Pension Fund

Annual Report & Financial Statements

2008-2009

WARWICKSHIRE pension fund

Warwickshire County Council

Working for Warwickshire

Contents

Chairman's Statement

The unprecedented events during the financial year 2008/2009 were not realistically anything that any of us could have possibly imagined. The spate of collapsing markets, banks and companies during the year set extremely demanding challenges for the Pension Fund Investment Board. However, in starting from a good well-diversified position and by taking decisive action on our Fixed Interest and Global Equities portfolios, the impact of the credit crunch and, in particular, the Lehman's demise was contained. I am pleased to say that as a result, the Fund still remains well placed, certainly in comparison with those of a similar nature.

Of course, all this market turbulence has created a greater uncertainty as we look towards the year ahead. Remembering that we are long term investors, we intend to continue to diversify the Fund, whilst being aware that the general fall in interest rates due to the crisis will reduce investment returns, at least in the near future.

We have continued to review our governance policy, investment principles and risk management in line with the steps set out by Lord Myners. In particular, we have engaged a company, Manifest, to step up our shareholder engagement in responsible management and the voting of the Fund's shares. The Board continues to have regular performance updates and topical issue training sessions with fund managers in London.

We have appointed new investment consultants, Hymans Robertson, who are leading specialists on funds in the public sector and who will complement the excellent contribution we receive already from our long standing advisor Peter Jones.

Our dedicated staff led by our Group Manager, Phil Triggs, entered the LGC Pension Fund of the Year Awards for the fourth year running and came runners-up. I hope you find the annual report helpful. We will keep everyone informed of developments as they happen.

Chris Davis
Chairman of the Pension Fund Investment Board

Introduction from the Strategic Director, Resources

A quick internet search for "natural disasters" will reveal that hardly a day goes by without there being a flood, earthquake, hurricane or other such event somewhere in the world. However, we only hear about a small number of these. The news media only concentrates on the big events that are likely to sell column inches. The small events are traumatic for the people involved but if the disaster isn't dramatic we rarely hear about it.

A similar sentiment applies to the investment world. In "normal" times markets are very volatile. One moment they are surging ahead the next they are falling away. The markets are continually lurching one direction or the other. However, these changes are rarely dramatic enough to get other than a passing mention at the end of the daily news.

However, we no longer live in "normal" times. This last year has seen a disaster in the investment world that is unprecedented. Markets crashed, some banks were nationalised, companies went out of business. Oil prices shot up like an erupting volcano and interest rates collapsed like a building in an earthquake. Deflation became a very real possibility. These were dramatic events and have held the media spotlight for many months.

In Warwickshire a lot of nail biting took place while monitoring events and trying to decide how best to protect the Pension Fund during these times. Like a ship in a storm it was almost impossible to find a safe harbour for the investments. A small amount of restructuring of the investment portfolio was undertaken and nerves were held. A look at the balance sheet reveals that the value for the Fund has fallen from £986 million at March 2008 to £820 million as at March 2009. This represents a fall of nearly 17%. Whilst this is not what we would have wanted it is a good result when taken in the context of the falling world markets.

The downturn in world economies was a disaster. Its impact has been far reaching and we will be dealing with the fall out for many years to come. However, this was a man-made disaster and one that could therefore have been avoided.

Looking forward the markets show signs of improvement during the start of 2009/2010 and we are hopeful of stronger recovery over the next few years. However, it is a bit like living through an earthquake in that we are not sure whether it has finished or whether we are likely to experience secondary shock waves.

Dave Clarke
Strategic Director, Resources

Report from the Group Manager (Treasury and Pensions)

The financial year 2008/09 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 natural disasters.

At the start of the 2007/08 year, the fund diversified into a fund of hedge funds and fund of property funds. The restructuring was an innovative first step into alternative assets in order to diversify the fund and reduce the investment risk of the fund's assets.

The whirlwind that has swept the markets since then has partially justified the Fund's stance, albeit we have seen all investment categories produce negative returns. The one silver lining is that hedge funds and property did not fall as far as equities. Whilst markets recover, the Fund will look to further diversify with some timings into various categories looking very advantageous.

With regard to the office administration, the Group's work on its systems and procedures continues with the work on new document imaging systems. The scanning of existing paper files is a huge task but is progressing well with completion expected later this year. The Pension Fund website has now been up and running for four years and further development in the future is envisaged.

The Treasury and Pensions Group moved into a newly refurbished office on the second floor adjacent to the former post office accommodation. The layout of the new office is far more conducive to effective team working with good communication channels between the various teams of the Group. We look forward to a period of consolidation as we tackle the work backlog and progress into the future.

The Warwickshire Pension Fund held its fifth Annual Meeting on 28 November 2008 at Shire Hall. Representatives from the District Councils and the 55 scheduled and admitted bodies were invited to a morning of presentations from the fund's actuary, fund management 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

The Fund itself achieved a return of -18.2% compared with the Fund benchmark of -17.6%, an under-performance of 0.6%. By comparison, the average local authority fund performance in 2008/09 was -19.9%.

Governance

The Pension Fund Investment Board had a very busy year. Pre-meetings are 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 Fund now votes its shares in line with best governance practice and became fully Myners compliant. We now look forward to the challenges set by the new Myners Principals due out shortly.

Highlights 2008/09

- Further progress made in becoming fully Myners compliant.
- Annual Meeting of the Pension Fund
- IT based systems further developed and implemented
- Website development continues
- The fund now votes all of its own shares according to an agreed policy

Feedback

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

Phil Triggs
Group Manager

Report from the Pension Services Manager

Many "natural disasters" are a result of the Earth evolving and the moving of tectonic plates as the land masses either collides or moves apart. They are of course, only disasters if they affect mankind causing loss of life or upheaval. As I write this piece for the report the news is of a massive earthquake in the antipodes that has moved New Zealand 12 inches closer to Australia. It did not cause any loss of life, but nevertheless I'm sure many "Kiwis" will view the thought of being closer to their Australian cousins a "natural disaster".

The Local Government Pension Scheme will continue to evolve as society continues to evolve. People now have a life expectancy greater than ever before and this improved longevity is putting an extra strain on pension provision. Government has already indicated a future delay in state retirement age for people retiring from 2024 to age 68 and there is further consultation as to whether there will be further delays.

The Local Government Pension Scheme cannot live in isolation and although the changes of 2008 have been a big step towards the continued affordability and sustainability of the pension scheme, it is inevitable that there will be future changes.

Communities and Local Government have issued regulations for the implementation of cost sharing and although the crossing of t's and dotting of i's is still to take place, the membership will have to accept a greater share of the ongoing cost of the scheme if they wish to retain a defined benefit scheme.

There could still be further changes as the country reels under the strain of that particular manmade "disaster", the credit crunch. Although Government has stated its commitment to the provision of a defined benefit scheme this will only be for as long as the scheme remains affordable and sustainable and to maintain the continued affordability and sustainability of the defined benefit, we may yet see further changes in the benefit structure of the scheme and perhaps a move to delay retirement age beyond age 65.

Neil Buxton
Pension Services Manager

Participating Employers

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

Administering Authority

Warwickshire County Council

Current Scheduled Bodies

District Councils

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

Other Scheduled Bodies

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

Current Admitted Bodies

- Bedworth, Rugby and Nuneaton Citizens Advice Bureau (BRANCAB)
- Carillion Highways Maintenance
- Duchy Catering
- Mid Warwickshire MENCAP
- North Warwickshire Council for Voluntary Service
- Nuneaton and Bedworth Leisure Trust
- Nuneaton and Bedworth Council for Voluntary Service
- Orbit Housing Group
- Rugby Town Centre Company Limited
- Shipston Leisure
- Solihull School
- 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
- Work First
- 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

Pension Fund Investment Board

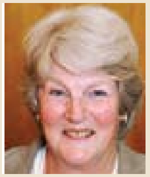
The Role of the Investment Board

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 2008/09

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 Strategic Director, Resources. The Treasury and Pensions Group within the Resources Directorate has responsibility for day-to-day management.

Management and Administration

David Clarke BSc (Econ) Hons CPFA, Strategic Director, Resources

Oliver Winters CPFA, Head of Finance

Phil Triggs CPFA, IRRV, Group Manager (Treasury and Pensions)

Neil Buxton MIP, Pensions Administration Manager

Mathew Dawson ACCA, 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, Chris Holmes, Sheila Taylor

Benefits Team: Karen Aston, Joy Batchelor, Ian Morris, Anthony Hall, Vicki Scannell,

Firefighters Pension Scheme: Helen Cox, Alistair Wickens

Customer Liason External Support: Linda Radley, Clive Shearsby, Ben Griffin

Investment Advisors

Independent Advisor: Peter Jones

Actuary: Chris Hull, Mercer

External Consultants: Hymans Robertson

Investment Managers

UK Equities – State Street Global Advisors and Threadneedle Asset Management

Global Equities - MFS Investment Management

Fixed Income – Legal and General Investment Management

Passive Index Tracker – Barclays Global Investors and Legal and General Investment Management

Fund of Hedge Funds – Blackstone Group International

UK Property – Schroder Investment Management and Threadneedle Asset Management

The Local Government Pension Scheme

The Warwickshire Pension Fund is part of the Local Government Pension Scheme (LGPS). The LGPS is governed by statute, primarily the Superannuation Act 1972 and the Local Government Pension Scheme (Benefit, Membership and Contributions) Regulations 2007 and the Local Government Pension Scheme (Administration) Regulations 2008. The statutory responsibility for the LGPS 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 Strategic Director, 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 2009, the total membership of the fund stood at 33,308 and the total value of the Fund's net assets amounted to £820.3 million. Of the 33,308 members 16,569 are active members currently contributing to the fund, 8,515 are members with deferred pension rights, and 8,224 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. Qualified 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 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 member's 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 employer's 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. Contribution rates have been revised from 1 April 2008 following the actuarial valuation as at 31 March 2007. Employer rates now range from 0.0% to 22.8%.

Investment report for the year end 31 March 2009

Economic Background

The period under review saw further turbulence on the world's financial markets, with gloomy economic releases and poor corporate news flow driving all assets considerably lower. Equities bore the brunt of the risk-averse conditions: as investors downgraded their expectations for corporate profitability, share prices inevitably weakened.

Initially, high inflation limited western central banks' ability to respond to the worsening economic background by making significant cuts to interest rates. However, an easing in commodity prices during the summer removed this conundrum and significant rate cuts duly followed. Base rates in the UK fell from 5.25% to 0.5%, their lowest level since the Bank of England was established in the 17th century, while the Federal Reserve, having started the process earlier, slashed US rates to virtually zero. The European Central Bank was initially more reticent but eventually joined in, leaving euro-area interest rates at 1.5% by the period-end.

This easing in monetary policy, together with lower inflation readings and ongoing risk aversion, helped government bonds to perform relatively well over the period. Index-linked issues outperformed their conventional equivalents early in the period as high commodity prices fed inflationary concerns. However, as the year unfolded and inflation worries subsided (to be eventually replaced by fears of deflation) the previous trend reversed, with conventional bonds outperforming.

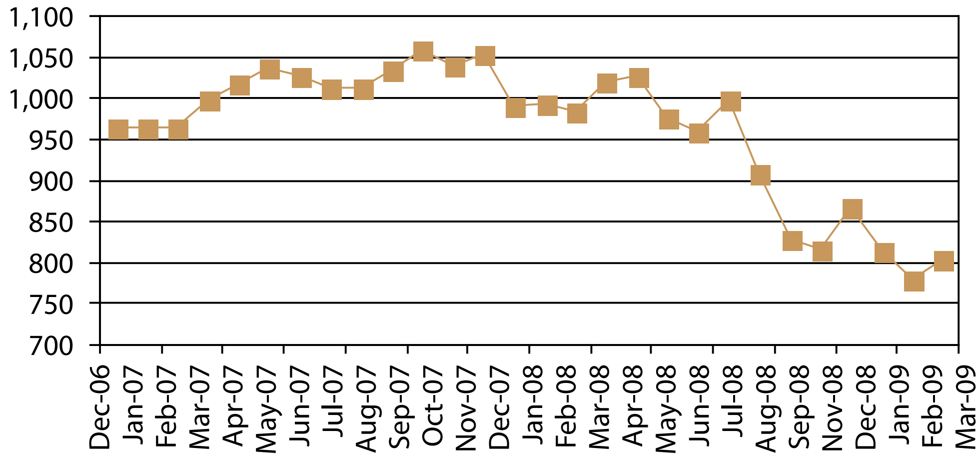
Geographically there was no hiding place from the downdraft in equities, although strength in the US dollar and the Japanese yen versus sterling meant that these two markets were the best performers from a UK investor's perspective. In the UK equity market, sterling weakness saw overseas earners such as multinational oil and pharmaceutical companies outperform (with the latter also benefiting from their defensive characteristics, along with other defensive sectors such as utilities). Meanwhile, financials remained weak as concerns lingered over the long-term viability of a number of high profile companies.

Recent signs have suggested that we might have passed the nadir in global economic activity. However, there remains a need for further deleveraging and higher savings rates in western economies. As such, it is probable that the economic recovery, when it comes, will be gradual. The recent equity market rally has left valuations in some cyclical areas looking extended and market performance will need to broaden into more defensive sectors if it is to be sustained.

Investment Return Compared to the Local Authority Universe 2008/09

	1 Year Return	3 Year Return
Warwickshire	-18.2%	-5.3%
Warwickshire's Benchmark	-17.6%	-4.7%
Local Authority Universe	-19.9%	-5.9%
Out/under performance	-0.6%	-0.6%

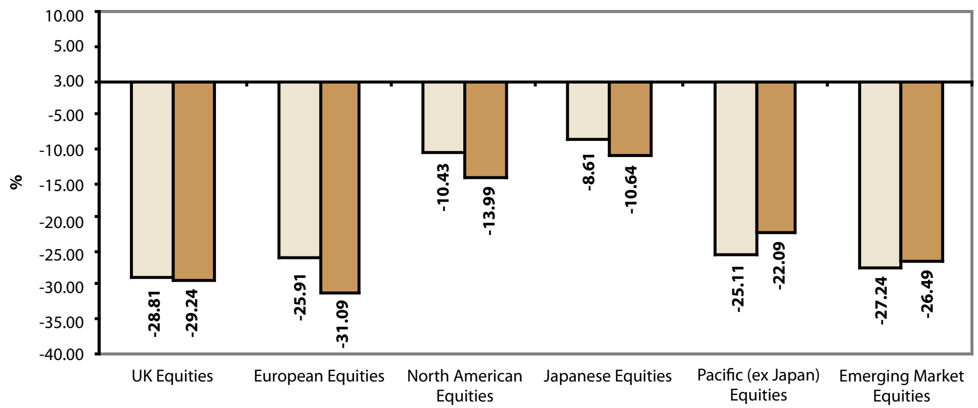
Total Fund Value Since December 2006



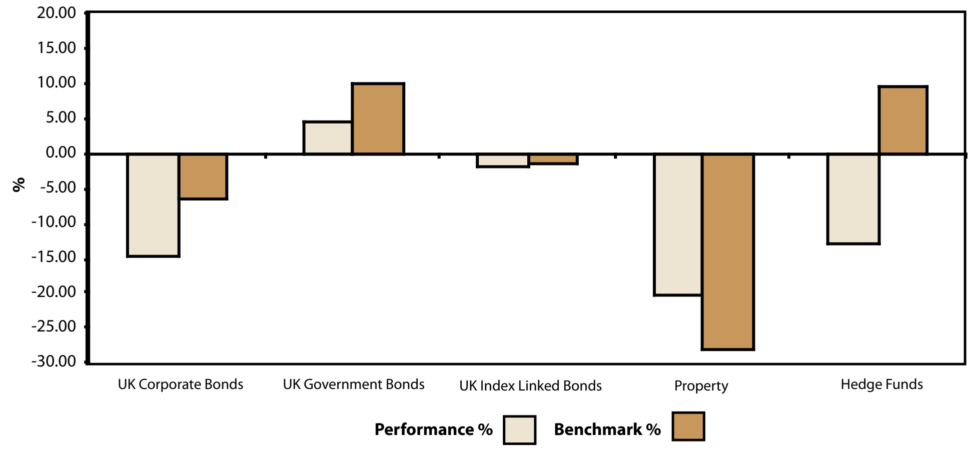
Top 10 holdings at 31 March 2009

		£ millions
1	Royal Dutch Shell	17.0
2	BP	15.5
3	Vodafone	13.6
4	Glaxosmithkline	13.1
5	HSBC	8.8
6	British American Tobacco	8.4
7	Reckitt Benckiser	7.8
8	Astrazeneca	7.6
9	Tesco	6.5
10	BG Group	6.0

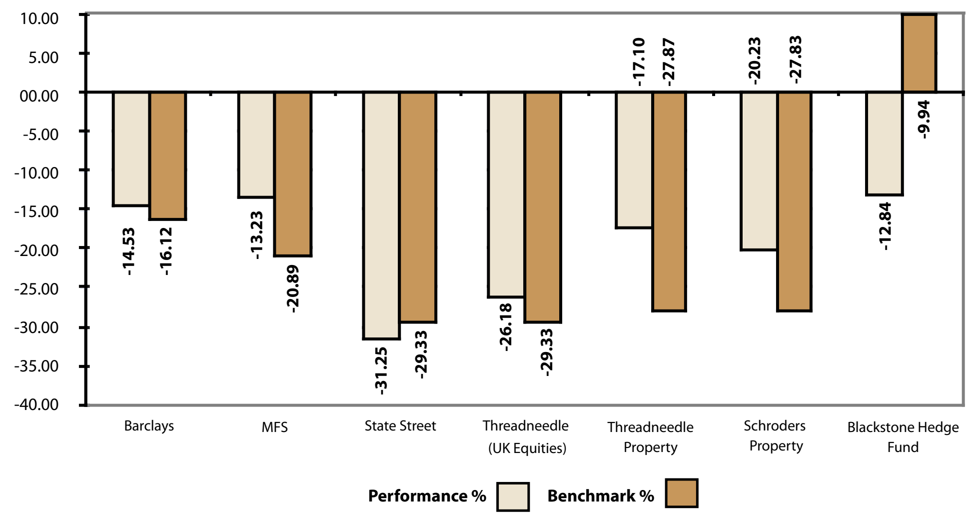
Equity Performance by Location for the Year Ending 31 March 2009



Bonds and Alternatives Performance by Asset type for the Year Ending 31 March 2009



Fund Manager Performance for the Year Ending 31 March 2009



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**

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%
Legal and General Investment Management ("LGIM")	Passive Global Equity Portfolio	13%
Legal and General Investment Management ("LGIM")	Passive 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.

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.

LGIM (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

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

In addition, LGIM will be expected to maintain the overall Fund benchmark, excluding the proportion of the assets invested in 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.

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.

LGIM (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**		

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

Schroder (Property – Multi-Manager)

The details of the multi-manager property mandate are:

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

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

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

Threadneedle (Property)

The details of the property mandate are:

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

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.

4.3 Investment Restrictions

The investment managers are prohibited from holding investments not defined as "investments" in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended). All investment managers are permitted to utilise derivatives in the efficient management of portfolios.

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

4.4 Realisation of Investments

In general, the Fund's investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. There is no current policy on realising investments to meet benefit payments as the fund has positive cashflow from employee/employer contributions.

4.5 Monitoring and Review

The performance of the Fund's investment managers is independently measured by Mellon Analytical Solutions (formerly Russell Mellon), a subsidiary of the Authority's global custodian, on a quarterly and annual basis. They provide quarterly and annual performance reports to the Authority.

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

Mercer Investment Consulting is retained as investment consultant to assist the Authority in fulfilling its responsibility for monitoring the investment managers. In addition, the Authority reviews the Fund's asset allocation between the managers on a quarterly basis.

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

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

5. Social, Environmental and Ethically Responsible Investment

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

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

6. Corporate Governance

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

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

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

The manager shall submit a quarterly report containing details and reasons for any decision

by the Manager to exercise any voting rights against the management or consciously abstain from exercising any voting rights attached to any investments of the Fund."

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

* future decision to be taken.

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

7. Fee Structures

7.1 Rationale for Fee Structure

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

7.2 Investment Consultant Fees

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

8. Compliance with this Statement

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

9. Review of this Statement

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

Principles for Investment Decision Making

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

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

Principle		Current Compliance
3. Focus on asset allocation		
3a. Strategic asset allocation decisions should receive a level of attention (and, where relevant, advisory or management fees) that fully reflect the contribution they can make towards achieving the fund's investment objectives.	✓	Asset allocation is the responsibility of the Board.
3b. Decision makers should consider a full range of investment opportunities, not excluding from consideration any major asset class, including private equities	✓	Alternative investments including property have been fully considered and are now included in the Fund benchmark.
3c. Asset allocation should reflect the fund's own characteristics, not the average allocation of other funds	✓	
4. Expert advice		
4a. Contracts for actuarial services and investment advice should be opened to separate competition.	✓	Currently provided by the same firm but treated as separate contracts.
4b. The fund should be prepared to pay sufficient fees for each service to attract a broad range of kinds of potential providers.	✓	
5. Explicit mandates		
5a. Trustees should agree with both internal and external investment managers an explicit written mandate covering agreement between trustees and managers on:		
An objective, benchmark and risk parameters that together with all other mandates are coherent with the fund's aggregate objective and risk tolerances	✓	
The managers approach in attempting to achieve the objective	✓	
Clear timescales of measurement and evaluation, such that the mandate will not be terminated before the expiry of the evaluation timescale for underperformance alone.	✓	
5b. The mandate and trust deed and rules should not exclude the use of any set of financial instruments, without clear justification in the light of specific circumstances of the fund.	✓	
5c. Trustees, or those to whom they have delegated the task, should have a full understanding of the transaction related costs they incur, including commissions. They should understand all the options open to them in respect of these costs, and should have an active strategy – whether through direct financial incentives or otherwise – for ensuring these costs are properly controlled without jeopardising the fund's other objectives.	✓	

Principle		Current Compliance
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.
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 BNY Mellon Asset Servicing.
and make formal assessments of their own procedures and decisions as trustees.	✓	Assessment made by Staff and Pensions Committee
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.

Principle		Current Compliance
9. Transparency		
9a. A strengthened SIP should set out:		
who is taking which decisions and why this structure has been selected;	✓	
the fund's investment objective;	✓	
the fund's planned asset allocation strategy, including projected investment returns on each asset class, and how the strategy has been arrived at;	✓	
the mandates given to all advisers and managers.	✓	
9b. The nature of the fee structures in place for all managers and advisers and why this set of structures has been selected.	✓	
10. Regular reporting		
10a. Trustees should publish their SIP	✓	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 also arrange for a formal assessment of the performance and decision-making delegated to advisers and managers.	✓	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.

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.

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**

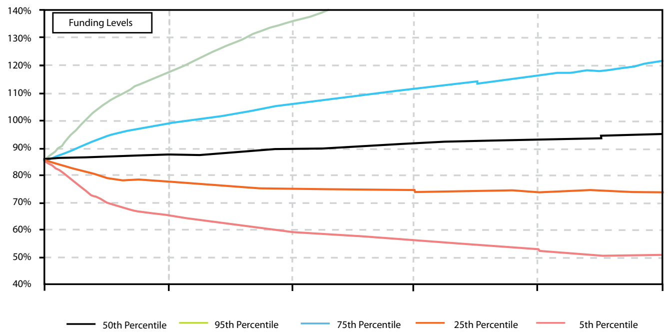
The funding strategy adopted for the 2007 valuation is based on an assumed asset out-performance of 2.5% in respect of liabilities pre-retirement, and 1.0% in respect of post-retirement liabilities. Based on the liability profile of the Scheme at the valuation, this equates to an overall asset out-performance 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.

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.

3. 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.

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)

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.**

Statement by Consulting 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 since the valuation date.

The implications of the current market volatility are being monitored. We are in the process of preparing a Funding Review update of the 2007 valuation as at 31 March 2009. This will also consider the implications of the consultation document issued by Communities and Local Government on 25 June 2009 in relation to the Affordability, Viability and Fairness of the Scheme.

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
July 2009

Accounts for the year ending 31 March 2009

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 Strategic Director, Resources, 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 2009;

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

In preparing the Statement of Accounts the Strategic Director, Resources 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 2009 and its income and expenditure for the year then ended.

D. Clarke

Dave Clarke
Strategic Director, Resources

Accounting report

The following statements comprise the accounts for the Warwickshire County Council Pension Fund. The accounts cover the financial year from 1 April 2008 to 31 March 2009.

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 and reflects the change in valuation of investments from mid-market to bid price.
- **Net Asset Statement**, which discloses type and value of all net assets at the end of the year.
- **Notes to the Fund Account**, provide supporting details and analysis of the figures in the Fund accounts and Net Asset Statement.

Fund Account

2007/2008 £ millions	Revenue account	2008/2009 £ millions
	Income to the fund	
	Contributions receivable (funds due to us during the year):	
-33.0	From employers	-36.0
-14.3	From employees	-16.3
	Transfers In	
-8.1	Individual transfers in from other schemes	-10.5
-55.4	**Income to the fund**	**-62.8**
	Spending by the fund	
	Benefits to be paid:	
31.5	Pension payments	34.2
10.0	Commutation of pensions and lump-sum retirement benefits	10.0
0.5	Lump sum death benefits	1.0
	Payments to and on behalf of leavers	
0.1	Refunds of contributions to people who leave the scheme	0.1
4.9	Individual transfers out of the scheme	4.9
1.1	**Administration expenses borne by the scheme**	1.2
48.1	**Spending by the fund**	51.4
-7.3	**Net additions from dealing with members**	**-11.4**
	Return on investments:	
-15.5	Dividends from equities	-16.2
-0.6	Income from pooled investment vehicles	-1.2
-0.8	Interest on cash deposits	-0.9

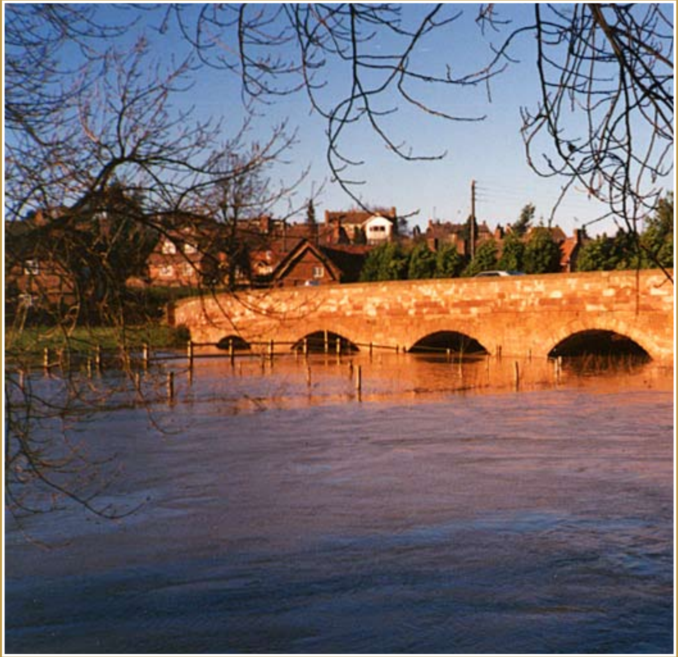
2007/2008 £ millions	Revenue account	2008/2009 £ millions
	Change in market value of investments:	
-48.2	Realised profit (-) or loss on sales	67.7
0.0	Realised profit (-) or loss on Derivatives (Foreign Exchange)	-0.4
-78.8	Unrealised profit (-) or loss on Investments	124.0
	Taxation	
1.3	Tax we cannot claim back	1.5
3.6	**Investment management expenses**	**3.2**
18.6	**Net returns on Investments**	**177.7**
11.3	**Net increase (-) / decrease in fund during the year**	**166.3**

2007/2008 Restated £ millions	Pension fund net assets	2008/2009 £ millions
-11.3	Net increase / decrease (-) in fund during the year	-166.3
1000.8	Add opening net assets of the scheme	986.6
-2.9	Loss to the fund due to change from mid to bid market price	0.0
986.6	**Net assets at the end of the year**	**820.3**

Net assets statement - change in valuation method	As at 31 March 2008 Mid market price £ millions	As at 31 March 2008 Bid market price £ millions	Difference as adjusted value £ millions
Investment assets			
Fixed interest securities	0.0	0.0	0.0
Stocks and Shares	495.8	493.8	-2.0
Unit trusts	0.0	0.0	0.0
Managed funds	470.1	469.2	-0.9
Cash and deposits	11.1	11.1	0.0
Other Investments	6.3	6.3	0.0
Total	**983.3**	**980.4**	**-2.9**

Net Asset Statement

As at 31 March 2008 Restated £ millions	Net assets statement	As at 31 March 2009 £ millions
	Investment assets	
0.0	Fixed interest securities	1.0
493.8	Stocks and Shares	400.2
0.0	Unit trusts	0.0
469.2	Managed funds	389.6
0.0	Derivative Contracts	0.1
11.1	Cash and deposits	9.6
6.3	Other Investments	4.6
980.4		**805.1**
	Current assets	
1.4	Contributions due from employers	1.6
0.1	Other debtors	0.2
6.5	Cash balances	14.8
	Current liabilities	
0.0	Unpaid benefits (creditors)	0.0
-1.8	Other creditors	-1.4
6.2		**15.2**
986.6	**Net at the end of the year**	**820.3**



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). 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. 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 2008 (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 set out here are consistent with the Pensions SORP. The accounts give a summary of the transactions and net assets of the fund. They do not take account of the liability to pay pensions and other benefits in the future. This is dealt with by the actuary's valuation every three years. The pension fund does not form part of 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 Valuing investments

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

In past years we have valued investments at mid-market price. We are no longer permitted to use this basis, hence the revised opening balances in the accounts, Note 5 and the adjustment of £2.9 million in the Net Assets Statement.

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. The exception is where there is a foreign currency derivative acting as a cash-flow hedge on investments, where we would then class this gain separately as realised profit in the revenue account.

e Contributions

We account for normal contributions from members and employers in the payroll month 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
MFS Investment Management	Global stocks and shares	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
Legal and General Investment Management	Passive index tracker (global stocks and shares)	Percentage of the fund
Legal and General Investment Management	Passive index tracker (fixed income)	Percentage of the fund
Threadneedle Investments	Fund of funds (UK property)	Percentage of the fund
Blackstone Group International	Fund of funds (hedge funds)	Percentage of the fund
BlackRock Investment Management	Transition Manager	Fixed fee

3 Actuarial valuation

The purpose of an actuarial valuation, which must be carried out every three years by law, is to assess the ability of the fund to meet its long-term liabilities. The actuary assesses the future growth in the value of the fund, and the future liability to pay pensions to current and former employees. The difference between projected assets and liabilities sets the amount employers must contribute. The fund aims to set employers' contributions rates so that the projected assets equal at least 100% of the projected liabilities. The actuarial valuation report dated March 2008 decided that the funding level was at 86%. A revised schedule of employers' contribution rates came into force from 1 April 2008.

During 2008/2009, the County Council paid employers' contributions at a rate of 13.3%. The district and borough councils paid employers' contributions at rates ranging between 13.4% and 14.6%.

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

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

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 £1,000.8 million.

4. Fund manager holdings

2007/2008 Restated £ millions	%	Market value of external investments	2008/2009 £ millions	%
124.6	12.8	State Street Global Advisors (UK Equities)	101.2	12.6
139.4	14.2	Threadneedle Investments (UK Equities)	106.5	13.2
122.0	12.4	UBS Global Asset Management (Global Equities)	0.1	0.0
131.8	13.4	MFS Investment Management (Global Equities)	104..2	12.9
152.0	15.5	UBS Global Asset Management (Fixed Interest)	1.2	0.1
213.8	21.8	Barclays Global Investor (Index Tracker)	173.1	21.5
0.0	0.0	Legal and General Investment Management (Index Tracker - Global Equities)	103.7	12.9
0.0	0.0	Legal and General Investment Management (Index Tracker - Fixed Income)	126.9	15.9
21.6	2.2	Threadneedle Investment Management (Property)	18.0	2.2
22.2	2.3	Schroder Investment Management (Property)	17.8	2.2
53.0	5.4	Blackstone Group International (Hedge Funds)	46.8	5.8
0.0	0.0	BlackRock Investment Management (Transition Manager)	5.6	0.7
980.4	100.0	Total	805.1	100.0

5. Investments

	Value 1 April 2008 Restated £ millions	Purchases at cost £ millions	Sales proceeds £ millions	Realised profit or loss (-) £ millions	Unrealised profit or loss (-) £ millions	Increase in debtors or (creditors) £ millions	Value 31 March 2009 £ millions
Fixed interest securities	0.0	23.4	-21.6	-0.4	-0.4	0.0	1.0
Stocks and shares	493.8	444.5	-408.2	-68.0	-61.9	0.0	400.2
Managed funds	469.2	191.6	-211.3	1.7	-61.6	0.0	389.6
Derivative contract	0.0	0.0	0.0	0.0	0.1	0.0	0.1
Cash and deposits	11.1	168.0	-172.7	1.2	0.1	1.9	9.6
Other investments	6.3	4.4	-2.1	-1.8	-0.3	-1.9	4.6
Total	**980.4**	**831.9**	**-815.9**	**-67.3**	**-124.0**	**0.0**	**805.1**

The change in market value of investments during the year includes all increases and reductions in the market value of investments held at any time during the year, including profits and losses made when selling investments during the year. The difference in the opening asset class amount is due to reclassification when the fund moved from mid market to bid market price.

6. Contributions and benefits

2007/2008 £ millions	Contributions we receive	2008/2009 £ millions
	Administering authority	
18.0	- From employers	20.0
8.4	- From employees	9.5
26.4		**29.5**
	Scheduled bodies	
13.4	- From employers	14.1
5.2	- From employees	6.0
18.6		**20.1**
	Admitted bodies	
1.5	- From employers	1.8
0.7	- From employees	0.8
2.2		**2.6**
	Non-scheduled bodies	
0.1	- From employers	0.1
0.0	- From employees	0.0
0.1		**0.1**
47.3	**Total**	**52.3**

The total contributions we received from employers was £36.0 million (£33.0 million in 2007/2008) and £16.3 million (£14.3 million in 2007/2008) from employees.

Employees contributions during the year included payments of £0.3 million to buy Added Years and Additional Regular Contributions (£0.3 million in 2007/2008 for Added Years).

Employers' contributions during the year included £1.7 million received from employers for compensation to the fund for those retiring early and being made redundant (£2.1 million in 2007/2008).

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

2007/2008 £ millions	Analysis of contributions by type	2008/2009 £ millions
14.0	Employee contributions - normal	15.9
0.3	Employee contributions - purchase of additional years	0.4
24.4	Employers' contributions - normal	31.2
1.0	Employers' contributions - augmentation	0.3
7.6	Employers' contributions - deficit funding	4.5
47.3	**Total**	**52.3**

2007/2008 £ millions	Benefits to be paid	2008/2009 £ millions
	Administering authority	
22.2	- Pension paid (including lump sums)	23.6
2.4	- Transfers out	2.3
24.6		**25.9**
	Scheduled bodies	
17.8	- Pension paid (including lump sums)	19.7
2.3	- Transfers out	2.5
20.1		**22.2**
	Admitted bodies	
20.2	- Pension paid (including lump sums)	1.9
0.2	- Transfers out	0.1
2.2		**2.0**
	Non-scheduled bodies	
0.1	- Pension paid (including lump sums)	0.1
0.0	- Transfers out	0.0
0.1		**0.1**
47.0	**Total**	**50.2**

The total pensions paid out (including lump sums) was £45.3 million (£42.1 million in 2007/2008) and the total transfers out was £4.9 million (£4.9 million in 2007/2008).

7. Statement of investment principles

The Investment Board approved a statement of investment principles on 18 May 2007. You can get a copy by writing to the Resources Directorate, PO Box 3, Shire Hall, Warwick CV34 4RH or from the website.

You can view the pension fund website at www.warwickshire.gov.uk/pensions.

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 2008/2009, some members of the pension scheme paid voluntary contributions to Equitable Life and Standard Life to buy extra pension benefits when they retire. These contributions are invested in a wide range of assets to provide a return on the money invested. The pension fund accounts do not include the assets held by Equitable Life or Standard Life, which were valued at £0.9 million in Equitable Life, and £2.0 million in Standard Life on 31 March 2009. The pension fund accounts also do not include additional voluntary contributions. During the financial year 2008/2009, employees contributed £0.1 million in additional voluntary contributions to Standard Life and £0.01 million 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 2009, the fund had stock valued at £1.5 million (£62.3 million at 31 March 2008) which was lent out to other organisations.

This generated a total income of £0.1 million up to 31 March 2009.

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 2008/2009 we did not earn any interest from fixed interest securities held in pooled units. From fixed interest securities we held directly we earned interest of £0.2 million.

The fund currently has no outstanding loans to external organisations.

During the year 2008/2009, the pension fund paid refunds of contributions to employees of £0.03 million (after tax has been deducted). A refund of £0.02 million was also paid to the State Earnings Related Pension Scheme (SERPS).

There is one derivative contract held at year end that represents a forward deal (exchange traded) valued at £0.1 million at 31 March 2009.

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

12. Investment performances

Investment performance	Our pension fund %	Our benchmark %	Local authority average %
Yearly return on investments for 2008/2009	-18.2%	-17.6%	-19.9%

Overall in the financial year 2008/2009, the fund had a return of -18.2% compared with the fund's specific benchmark of -17.6%.

13. Contingent liability

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

Auditors report

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

Communications

We communicate with our scheme members in various ways:

- Periodic newsletters are produced for scheme members, pensioners and preserved beneficiaries at their home address.
- All new employees are given a leaflet about the LGPS.
- Scheme booklets are distributed to all scheme members.
- An annual meeting is held for all pension fund employers.
- An annual report is produced.
- Pension Services staff present to 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, employers are advised to do the same.
- A Pension Fund Annual Report is produced and published on the website. Hard copies are available to other interested parties if requested.
- Campaigns notifying members of specific scheme benefits; for example nominated cohabiting partners and death grants.
- Articles about changes/updates/reminders featured in Working for Warwickshire (W4W).

Key Date for 2009/10

Annual Employers meeting:

- Tuesday 24 November 2009, Shire Hall

Contact Details

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Warwick
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Glossary An A to Z of Investment terms

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 maker***s 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***.

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