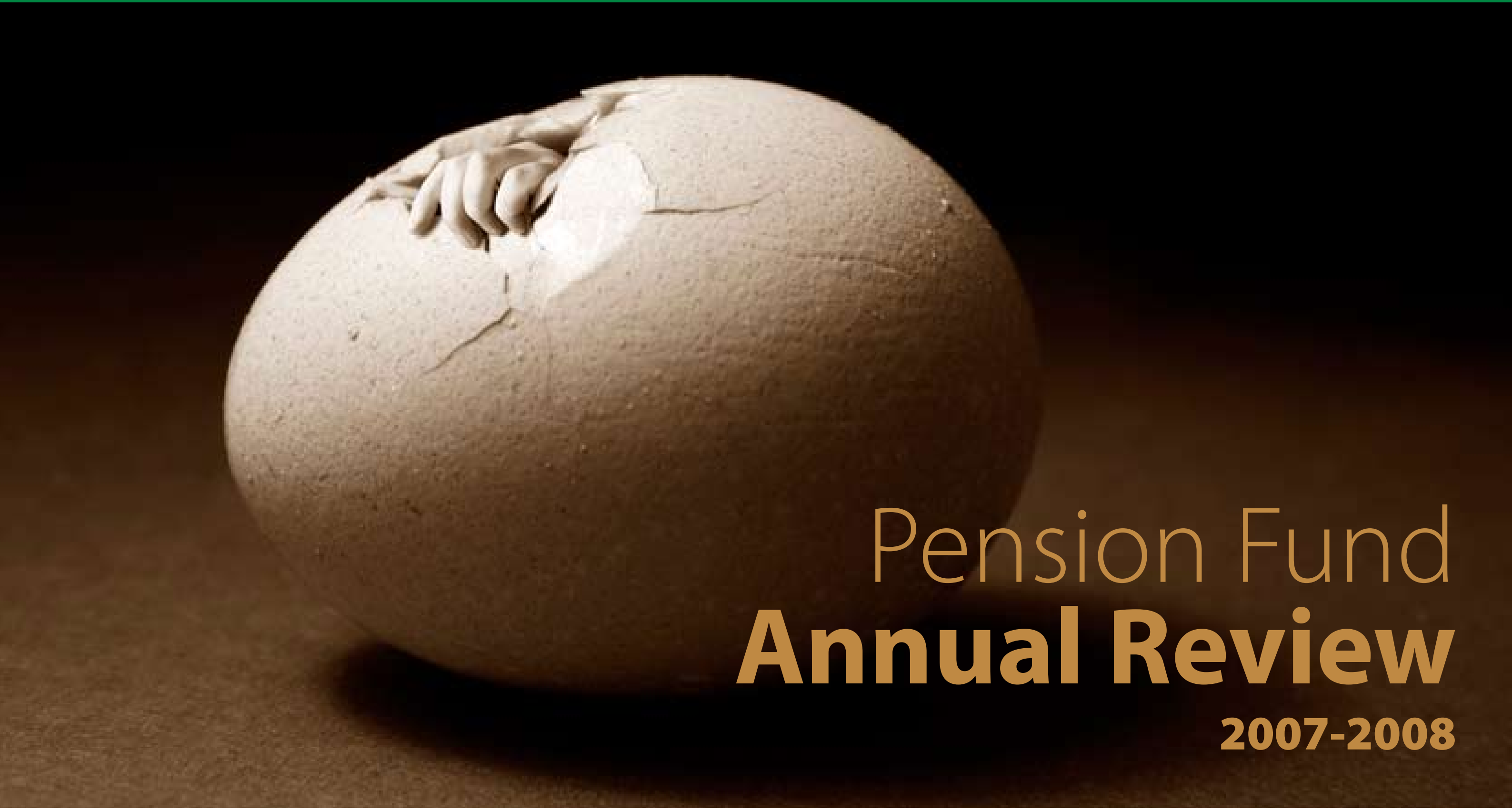
Warwickshire County Council



Pension Fund
Annual Review
2007-2008

WARWICKSHIRE pension fund

Warwickshire County Council

Working for Warwickshire

Invention or Innovation?

An important distinction is normally made between invention and innovation. Invention is the first occurrence of an idea for a new product or process, while innovation is the first attempt to carry it out into practice. An idea, change or improvement is only an innovation when it is successfully put to use. Innovation occurs when someone uses an invention or an idea to change how the world works, how people organise themselves, or how they conduct their lives.

Wheel detail from the Model T Ford

Contents

The Wright brothers, Orville (1871– 1948) and Wilbur (1867 – 1912), were two Americans who are generally credited with inventing and building the world's first successful airplane and making the first controlled, powered and sustained heavier-than-air human flight on 17 December 1903. In the two years afterward, the brothers developed their flying machine into the first practical fixed-wing aircraft. Although not the first to build and fly experimental aircraft, the Wright brothers were the first to invent aircraft controls that made fixed wing flight possible. The brothers' fundamental breakthrough was their invention of "three axis-control", which enabled the pilot to steer the aircraft effectively and to maintain its equilibrium. This method became standard and remains standard on fixed wing aircraft of all kinds. Their US patent 821393 claims the invention of a system of aerodynamic control that manipulates a flying machine's surfaces. They gained the mechanical skills essential for their success by working for years in their shop with printing presses, bicycles, motors, and other machinery. Their work with bicycles in particular influenced their belief that an unstable vehicle like a flying machine could be controlled and balanced. Their bicycle shop employee, Charlie Taylor, became an important part of the team, building their first aircraft engine in close collaboration with the brothers.

Chairman's Statement

I am very pleased to be making my third annual report as Chairman to the Pension Board, this time for the financial year 2007/2008 which ushered in unexpectedly severe global financial conditions. This has meant a very challenging period for investment and has resulted in a very busy period of activity for your Investment Board. Our annual meeting on 23 November 2007 was again well attended and provided our employer organisations and other stakeholders an opportunity to learn and pose questions about the health of the Fund.

You will be pleased to know that during this period when markets were very volatile the value of your fund was maintained at or near to the £1bn level.

Our triennial actuarial valuation of the Pension Fund took place as at 31 March 2007. The overall funding level was assessed at a healthy 86% and this position compares well with other LGPS funds. Indeed, the fund would have been over 90% funded but for the gradually increasing longevity of members. Importantly, the present schedule of slowly increasing employer contribution rates designed to reach the 100% funding target can continue until at least the next valuation.

As in previous years, we continue to review our governance policy and investment principles in the quest to become fully Myners compliant. In particular, we have now become active an member of the Local Authority Pension Fund Forum (LAPFF). This is an association of almost 50 local authority pension funds, aiming to improve how companies are run. This means safeguarding longer term shareholder value by encouraging companies to comply with good practice on corporate governance and socially responsible investment on such issues as the environment and overseas employment standards.

This report is continuing the idea of having a theme and this year's topic is "Innovation". I know this is an ever present driver for our staff and Investment Board. New ways of working is an embedded activity necessitated in realising IT improvements and gaining administrative efficiencies.

May I thank Investment 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 third year in succession we reached the final stages of the Local Government Chronicle Pension Fund of the Year Award. Perhaps next year's innovations will just do the trick!

Chris Davis
Chairman of the Pension Fund Board

Johannes Gutenberg's work on his printing press began in approximately 1436. Having previously worked as a professional goldsmith, Gutenberg made skilful use of the knowledge of metals he had learned as a craftsman. He was the first to make type from an alloy of lead, tin, and antimony, essential for producing the durable type that produced high-quality printed books. Gutenberg is also credited with the introduction of an oil-based ink which was more durable than the previously used water-based inks. As printing material he used both vellum and paper, the latter having been introduced in Europe a few centuries earlier from China.

Life Magazine called the printing press the greatest invention in the last 1,000 years.

Lead printing

Introduction

The word innovation is derived from the Latin word Novare. It means to "introduce changes, new things". It is quite fitting that the word innovation was brought to us by the Romans who were certainly the innovators of their time. Many of their changes and new things still survive today. I am reminded of the 1979 Monty Python film, The Life of Brian, in which the question was asked "What have the Romans ever done for us?".

The suggestions given in response were:

- sanitation
- education
- public order
- roads
- public health
- medicine
- wine
- irrigation
- fresh water system
- peace

2007/08 was certainly a year of change in the world of pensions. During the year we received the triennial actuarial valuation of the Fund which showed that the level of assets held to cover future liabilities (known as the funding level) had increased from 82% to 86%. This would have been nearer to 90% but for the impact of people generally living longer and drawing a pension for additional years.

The investment world continues to be a place of uncertainty and difficult trading. July 2007 saw the start of the credit crunch where banks stopped lending to each other. Northern Rock was taken into public ownership, house prices started to fall and oil prices shot up.

Against this backdrop, the Pension Fund had a difficult time with the value of the Fund falling back to £983.3m at the end of the year from the £1bn value at the start of the year. While I get extremely concerned about any fall in the value of the Fund, this relatively modest fall during such a difficult trading year was a lot better than it could have been.

Rather than being innovative and introducing a lot of change during 2007/08, it was a year to hold one's nerve, monitor the situation and ride out the investment storm. Hedge funds and property were introduced at the start of the year and help the process of diversification and reduction of portfolio risk.

I would like to say that the troubled times are now behind us. However, the start of 2008/09 suggests that we are in for another difficult year. The saying, "there is light at the end of the tunnel but it is the headlights of the train" feels a reasonable forecast as I look ahead.

Times of innovation and change are essential to meet new challenges and lay down a lasting legacy for the future.

Dave Clarke
Strategic Director of Resources

Abraham Darby (1678 to 1717) played an important role in the Industrial Revolution. He developed a method of producing high-grade iron in a blast furnace fuelled by coke rather than charcoal. This was a major step forward in the production of iron as a raw material for the Industrial Revolution. The use of the blast furnace dramatically lowered the price of iron making, not only because coal was fairly common around the Midlands, but also because it allowed for much larger furnaces. Darby's method of smelting iron provided abundant supplies and resulted in the steam engines, bridges, and other inventions of the 19th century. Smelting coal with charcoal would not have supplied iron in sufficient quantities to meet the requirements of the Industrial Revolution.

Darby's new process made large constructions like the Iron bridge in Shropshire possible

Report from the Group Manager (Treasury and Pensions)

The financial year 2007/08 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 another 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 Innovation.

At the start of the year, the fund diversified into a fund of hedge funds and fund of property funds. The restructuring is an innovative first step 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 regard to the office administration, the Group's work on its systems and procedures continues apace with special attention paid to the new document imaging systems. This project is still ongoing with completion expected later in 2008. The Pension Fund website has now been up and running for three years and development in the future is envisaged.

Special attention was paid to the communications process in the run-up to the "New Look" scheme that took effect from 1 April 2008. Special presentations at employer and employee meetings were supplemented with a DVD sent to every active member to explain the new set-up. Newsletters were also sent to preserved and retired members. All standard booklets, information sheets and pro forma documentation are continuously reviewed and updated.

The Warwickshire Pension Fund held its second Annual Meeting on 23 November 2007 at Shire Hall. Representatives from the District Councils and the 56 scheduled and admitted bodies were invited to a morning of presentations from the fund's actuary, fund managers and staff. This annual meeting has proved to be an outstanding success and is regarded as a cornerstone in the Fund's efforts in innovative links with employer organisations.

The Fund

An actuarial review of the Fund was carried out as at 31 March 2007. The outcome was good for the fund with an improved 86% funding level and new contribution rates taking effect from 1 April 2008. The move to the target 100% level is slowly but surely advancing. The Fund itself achieved a return of x% compared with the Fund benchmark of x%, an out-performance of x%. By comparison, the average local authority fund performance in 2007/08 was x%

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. The Council is a short distance away from being fully Myners compliant with completion of this milestone due in 2008.

Highlights 2007/08

- Pension Fund restructured with ventures into alternative investments (hedge funds and property)
- Further progress made to full Myners compliance.
- Annual Meeting of the Pension Fund

The Gregorian calendar is the most widely used calendar in the world today. It was decreed by Pope Gregory XIII on 24 February 1582. The Gregorian calendar system dropped ten days to bring the calendar back into line with the seasons and, to keep it there, adopted the leap year rule. The Gregorian solar calendar counts days as the basic unit of time, grouping them into years of 365 or 366 days. The solar calendar repeats completely every 146,097 days, which fill 400 years, and which also happens to be 20,871 seven-day weeks. Of these 400 years, 303 have 365 days, and 97 (the leap years) have 366 days. This gives an average year length of exactly 365.2425 days, or 365 days, 5 hrs, 49 mins and 12 secs.

The modern calendar, based on the Gregoria model

- Document Imaging advancing to completion
- IT based systems further developed and implemented
- Website development continues
- Successful preparations for the New Look Scheme

Feedback

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

Phil Triggs
Group Manager (Treasury and Pensions)

Report from the Pension Services Manager

When we review the last twelve months of the Local Government Pension Scheme here in Warwickshire, "innovate" certainly is one of the words, possibly along with several others, that springs to mind.

The Department for Communities and Local Government has been very "innovative" in its design of the "New Look" pension scheme with the introduction of several new provisions which have encouraged an innovative approach to administrating the scheme both from the administrator and employers alike.

For example, the "New Look" scheme saw the introduction of banded contributions with members paying a rate of contribution depending on their full-time salary. This radical approach to members contributing to their pension provision enforced a major review of payroll systems throughout England and Wales by local authority employers to ensure that the correct rate is applied. Employers had to review their policies to decide when and if the rate of contribution should change if the member's salary altered during the year.

From the administrator's point of view, the above approach and the introduction of many other changes encouraged the review of how we communicate these changes to scheme members. This review led us to enhance our traditional newsletter approach with a DVD sent to each member explaining the "New Look" scheme and what it meant for the individual. This innovative approach has been further supplemented by an extremely popular series of presentations at employer organisations throughout the County. These have proved so popular that they will become a half-yearly fixture in our calendar.

Whilst the communication of the scheme is important, equally so is the administration of the scheme. Without the nuts and bolts of being able to calculate a scheme member's benefit entitlement, all of the communication mentioned above would have been meaningless. The Warwickshire County Council Pension Fund is one of the founding members of a consortium of administering authorities to introduce the Computerised Local Authorities Superannuation System (CLASS) back in the mid-1970s. Such an approach to the administration of the Local Government Pension Scheme is probably the most innovative and successful innovation to the public/private sector collaboration in recent years.

The CLASS AXISe system in its latest guise is provided by the consortium's partner, Heywood, who supports the administration system for 93 out of the 99 administering authorities in England and Wales. This unique partnership was instrumental in the system being updated for the most part in time for introduction of the "New Look" scheme from 1 April 2008 and it is true to say without this partnership many authorities would not have had a system in place.

The CLASS AXISe system is not merely just a system for calculating benefits or for providing information for actuarial valuations: it is now far more than that. The CLASS AXISe system now provides us with a fully integrated administration system providing the automatic production of letters, statements and workflow systems. Shortly, this will combine well with our planned introduction of a digital imaging system for all our correspondence and documentation. Our innovative approach to the development of our systems will see the introduction of greater access for members to their pension records and for employers to perform benefit calculations for their employees.

"Innovate" has certainly meant new methods and ideas here in the world of pensions administration.

Neil Buxton
Pension Services Manager

Participating Employers

The Treasurer of Warwickshire County Council on behalf of the County Council, the five district councils and 54 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 Designated Bodies

- Atherstone Town Council
- Beaudesert and Henley-in-Arden Joint Parish Council
- Bidford upon Avon Parish Council
- Coleshill Town Council
- King Edward VI 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-on-Avon College
- Stratford-on-Avon Town Council
- Warwickshire College
- Warwickshire Police Authority
- Warwickshire Probation Service
- Warwickshire Valuation Tribunal
- Wellesbourne Parish Council
- Whitnash Town Council

Current Admitted Bodies

- BRANCAB
- Carillion Highways Maintenance
- Duchy Catering
- 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 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
- Youth Clubs UK

Other bodies with pensioners but no pensionable employees

- 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
- Lapworth Parish Council
- Stretton-on-Dunsmore Parish Council
- Warwick Town Council

Pension Fund Investment Board

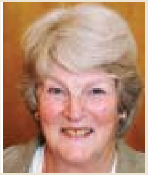
The Role of the Investment Board

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

Membership of the Pension Fund Investment Board in the financial year 2007/08

Cllr Chris Davis
(Liberal Democrat)
Chairman

Cllr John Appleton
(Conservative)



Cllr Mrs Helen McCarthy
(Conservative)

Cllr Bob Hicks
(Labour)

Cllr Brian Moss
(Labour)

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, Lisa Webb, Kelly Brown, Simon Harry, Christine Barker, Ian Morris, Sheila Taylor.

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

Police and Fire Schemes: Helen Cox, Clive Shearsby

Communications: Sarah Kirby, Linda Radley, Alaistair Wickens

Investment Advisors

Independent Advisor: Peter Jones

Actuary: Chris Hull, Mercer Human Resource Consulting

External Consultants: Mercer Investment Consulting

The Local Government Pension Scheme

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

The Warwickshire Pension Fund is administered by the Director of Resources on behalf of Warwickshire County Council, the five district councils and over fifty 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 2008, the total membership of the fund stood at 31,148 and the total value of the Fund's net assets amounted to £989.4 million. Of the 31,148 members 15,775 are active members currently contributing to the fund, 7,510 are members with deferred pension rights, and 7,863 are members receiving pensions.

The scheme is open to all local authority employees (except teachers, youth workers, police officers, fire-fighters and retained firefighters who have their own schemes) and for employees of other eligible bodies. All local government employees (except casual employees) are automatically entered into the scheme and must opt out if they do not want to join. Casual employees must make an election to join the scheme if they so wish. Temporary employees on a contract of less than three months duration are not eligible for membership.

Benefits of the Pension Fund

Members of the LGPS belong to a scheme, which provides high quality pension benefits based on final year whole time

Edward Jenner (1749 – 1823) was an English scientist, famous as the first doctor to introduce the smallpox vaccine. Noting that milkmaids did not generally get smallpox, Jenner theorised that exposure to the blisters which milkmaids received from cowpox protected the milkmaids from smallpox. In 1796, Jenner tested his theory by inoculating a patient with material from the cowpox blisters of the hand of a milkmaid who had caught cowpox from a cow called Blossom. This produced a fever but no great illness. Later, he exposed the patient to smallpox material and no disease followed. The medical establishment considered his findings for some time before accepting them. Eventually vaccination was acknowledged and in 1840 the British government provided vaccination free of charge.

Edward Jenner vaccinating

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.warwickshire.gov.uk/pensions.

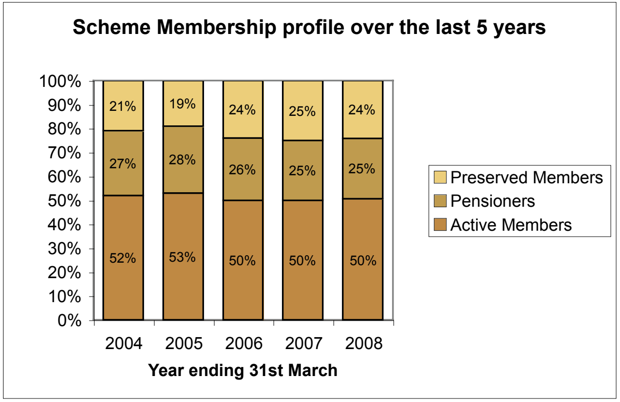
The core benefits of the scheme are:-

- A guaranteed pension based on final pay and the length of service in the scheme.
- The ability to provide a tax-free lump sum by commutation of pension. Members of the scheme prior to 1 April 2008 have a tax free lump of approximately three times the pension accrued based on service to 31 March 2008.
- Life assurance of three times the members yearly pay from the day they join the scheme.
- Pensions for spouses, civilly registered partners and, qualifying co-habiting partners. Eligible children are also entitled to a pension.
- An entitlement paid early if a member has to stop work permanently due to permanent ill health.
- Pensions increases in line with inflation (measured by the Retail Price Index).
- Pensions are payable from age 50 (age 55 from April 2010) with employers consent, including flexible retirement.

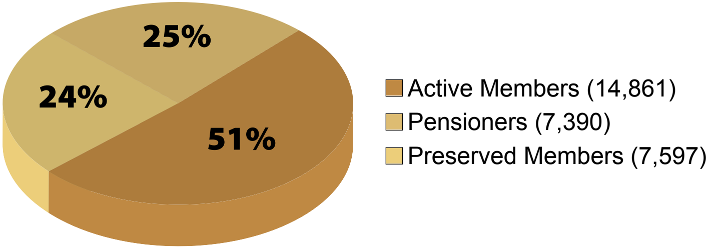
Cost of membership

Employees pay on average 6.3% of their pensionable pay and receive tax relief on their contributions.

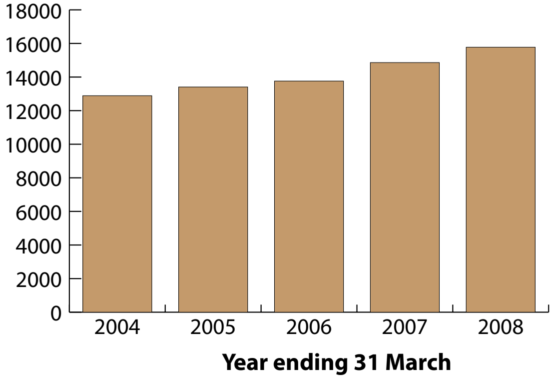
Employers also pay a contribution towards the pension costs. This amount is decided every three years following an independent actuarial evaluation by the Fund's Actuary, Mercer Human Resource Consulting. In 2007 / 2008 the contribution rates for employers in the Warwickshire Pension Fund range from 4.7% to 57.2% based on the last valuation as at 31 March 2004. Contribution rates have been revised from 1 April 2008 following the actuarial valuation as at 31 March 2007. Employer rates now range from 7% to 22.8%.



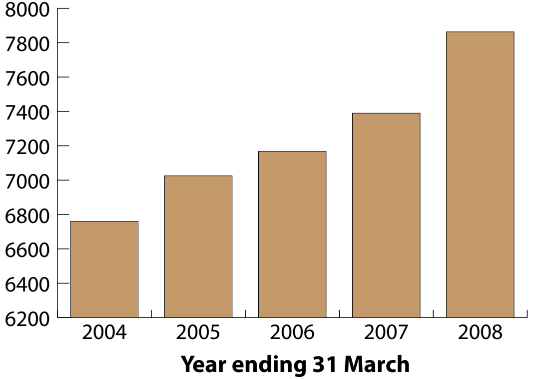
Membership Profile as at 31 March 2008



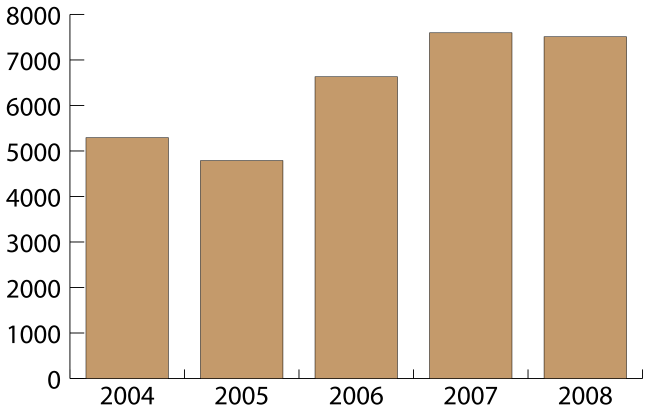
Active Membership in the last 5 years



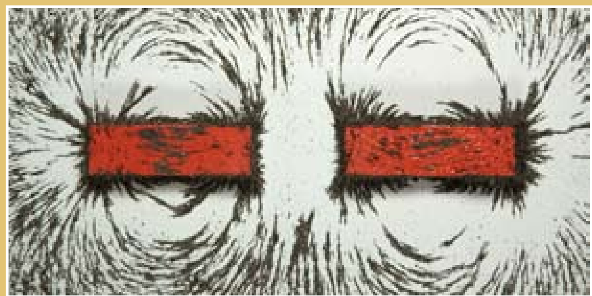
Number of pensioners in the last 5 years



Preserved Members over the last 5 years



Michael Faraday, FRS (1791 – 1867) was an English chemist and physicist. Faraday's breakthrough came when he wrapped two insulated coils of wire around an iron ring, and found that upon passing a current through one coil, a momentary current was induced in the other coil. He also found that if he moved a magnet through a loop of wire, an electric current flowed in the wire. His demonstrations established that a changing magnetic field produces an electric field. Faraday later used the principle to construct the electric dynamo, the ancestor of modern power generators. He stated, "Nothing is too wonderful to be true if it be consistent with the laws of nature, and in such things as these, experiment is the best test of such consistency."



Demonstration of a magnetic field

Report from the Membership Team

The Membership Team has had a very busy year in the ever changing world of the defined benefit pension scheme. Most important was the extensive preparation for the new look LGPS which came into force on 1 April 2008 and meant many modifications and changes to the ways in which we work. Parallel to this preparation was another valuable project to develop and enhance the membership team's tasks within the task management system to make it as user friendly and efficient as possible. We still have work to do on some tasks but the system now enables us to provide an even better level of service to our customers.

As a team we depend hugely on the relatively new HRMS payroll system. It is a key system to provide us with management information. We have continued our close relationship with the HRMS project team over the last year, developing reports to present and consolidate the bank of data needed to provide our best service. We are pleased with the improvements that have been made to these reports and will continue to improve them in future. Our next task in the coming months will be to implement a new notice of termination report which will deliver more precise data.

If we were ever in any doubt about the accuracy of the flow of information that feeds into HRMS reports, then the recent process of delivering annual benefit statements settled these doubts. We received far fewer queries relating to incorrect data and details, which proved to us that the HRMS report system has led to more reliable pensions data on our records.

As a team, we are hoping the next twelve months continue to bring improvements to our ways of working. We are currently in the feasibility stage of developing an interface between the HRMS payroll system and the AXISe pensions system that will facilitate automatic new starter updates between the two systems. We are also eagerly awaiting the challenges we will face as a team when the new document imaging system goes live.

On a personal level, I have spent the last nine months studying towards a qualification in professional team management, which I have just successfully completed. Other team members have been studying for the pension foundation qualification.

Lisa Webb
Senior Pensions Officer

Sir Timothy John Berners-Lee OM KBE FRS FREng FRSA (born 1955) is an English computer scientist. On 25 December 1990, he implemented the first successful communication via the Internet. Berners-Lee designed and built the first web browser, editor and server. The first website was put online on 6 August 1991. In 1994, Berners-Lee founded the World Wide Web Consortium (W3C) at the Massachusetts Institute of Technology. It comprised various companies that were willing to create standards and recommendations to improve the quality of the Web. Berners-Lee made his idea available freely, with no patent and no royalties due. The World Wide Web Consortium decided that their standards must be based on royalty-free technology, so they can be easily adopted by anyone.

World Wide Web Consortium

Investment report for the year ended 31 March 2008

Economic Background

The global economic backdrop deteriorated during 2007/08 amidst increased evidence that weakness in the US housing market was dragging down the wider economy and affecting growth in the rest of the world. In response, the US slashed interest rates from 5.25% to 2.25% and implemented a fiscal stimulus package. Inflationary pressures continued to mount. The price of oil rose well above $100 per barrel, while metal and agricultural commodity prices also greatly increased. The Governor of the Bank of England (BoE) was forced to write a formal letter to the Chancellor, explaining why consumer price inflation had exceeded the 3% permitted cap for the first time since the BoE was granted independence in 1997. These inflationary pressures led to two hikes in interest rates of one quarter of a percentage point each in the first half of the period. But increasing concerns about UK economic growth subsequently led the BoE to take back the increases in December 2007 and February 2008.

The twelve month period was one of two phases for equity markets as they pushed ahead in the first half, but succumbed to a significant increase in volatility and sharply reduced risk appetite in the second. Most leading western stock markets ended with negative returns in local currency terms. Declines were led by the financials sector, which was affected by the contagion of the sub-prime mortgage meltdown in the US. The UK market finished modestly lower, proving more resilient than Europe, the US and Japan. But when translated into sterling terms, the strength of the euro against the pound increased returns from European equities into modest gains for British investors.

By contrast, the US dollar's weakness exacerbated the negative performance from US equities for sterling investors. Emerging markets, benefiting from their higher levels of economic growth, were the strongest areas in local currency terms, with China climbing 53%, Latin America rising 33% due to the strength of Brazil, and Asia ex Japan gaining 17%. Global equity markets saw significant weakness in the first quarter of 2008, as investors became increasingly worried about the deteriorating health of global economies and the impact of this on corporate profits. Government bond yields fell further over the quarter in the light of slowing global economic growth, falling official interest rates and a general flight to quality by investors. The oil price has risen to record levels as a result of supply constraints and a declining US dollar. This will exacerbate economic weakness and has led to some fears about inflationary pressures.

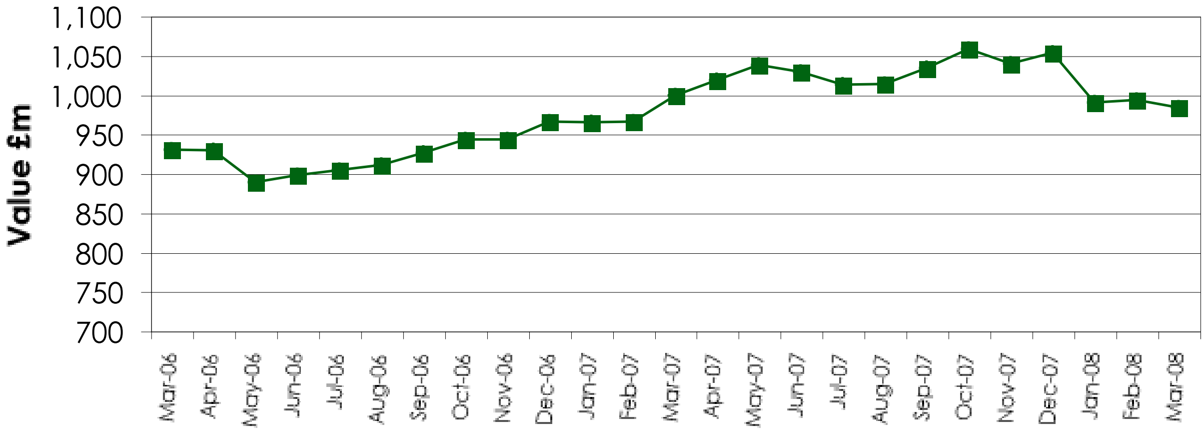
Investment Return Compared to the Local Authority Universe 2007/08

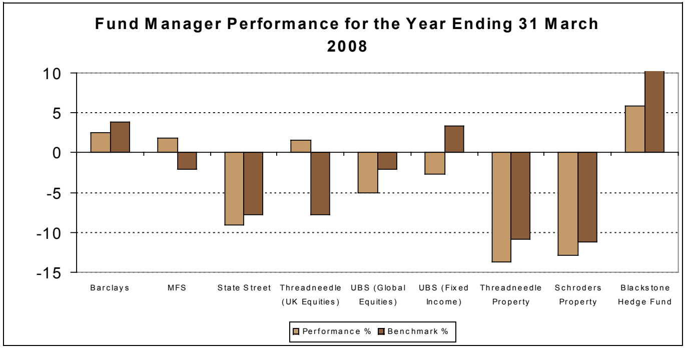
	1 Year Return	5 Year Return
Warwickshire	-1.6%	12.5%
Warwickshire's Benchmark	-1.2%	12.7%
Local Authority Universe	-2.7%	12.4%
Out/under performance	-0.4%	-0.2%

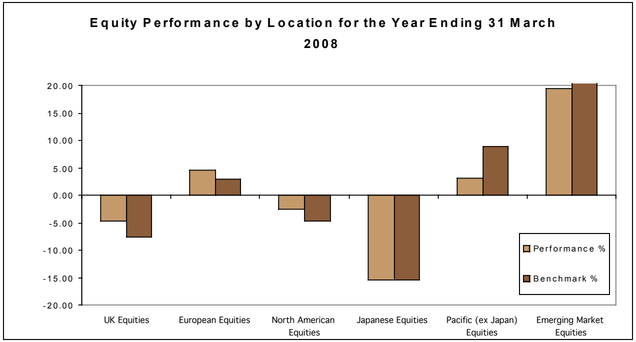
Top Ten Holdings by Market Value as at 31 March 2008

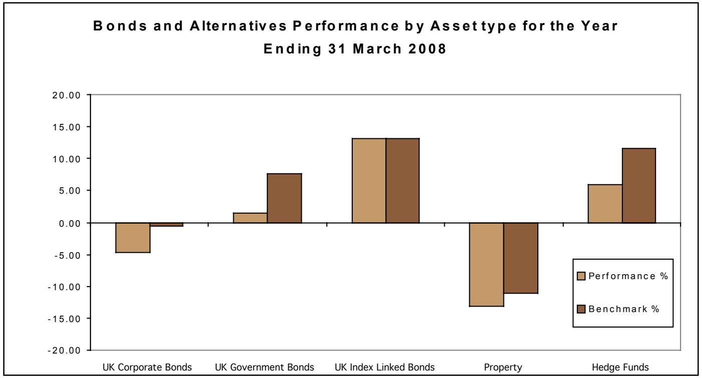
		£ millions
1	BP	19.5
2	SHELL	16.3
3	VODAFONE	15.4
4	HSBC	13.7
5	STANDARD CHARTERED	9.8
6	RIO TINTO	9.5
7	GLAXOSMITHKLINE	8.8
8	BG GROUP	8.5
9	TESCO	8.3
10	BAE SYSTEMS	8.1

Total Fund Value Since March 2006




Fund Manager Performance for the Year Ending 31 March 2008
10
5
0
-5
-10
-15
Barclays
MFS
State Street
Threadneedle (UK Equities)
UBS (Global Equities)
UBS (Fixed Income)
Threadneedle Property
Schroders Property
Blackstone Hedge Fund
Performance %
Benchmark %


Equity Performance by Location for the Year Ending 31 March 2008
20.00
15.00
10.00
5.00
0.00
-5.00
-10.00
-15.00
-20.00
UK Equities
European Equities
North American Equities
Japanese Equities
Pacific (ex Japan) Equities
Emerging Market Equities
Performance %
Benchmark %


Bonds and Alternatives Performance by Asset type for the Year Ending 31 March 2008
20.00
15.00
10.00
5.00
0.00
-5.00
-10.00
-15.00
-20.00
UK Corporate Bonds
UK Government Bonds
UK Index Linked Bonds
Property
Hedge Funds
Performance %
Benchmark %

Statement Of Investment Principles

1. Introduction

Warwickshire County Council (the "Authority") has drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998. The Authority has consulted with such persons as it considers appropriate including obtaining written advice from Mercer Investment Consulting and independent consultants in preparing this Statement.

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

Annex 1 shows how the Warwickshire Pension Fund currently complies with the Principles for Investment Decision Making in accordance with the CIPFA guidance published in April 2002 and in accordance with SI 1852 (2002).

Annex 2 sets out the role of the investment consultant.

2. Overall Responsibility

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

The Pension Fund Investment Board consists of five County Councillors who are advised by 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

3.1 Investment Objectives

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

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

(ii) Emphasise markets that over time are likely to give better returns 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.

3.2 Risk

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

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

(ii) The risk that the investment managers, in their day-to-day management of the assets, will not achieve the rate of investment return expected by the Authority. The Authority recognises that the use of active investment managers involves such a risk. To limit its exposure to the risk of active managers underperforming, the Authority invests approximately 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**	**26.0**	**10.00**	**16.00**	**100.00**

Alexander Graham Bell (1847 – 1922) was a scientist, inventor and innovator who is widely credited with the invention of the telephone. In 1875, Bell visited the famous scientist Joseph Henry, and asked Henry's advice on a prototype apparatus that Bell hoped would transmit the human voice by telegraph. Henry replied that Bell had "the germ of a great invention". When Bell said that he did not have the necessary knowledge to advance the idea, Henry replied, "Get it!" With the help of Thomas A. Watson, an experienced design engineer and mechanic, Bell experimented further with acoustic telegraphy. In 1876, Bell spoke the famous sentence into his machine, "Mr Watson, come here, I want to see you." Watson, listening in an adjoining room, heard the words clearly.

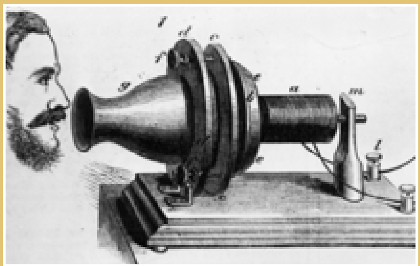


Illustration of Bell and his prototype telephone

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:

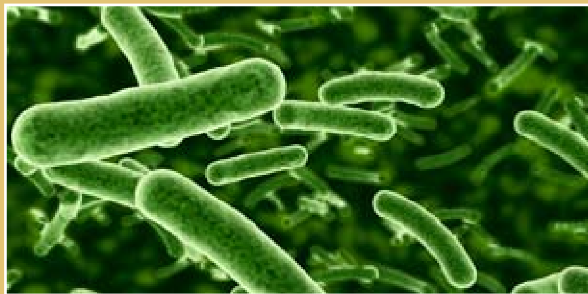
	Benchmark (%)	Index
UK Equities	9.5	FTSE All-Share Index
European (ex UK) Equities	35.5	FTSE AW Developed Europe (ex UK) Index
North American Equities	6.0 *	FTSE AW USA Index FTSE AW Canada Index
Japanese Equities	3.0	FTSE AW Japan Index
Pacific Basin (ex Japan) Equities	1.5	FTSE AW Developed Pacific (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.

The biologist, Sir Alexander Fleming (1881 – 1955) was a brilliant researcher but a careless lab technician. Returning from holiday and noticing that his culture dishes were contaminated with a fungus, he threw the dishes away. Needing to show a visitor some research, he retrieved the discarded dishes and noticed a zone around an invading fungus where the bacteria could not seem to grow. Fleming isolated an extract from the mould, correctly identified it as being from the Penicillium genus, and named the agent penicillin. "When I woke up just after dawn on September 28, 1928, I certainly didn't plan to revolutionise all medicine by discovering the world's first antibiotic, or bacteria killer," Fleming would write later. "But I guess that was exactly what I did."



Close-up of bacteria

SSGA and Threadneedle

The details of the UK equity mandates are:

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

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

UBS (Global Equity)

The details of the global equity mandate are:

	Benchmark (%)	Allowable Range (%)	Index
European (inc UK) Equities	30.56	+/- 10.0	FTSE 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:

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

Totals affected by rounding

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

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	**100.00**		

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	**100.00**	

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

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

Threadneedle (Property)

The details of the property mandate are:

	Benchmark (%)	Index
Property	100.0	HSBC/AREF All Balanced Funds Index
Total	**100.00**	

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

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

Blackstone (Fund of Hedge Funds)

The details of the fund of hedge funds mandate are:

	Benchmark (%)	Index
Fund of hedge funds	100.0	UK LIBID 7 Day Notice
Total	**100.00**	

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

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

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.

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.

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

Annex 1

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

Principle			Current Compliance
1.	**Effective decision making**		
1a.	Decisions should be taken only by persons or organisations with the skills, information and resources necessary to make them effectively. Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.	✓	Investment decisions delegated to managers. Ongoing training 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.	✓	

Principle			Current Compliance
2.	**Clear objectives**		
2a.	Trustees should set out an overall investment objective for the fund that: represents their best judgement of what is necessary to meet the funds liabilities given their understanding of the contributions likely to be received from employers and employees; and takes account of their attitude to risk, specifically their willingness to accept under performance due to market conditions.	✓ ✓	Targets are related to fund liabilities.
2b.	Objectives for the overall fund should not be expressed in terms which have no relationship to the fund's liabilities, such as performance relative to other pension funds, or to a market index.		
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.

Principle			Current Compliance
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.	✓	

Principle			Current Compliance
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.	✓	Board approved the inclusion of activism at their meeting of 16/09/02.
6b.	Trustees should also ensure that managers have an explicit strategy, elucidating the circumstances in which they will intervene in a company; the approach they will use in doing so; and measure the effectiveness of this strategy.	✓	Corporate Governance strategy is currently being compiled.

Principle		Current Compliance
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	✓	Detailed performance measurement undertaken by Mellon Analytical Solutions.
and make formal assessments of their own procedures and decisions as trustees.	✗	For self assessments.

Principle		Current Compliance
8b. They should also arrange for a formal assessment of the performance and decision-making delegated to advisers and managers.	✓	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.	✓	

Principle		Current Compliance
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.

Role of Investment Consultant

Annex 2

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.

Raymond Samuel Tomlinson (born 1941) is a programmer who implemented an e-mail system in 1971. It was the first system able to send mail between users on different hosts. Previously, mail could only be sent to others who used the same computer. To achieve this, he used the @ sign to separate the user from their machine, which has been used in e-mail addresses ever since. The first email sent by him is not preserved and had content he describes as insignificant, something like, "QWERTYUIOP". At first, his e-mail messaging system wasn't thought to be a big deal. When Tomlinson showed it to a colleague, he said, "Don't tell anyone. This isn't what we're supposed to be working on."

Email has become an integral part of business communication

Funding Strategy Statement (FSS)

This Statement has been prepared by Warwickshire County Council (the Administering Authority) to set out the funding strategy for the Warwickshire County Council Pension Fund ("the Fund"), in accordance with Regulation 76A of the Local Government Pension Scheme Regulations 1997 (as amended) and the guidance papers issued in March 2004 and November 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

1. Introduction

The Local Government Pension Scheme (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 Fund the administering authority will prepare and publish their funding strategy;

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

- the guidance issued by CIPFA for this purpose; and
- the Statement of Investment Principles (SIP) for the Fund published under Regulation 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 Statement of Investment Principles.

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

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

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, including a rates and adjustments certificate. Contributions to the Fund should be set so as to "secure its solvency", whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

2. Purpose of the FSS in policy terms

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

The purpose of this Funding Strategy Statement is:

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

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

3. Aims and purpose of the Fund

The aims of the Fund are to:

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

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses, as defined in the Local Government Pension Scheme 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

The Administering Authority should:

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

- monitor all aspects of the Fund's performance and funding and amend the FSS/SIP as and when appropriate.

The Individual Employer should:

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

The Fund actuary should:

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

5. Solvency Issues and Target Funding Levels

The funding objective

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

Determination of the funding target and recovery period

The principal method and assumptions to be used in the calculation of the funding target are set out in the Appendix. Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and

- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

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

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

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

- A maximum deficit recovery period of 22 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 (see Deficit Recovery Plan below).

- Where increases in employer contribution rates are required from 1 April 2008, following completion of the 2007 actuarial valuation, the increase from the rates of contribution payable in the year 2007/08 may be implemented in steps, over a maximum period of 6 years, unless the Administering Authority does not consider such phasing to be appropriate in any particular case..

- On the cessation of an employer's participation in the Fund, the actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer. Details of the approach to be adopted for such an assessment on termination are set out in the separate Admission Bodies Policy document *(the subject of a future report to the Investment Board)*.

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

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

Deficit recovery plan

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

Additional contributions will be expressed as a level percentage of pensionable payroll.

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

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

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

In addition to any contributions required to rectify a shortfall of assets below the funding target contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the "normal cost"). The method and assumptions for assessing these contributions are also set out in the Appendix.

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

The results of the 2007 valuation show the liabilities to be 86% covered by the current assets, with the funding deficit of 14% being covered by future deficit contributions due from employers.

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

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

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

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to make any allowance for out-performance of the Fund investments. On this basis of assessment, the assessed value of the Fund's liabilities at the 2007 valuation would have been significantly higher, by approximately 32% and the declared funding level would be correspondingly reduced to approximately 65%.

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

The 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 three years, after each actuarial valuation. The Authority believes that the following investment strategy is currently appropriate for controlling the risks paragraph 7, given the liability profile of the Fund and its financial position.

The funding strategy adopted for the 2007 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.

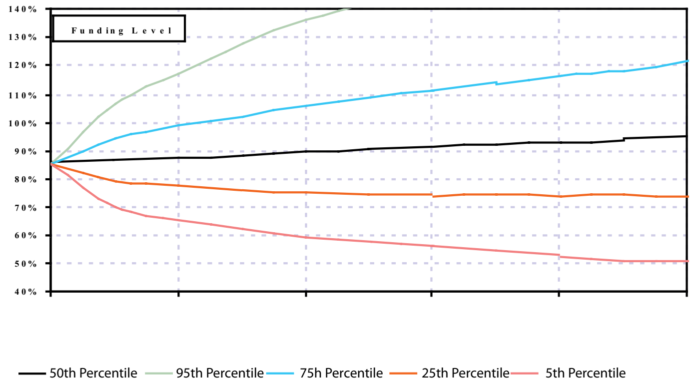
Asset Class	Index -Tracker	UK Equity Specialists	Global Equity Specialists	Alternative Assets	Fixed Income	Total
UK Equities	2.00	27.00	3.50			32.50
Overseas Equities	10.00		22.50			32.50
European	7.50		5.50			13.00
North American	1.25		8.50			9.75
Far East/Emerging Markets	1.25		8.50			9.75
Property				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**	**26.0**	**10.00**	**16.00**	**100.00**

7. Identification of risks and counter-measures

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

The Administering Authority has been advised by the actuary that the greatest risk to the Fund's funding is the investment risk inherent in the predominantly equity-based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that required on the basis of the 2007 valuation assumptions.

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



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

Financial

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

Demographic

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

Regulatory

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

Governance

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

8. Monitoring and Review

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

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

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

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

Appendix

Actuarial Valuation as at 31 March 2007

Method and assumptions used in calculating the Funding target

1. Method

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

2. Key Valuation Assumptions

2.1 Investment return (discount rate)

A yield based on market returns on UK Government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the Scheme's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") of 2.5% p.a. for the period pre-retirement and 1% p.a. post-retirement.

The asset out-performance assumptions represent the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the Fund relative to the yields available on long dated gilt stocks as at the valuation date. The allowance for this out-performance is based on the liability profile of the Scheme, with a higher assumption in respect of the "pre-retirement" (i.e. active and deferred pensioner) liabilities than for the "post-retirement" (i.e. pensioner) liabilities. This approach thereby allows for a gradual shift in the overall equity/bond weighting of the Fund as the liability profile of the membership matures over time.

2.2 Individual Employers

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

2.3 Inflation (Retail Prices Index)

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

2.4 Salary increases

The assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.75% p.a. over the inflation assumption as described above. This includes allowance for promotional increases.

2.5 Pension increases

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

2.6 Mortality

The mortality assumptions will be based on the most up-to-date information published by the Continuous Mortality Investigation Bureau, making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are PA92 Year of Birth tables with medium cohort improvements, with an age rating reflecting Scheme specific experience of +1 years. Members who retire on the grounds of ill heath are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 5 years older.

Method and assumptions used in calculating the cost of future accrual

The cost of future accrual (normal cost) will be calculated using the same actuarial method and assumptions as used to calculate the funding target except that the financial assumptions adopted will be as described below.
The financial assumptions for assessing the future service contribution rate should take account of the following points:

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

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on

an overall assumed real return (i.e. return in excess of price inflation) of 3.75% per annum, with a long term average assumption for price inflation of 2.75% per annum. These two assumptions give rise to an overall discount rate of 6.5% p.a. Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the "Common Rate" of contributions. In market conditions at the effective date of the 2007 valuation this approach gives rise to a somewhat more optimistic stance in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of the Funding target.
At each valuation the cost of the benefits accrued since the previous valuation will become a past service liability. At that time any mismatch against gilt yields and the asset out-performance assumptions used for the funding target is fully taken into account in assessing the funding position.

Assumptions used in calculating contributions payable under the recovery plan

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

Summary of key whole Fund assumptions used for calculating funding target and cost of future accrual (the "normal cost") for the 2007 actuarial valuation

Long-term gilt yields	
Fixed interest	4.4% p.a.
Index linked	1.3% p.a.
Implied RPI price inflation	3.1% p.a.
Past service Funding Target financial assumptions	
Investment return pre-retirement	6.9% p.a. (4.4% gilt discount rate + 2.5% asset out-performance)
Investment return post-retirement	5.4% p.a. (4.4% gilt discount rate + 1.0% asset out performance)
Salary increases	4.85% p.a.
Pension increases	3.1% p.a.
Future service accrual financial assumptions	
Investment return	6.5% p.a.
RPI price inflation	2.75% p.a.
Salary increases	4.5% p.a.
Pension increases	2.75% p.a.
Demographic assumptions	
Non-retired members' mortality	PA92 MC YoB tables + 1 year (+6 years for retirements in ill health)
Retired members' mortality	PA92 MC YoB tables + 1 year (+6 years for retirements in ill health)

Statement by the Fund Actuary

An actuarial valuation of the Warwickshire County Council Pension Fund was carried out as at 31 March 2007 to determine the contribution rates with effect from 1 April 2008 to 31 March 2011. The results of the valuation are contained in our report dated 31 March 2008. The valuation allowed for the new look LGPS benefit structure which was introduced from 1 April 2008.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets represented 86% of the Funding Target at the valuation date. The valuation also showed that a common rate of contribution of 12.6% 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.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit would be eliminated by an average additional contribution rate of 3.5% of pensionable pay for 22 years. This would imply an average employer contribution rate of 16.1% of pensionable pay in total.

In practice, each individual employer's position is assessed separately and the contributions required are set out in our report dated 31 March 2008. 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 employers.

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 used for assessing the funding target and the common contribution rate were as follows:

	For past service liabilities	For future service liabilities
Rate of return on investments:		
- pre retirement	6.9% per annum	6.5% per annum
- post retirement	5.4% per annum	6.5% per annum
Rate of pay increases:	4.85% per annum	4.5% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension):	3.1% per annum	2.75% per annum

The assets were assessed at market value. Full details of the assumptions adopted for the valuation are set out in the actuarial valuation report.

The valuation results as summarised above are based on the financial position and market levels at the valuation date, 31 March 2007. As such the results do not make allowance for the significant market falls which have occurred during the financial year to 31 March 2008 and the following months.

The next triennial actuarial valuation of the Fund is due as at 31 March 2010. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2011.

C R Hull
Fellow of the Institute of Actuaries
Mercer Limited
August 2008

Statement of Accounts 2007/2008

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 2008;
- 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 2008 and its income and expenditure for the year then ended.

Dave Clarke
County Treasurer

Accounting report

The following statements comprise the accounts for the Warwickshire County Council Pension Fund. The accounts cover the financial year from 1 April 2007 to 31 March 2008.

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.

Fund Account

2006/2007 £ millions	Revenue account	2007/2008 £ millions
	Income to the fund	
	Contributions receivable (funds due to us during the year):	
-29.7	From employers	-33.0
-13.4	From employees	-14.3
-9.6	Individual transfers in from other schemes	-8.1
-52.6	**Income to the fund**	
	Spending by the fund	
	Benefits to be paid:	
29.5	Pension payments	31.5
7.5	Commutation of pensions and lump-sum retirement benefits	10.1
0.6	Lump sum death benefits	0.5
	Payments to and on behalf of leavers	
0.3	Refunds of contributions to people who leave the scheme	0.1
5.7	Individual transfers out of the scheme	4.9
1.3	**Administration expenses borne by the scheme**	1.1

Fund Account

2006/2007 £ millions	Revenue account	2007/2008 £ millions
44.9	**Spending by the fund**	**48.2**
-7.7	**Net additions from dealing with members**	**-7.2**
	Return on investments:	
-19.6	Dividends from equities	-15.5
0.0	Income from pooled investment vehicles	-0.6
-1.4	Interest on cash deposits	-0.8
	Change in market value of investments:	
-76.7	Realised profit (-) or loss on sales	-48.2
45.3	Unrealised profit (-) or loss on investments	78.8
	Taxation	
1.7	Tax we cannot claim back	1.3
2.9	**Investment management expenses**	**3.6**
-47.8	**Net return on investments**	**18.6**
-55.5	**Net increase (-) / Decrease in fund during the year**	**11.4**

2006/2007 £ millions	Pension fund net assets	2007/2008 £ millions
55.6	Net increase / decrease (-) in fund during the year	-11.4
945.2	Add opening net assets of the scheme	1000.8
1000.8	**Net assets at the end of the year**	**989.4**

Net Asset Statement

As at 31 March 2007 £ millions	Net assets statement	As at 31 March 2008 £ millions
	Investment assets	
3.1	Fixed interest securities	0.0
515.6	Stocks and shares	495.8
4.6	Unit trusts	0.0
399.7	Managed funds	470.1
71.2	Cash and deposits	11.1
4.9	Other investments	6.3
999.1		**983.3**

As at 31 March 2007 £ millions	Net assets statement	As at 31 March 2008 £ millions
	Current assets and liabilities	
1.1	Contributions due from employers	1.4
0.6	Other debtors	0.1
0.0	Unpaid benefits (creditors)	0.0
-1.1	Other creditors	-1.9
1.1	Cash balances	6.5
1.7		6.1
1000.8	**Net assets at the end of the year**	**989.4**

Notes to the Accounts

As at 31 March 2007	Membership	As at 31 March 2008
14,861	Number of members contributing to the fund	15,775
7,390	Number of pensioners paid by the fund	7,863
6,175	Number of ex-members whose pension rights are 'frozen' until they retire	7,510

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.

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 2007 (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 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 (see glossary).

We include acquisition costs in the purchase costs of investments.

c Investment income

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

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

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

d Foreign currencies

If there are forward exchange contracts in place for assets and liabilities in foreign currencies, we have used the contract rate. Other assets and liabilities in foreign currencies are shown in sterling at the rate of exchange at the end of the financial year. We translate income from overseas investments into sterling at an average rate for the period in which we received it.

We deal with gains and losses arising from converting currencies as part of the change to the market value of investments.

e Contributions

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

f Benefits due to be paid

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

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

g Transfer to and from other schemes

Transfer values relate to amounts we receive from other pension funds for new members or we pay to other pension schemes for members who have left the fund.

h Other expenses

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

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

Fund manager	Mandate	Negotiated fee
State Street Global Advisors	UK stocks and shares	Percentage of the fund
Threadneedle Investments	UK stocks and shares	Percentage of the fund
UBS Global Asset Management	Global stocks and shares	Percentage of the fund
MFS Investment Management	Global stocks and shares	Percentage of the fund
UBS Global Asset Management	Fixed income	Percentage of the fund
Barclays Global Investors	Passive index-tracker	Percentage of the fund
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

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 2007 actuarial valuation, the actuary decided that the funding level was at 86%. A revised schedule of employers' contribution rates came into force from 1 April 2008.

During 2007/2008, we paid employers' contributions at a rate of 12.7%. The district and borough councils paid employers' contributions at rates ranging between 12.5% and 13.8%.

The assumptions used for the March 2007 actuarial valuation were as follows.

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 2007 actuarial valuation, the fund's assets were valued at £1000.8 million.

Actuarial valuation	Past service % a year	Future service % a year
Rate of return on investments - before retirement	6.90%	6.50%
Rate of return on investments - after retirement	5.40%	6.50%
Salary and earnings increases	4.85%	4.50%
Rate of increase in pensions	3.10%	2.75%

4. Fund manager holdings

2006/2007 £ millions	%	Market value of external investments	2006/2007 £ millions	%
0.2	0.0	Henderson Global Investors	0	0
137.1	13.7	State Street Global Advisors (UK Equities)	124.7	12.7
137.3	13.7	Threadneedle Investments (UK Equities)	139.5	14.2
129.3	12.9	UBS Global Asset Management (Global Equities)	122.9	12.5
130.3	13.0	MFS Investment Management (Global Equities)	132.6	13.5
155.3	15.5	UBS Global Asset Management (Fixed Interest)	152.0	15.4
209.4	21.0	Barclays Global Investors (Index Tracker)	214.6	21.8
24.6	2.5	BlackRock Investment Management (Transition Manager)	0.0	0.0
24.5	2.5	Threadneedle Investments (Property)	21.6	2.2
2.1	0.2	Schroder Investment Management (Property)	22.3	2.3
49.0	4.9	Blackstone Group International (Hedge Funds)	53.1	5.4
999.1	**100.0**	**Total**	**983.3**	**100.0**

5. Investments

	Value 1 April 2007 £ millions	Purchases at cost £ millions	Sales proceeds £ millions	Realised profit or loss (-) £ millions	Urealised profit or loss (-) £ millions	Other movement e.g. debtors or creditors £ millions	Value 31 March 2008 £ millions
Fixed interest securities	3.1	3.9	-2.8	0.3	-4.5	0.0	0.0
Stocks and shares	515.6	395.8	-384.4	21.9	-53.9	0.8	495.8
Managed funds/Unit Trusts	404.3	137.4	-74.8	25.0	-20.4	-1.4	470.1
Cash and deposits	71.2	632.0	-638.1	1.0	0.0	-55.0	11.1
Other investments	4.9	0.0	0.0	0.0	0.0	1.3	6.3
Total	**999.1**	**1,169.1**	**-1,100.0**	**48.2**	**-78.8**	**-54.3**	**983.3**

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.

2006/2007 £ millions		2007/2008 £ millions
	Fixed-interest securities	
0.0	UK public sector	0.0
152.2	UK other	0.0
0.0	Overseas public sector	0.0
3.1	Overseas other	0.0
155.3		**0.0**
	Stocks and shares	
276.5	UK quoted	253.5
239.1	Overseas quoted	242.3
515.6		**495.8**
	Managed funds	
4.6	Unit trusts - other	5.4
154.8	Managed funds	464.7
92.7	Unitised insurance policies	0.0
252.1		**470.1**

2006/2007 £ millions		2007/2008 £ millions
	Cash and deposits	
10.6	Sterling	8.9
6.5	Foreign currency	2.2
17.1		**11.1**
	Other investments	
74.1	Debtors	7.6
-15.1	Creditors	-1.3
59.0		**6.3**

6. Contributions and benefits

2006/2007 £ millions	Contributions we receive	2007/2008 £ millions
	Administering authority	
16.9	From employers	18.0
7.8	From employees	8.4
24.7		26.4
	Scheduled bodies	
11.2	From employers	13.4
4.9	From employees	5.2
16.1		18.6
	Admitted bodies	
1.5	From employers	1.5
0.7	From employees	0.7
2.2		2.2
	Non-scheduled bodies	
0.1	From employers	0.1
0.0	From employees	0.0
0.1		0.1
43.1	**Total**	**47.3**

The total contributions we received from employers was £33.0 million (£29.7 million in 2006/2007) and £14.3 million (£13.4 million in 2006/2007) from employees.

Employees' contributions during the year included payments of £0.3 million to buy added years (£0.2 million in 2006/2007).

Employers' contributions during the year included £2.1 million received from employers for compensation to the fund for those retiring early and being made redundant (£1.7 million in 2006/2007).

2006/2007 £ millions	Analysis of contributions by type	2007/2008 £ millions
13.1	Members - normal	14.0
0.2	Members - additional years	0.3
23.1	Employers' normal contributions	24.4
0.0	Employers' augmentation Contributions	1.0
6.7	Employers' deficit funding Contributions	7.6
43.1	Total	**47.3**

2006/2007 £ millions	Benefits to be paid	2007/2008 £ millions
	Administering authority	
21.0	Pension paid (inc lump sum)	22.2
3.5	Transfers out	2.4
24.5		24.6
	Scheduled bodies	
15.1	Pension paid (inc lump sum)	17.8
2.0	Transfers out	2.3
17.1		20.1
	Admitted bodies	
1.4	Pension paid (inc lump sum)	2.0
0.2	Transfers out	0.2
1.6		2.2
	Non-scheduled bodies	
0.2	Pension paid (inc lump sum)	0.1
0.0	Transfers out	0.0
0.2		0.1
43.4	**Total**	**47.0**

The funding objective is to achieve and maintain a funding level of 100% of liabilities. For this reason a certain proportion of employer contributions received will be to reduce an existing deficit. The 2007 Actuarial Valuation stated that the deficit could be eliminated by an average contribution addition of 3.5% of Pensionable Pay for 22 years.

The total pensions paid out (including lump sums) was £42.1 million (£37.7 million in 2006/2007) and the total transfers out was £4.9 million (£5.7 million in 2006/2007).

7. Statement of investment principles

The board approved a statement of investment principles on 18 May 2007. The document is included in this annual report.

8 Organisations contributing to the fund

A list of contributing organisations is included in this report.

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 2007/2008, 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 £2.5 million in Standard Life on 31 March 2008. The pension fund accounts also do not include additional voluntary contributions. During the financial year 2007/2008, employees contributed £268,124 in additional voluntary contributions to Standard Life and £16,158 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 Bank of New York Mellon. At 31 March 2008, the fund had stock valued at £62.3 million (£4.4 million at 31 March 2007), which was lent out to other organisations.

This generated a total income of £15,859 up to 31 March 2008.

The fund does not hold any property directly. The fund does, however, hold property in the form of pooled funds.
Our policy is to reinvest income from fixed interest securities within the pooled units of the fund. During 2007/2008 we did not earn any interest from fixed interest securities.

The fund currently has no outstanding loans to external organisations.

During the year 2007/2008, the pension fund paid refunds of contributions to employees of £51,150 (after tax has been deducted). A refund of £6,110 was also paid to the State Earnings Related Pension Scheme (SERPS).

12. Investment performance

Overall in the financial year 2007/2008, the fund had a return of –1.6% compared with the fund's specific benchmark of –1.2%.

13. Contingent liability

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

Auditors report

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

Investment performance	Our pension fund %	Our benchmark %	Local Authority Average %
Yearly return on investments for 2007/2008	-1.6%	-1.2%	-2.8%

Report from Senior Communications Officer

It's been another busy year in pensions, seeing in the start of the much anticipated new look Local Government Pension Scheme that took effect from 1 April 2008.

The Government's stated aim in designing the new look LGPS has been to make it simple, affordable and sustainable. Nearly every aspect of the scheme has had changes: some big, some small. The ones that have had the biggest effect are the changes to the employee contribution rates, and the way in which pensions are calculated.

The changes reflect changing membership patterns within the scheme. For example, there are more part-timers and female staff than before. Moreover, there is an increased average life expectancy (although the cost issues resulting from increased longevity were mainly addressed by the removal of the "85-year rule").

The innovative approach in redesigning the LGPS means the scheme still pays a high level of benefits to members, but with improved flexibility and choice. It is also takes into account people's modern life styles, with introductions such as contingent pensions for cohabiting partners and flexible retirement.

When changes are made to pensions, it is always faced with a high level of apprehension from the people it affects. Some members, whose contribution rate reduced in the new scheme, tried to opt to continue paying the higher 6%. Others wanted to pay extra to retain their 80ths accrual rate even through the new 60ths scheme provides higher benefits. Although this seemed incomprehensible to us pension professionals, obviously people were concerned so we had to do something about it.

In addition to the DVD and newsletter that were sent to all members, we also laid on pensions seminars, comparing the old scheme with the new scheme. This was to reassure members on a face-to-face basis that the changes were for the better. These presentations have been so successful that they are now held bi-annually across the county, and are even aimed at non-members who might like to consider joining the pension scheme.

It should also be mentioned that whilst this was going on, pensions staff had to cope with learning a new scheme themselves during a time of immense pressure and workload. As usual, everyone has taken it in their stride and coped exceptionally well with the changes.

Our members expect greater flexibility in how, where and when they access and receive pensions information and services. As technology has developed, so too have the expectations of our customers. Only through innovation can we keep up with the demand for convenient, flexible and accessible services.

Sir Alec John Jeffreys, FRS (born 1950 at Oxford) is a British geneticist who developed techniques for DNA profiling which are now used all over the world in forensic science to assist police detective work, and also to resolve paternity and immigration disputes. Jeffreys' breakthrough came in his laboratory in Leicester on Monday 10 September 1984 after looking at the x-ray of a DNA experiment which unexpectedly showed both similarities and differences in his technician's family's DNA. He immediately realised the possible scope of DNA profiling which uses variations in the genetic code to identify individuals.

DNA analysis

Document Imaging is an imminent development, which will make us a 'paperless' office, benefiting both members and staff. As all post will be logged and tasked, this will mean that queries can be answered quickly and efficiently without having to retrieve the paperwork first. And for staff, the less time spent filing, the more time they have to complete their ever increasing workload, which not only improves customer service but also results in the psychological benefit of having a clean desk.

Interfacing is something that we have been considering for a long time. Rather than inputting all changes manually (e.g. changes of working hours), we can extract this data directly from the payroll system and load it onto the member record with minimal human intervention. This will reduce the considerable amount of time spent by staff keeping member records up to date, again allowing more time to be spent providing members with a prompt and efficient service.

Our software provider, Heywood, has recently launched a new pensions administration system called "Altair". This next generation pensions administration solution provides a simple, productive, 'access anytime anywhere' system for administrators, stakeholders and members through its intuitive browser based system. It will allow more efficient administration with everything the user needs to do their job close to hand on a seamless single desktop, and also promotes better communication with easy distribution to a wider audience. It is fully compliant with all current legislation, including meeting e-government requirements. This is something we are enthusiastic about but we can only seriously contemplate it after the document imaging initiative has been completed.

Sarah Kirby

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 members and employers. We now also hold pension "surgeries" which give members the opportunity to discuss their benefits in confidence.
- Scheme updates and other relevant information are forwarded to all employers.
- A presentation by 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. Updates will also be posted onto the Intranet
- A Pension Fund Annual Report is produced and distributed to all scheme employers. Additional copies are available to other interested parties if requested.

Key Dates for 2008/2009

Pension Fund Investment Board Meetings:

- Monday 24th November 2008 at 10 a.m.
- Monday 16th February 2009 at 10 a.m.
- Monday 3rd August 2009 at 10 a.m.
- Monday 2nd November 2009 at 10 a.m.
- Monday 1st February 2010 at 10 a.m.

You will see that there is no meeting fixed for May 2009. This is because the County Council elections are due to be held on the 7th May 2009 and the new County Council will not meet until the 19th May 2009 to agree memberships of Committees, etc.

Annual Employers meeting:
21 November 2008, Shire Hall

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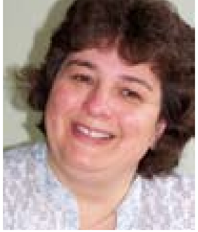

Poems by Karen Aston

Innovation in the Office

Everyone knows what they do every day
So how to convince of a much better way
Ask for suggestions and brand new idea
This will dispel any deep, growing fears

Convey each stage of the long process
And that will stop them having to guess
Encourage involvement at every stride
And staff will feel there is nothing to hide

Ideas are discussed with all agreed
Now it's times, let's get on with the deed
Everyone knows what they need to complete
All so busy, there's a deadline to beat

The day of reckoning is quickly here
All is now finished and success is clear
The whole Group is pleased and all are singing
At last, we have Document Imaging

INNOVATION

I is to **I**mprove the way we work

N is for **N**ew, but never a quirk

N is to **N**ever hold back from something diverse

O is for **O**pen and relaxed, never be terse

V is for **V**arious ways of exploiting your skill

A is for **A**iming to be at the top of the bill

T is for **T**rying to conquer your darkest fears

I is to **I**nitiate your brand new ideas

O is for **O**riginal, never be stale

N is for **N**ovel, you never will fail

Glossary - An A to Z of investment terms

Italic type indicates a cross-reference within this glossary.

A

Active management

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

Active risk

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

Actuarial valuation

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

Alpha

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

Alternative investments

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

Asset allocation

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

Asset/liability modelling

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

B

Balanced management

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

Bear market

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

Benchmark

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

Beta

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

Bull market

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

C

Class action

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

Combined Code

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

Commission recapture

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

Commodity

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

Corporate governance

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

Currency hedging

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

Currency overlay

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

Currency risk

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

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.

D

Defined benefit scheme

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

Defined contribution scheme

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

Derivatives

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

Diversification

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

Dow Jones Industrial Average

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

Duration

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

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.

FTSE All-Share Index

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

Fund of hedge funds

See ***hedge funds***.

G

Gold

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

Growth manager

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

H

Hedge Funds

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

Hedging

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

I

IMA

The Investment Management Association is the industry body for the investment industry. Formed from previous industry bodies IFMA and AUTIF, the IMA's role is to make representations to the UK government, publicise the use of investment funds and promote training and knowledge throughout the industry. IMA is also an acronym for ***Investment Management Agreement***.
deposited by a ***futures*** market participant when initiating an ***open position***. It is also required of writers of ***options***. See also ***variation margin***.

L

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

LIBOR

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

London Stock Exchange (LSE)

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

M

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

N

NAPF

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

P

PRAG

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

Private equity

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

R

Risk

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

Risk appetite

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

Risk budget

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

Risk-free asset/rate

An investment with no chance of default, and a known or certain rate of ***return***.

Risk premium

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

S

SORP

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

Scrip issue

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

Specialist management

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

Statement of Investment Principles (SIP)

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

Stocklending

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

T

Transaction costs

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

Transition

The transfer of assets from one fund manager to another which may involve buying and selling assets.
companies whereby an investor receives a guaranteed ***return*** supplemented by regular bonuses and, perhaps, a final or terminal bonus on ***maturity***.

Publication Date: September 2008
Division: Treasury and Pensions
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