predominantly in red. Pensions Officer, Lisa Webb ensured a 24-hour fast and was sponsored and given encouragement by Group members and was featured in the local newspaper. In total, the Group raised over £150 for charity.

From left to right, Anthony Hall, Lisa Webb and Sarah Kirby are pictured outside of Shire Hall

performance against the ***benchmark***. Typically tracking error is used as an ***ex-post*** measure, where it is the standard deviation of fund ***returns*** relative to the ***benchmark***. This might be calculated, for example, using 3 years of monthly returns. It can also be used in the ***ex-ante*** sense, where it would be called forecast tracking error or ***active risk***.

Transaction costs

Those costs associated with trading on a portfolio, notably ***stamp duty*** and ***commissions***. The ***IMA Disclosure Code*** sets out how investment managers should report details of these costs to their clients.

Transition

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

U

Unit trust

A ***pooled fund*** established under trust in which investors can buy and sell units on an ongoing basis. Known as ***mutual funds*** in the US and some other countries. Compare with ***OEIC***.

V

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.***

Volatility

A measure of the frequency and magnitude of price changes of an asset.

Voting rights

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

Golfing Success

The theme for this year's Pension Fund report is success. As any golfer knows, success raises a wide range of emotive achievements.

For me, as an amateur sportsman used to physical, competitive sports, golf is a parody. it is very much a game against yourself and nature, and not a physical contest against an adversary. I am sure that for the more accomplished golfer, there is that competitive edge, that will to better your partner, but for me, that competitive edge never enters my mind. To me the game is all about one of not embarrassing my partners more than necessary by holding up the ever increasing number of players waiting behind.

Golfv is not a passion; passion in sport is about living and breathing Manchester United, the exhilaration of victory and the emptiness of defeat.Golf It is more of an addiction in that you become addicted to the drug of self belief that this time it will be better, that this time you will par a hole, that this time you will actually complete eighteen holes in less than one hundred shots.

Success for me is to stand on the first tee, kitted out in my golfing finery, Wilson bladed club in hand, praying that this time the ball will avoid the trees, bunkers and the rough and land in that perfect spot on the fairway. Success is however short lived because having achieved the perfect tee shot, the problems start to multiply. Now the ball has to be hit off the ground and not from its lofty perch a couple of inches in the air. And which club to use?

For me there is an air of resignation about the choice of club. Whichever I decide to use will still send a sod of earth further than the ball. If you have watched the Chevy Chase film "Caddyshack", you will have witnessed my style of golf where the club captain's son hacks his way around the fairway, cursing after every failed swing in the quest to reach the green.

The green is an oasis, a shimmering distant illusion that a dying golfer is crawling towards. It is utopia, for on this hallowed turf there is no choice of club to make: it is just the putter. Success on the green as any golfer knows is to sink the ball in less than four attempts and, having walked confidently on to the green putter in hand, my confidence ebbs as the first short trickles on by. An image of the Marty Feldman sketch comes to mind, showing him pacing from one side of the hole to the other as continued attempts to hole his ball continue darkness falls. How comedy mirrors life.

The Americans have "three shots and you're out" and in golf we have ten shots and you pick up. This is the saviour of all rules and the sooner it is enacted the happier I am. I can now enjoy my walk, watching my fellow golfers as they continue the game in a proficient manner.

I have all the kit so I do look the part. The shoes are highly

polished, the bag and trolley are shining, the golfing sweater is the smartest and there are so many balls in the bag that I may well be a salesman for Titelist. The clubs are well weathered and passed down from a bygone age so, in theory, there is no reason as to why I should find this game so difficult.

There is always plenty of advice to help you to improve. "Improve your stance", "straighten your back", "don't bend your knees so much", "slow your swing down", "don't try and hit the ball" (what's that all about!!). "It's your clubs, you need to change your clubs" (all freebies gratefully accepted), the advice is endless and confusing. I have complete empathy with the golfer standing at the tee with a bemused look on his face trying to interpret the numerous bits of advice from friends. Never make the mistake of buying a golfing tips book. I suppose we should all go and see the pro but, to be honest, can he cure an old dog of bad habits?

So why do it when clearly I don't enjoy it? Well, strangely enough, I do. It is relaxing and you can shut off from the trauma of the new pension scheme. It is good exercise involving a long healthy walk with plenty of cardio exercise. At times, I am at one with nature (trying to find yet another lost ball in the undergrowth) and, above all else, there is the will to succeed, to achieve that par and to get round in ninety-nine.

Smith Street, Warwick 1962

Achievement

A is for Aim to be the best

C is for Compete against the rest

H is for Humour and not for tears

I is for initiative in using new ideas

E is for Evolution being the choice

V is for opinion in a loud Voice

E is for Everyone standing tall

M is for Make this work, one and all

E is for Effort, sweat, toil and tears

N is for Never give in to your fears

T is for Teamwork with all for one, one for all

By Karen Aston