

2009-2010



Pension Fund

Annual Report
& Financial
Statements



*Working for
Warwickshire*

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Chairman's Statement



I was pleased in June 2009 not only to be re-elected to the County Council but also again to the chairmanship of the Pension Fund Investment Board. We now have two new members of the Investment Board: Cllr Jim Foster and Cllr David Wright.

It is also pleasing after the dire financial events of 2008/9 to report that the fund recovered steadily during 2009/10 to be again in excess of £1 billion. The diversified nature of our investments undoubtedly helped with this and during the year we further increased our investment in property and moved one of our UK Equity portfolios from active to passive index-tracking.

Our annual meeting in November 2009 was again well attended and we received a variety of interesting and informative presentations, including a view from our actuary, Chris Hull, of the challenges likely to arise from the forthcoming full actuarial review of the Fund in March 2010.

The Investment Board continues to have regular performance updates and training sessions from Fund Managers and has reviewed its investment principles and conformity with the modified Myners' principles during the year.

I continue to attend the Local Authority Pension Fund Forum where local authority funds can take joint action to try and help address some of the shortcomings in corporate governance that became evident during the credit crisis.

May I take this opportunity to thank our Group Manager, Phil Triggs and his dedicated staff for their ongoing commitment and enthusiasm and would particularly like to wish Oliver Winters, our former Head of Finance, well in his retirement.

Chris Davis

Chairman of the Pension Fund Investment Board

Introduction from the Strategic Director, Resources



Are public sector pensions unfair and unaffordable? They seem to be the current political football and, as I write this following a disappointing World Cup for England, they're certainly getting a kicking. The press reflects the sentiment of many private sector workers with, perhaps, little or no pension of their own to look forward to. But most public sector workers in line for these pensions probably think, quite reasonably, that they're no more than deserved. With two national commissions looking at the issue and a continued high profile public conversation over pensions, let's hope that - to continue the analogy - no own goal is scored.

Some investors will, no doubt, have been glad to see the back of early 2009. Equity markets and other high risk asset classes began the year in a continuation of 2008: a virtual free fall. This left the finances of many UK pension schemes in a very weak state at the end of the first quarter of 2009. However, by the end of the year it turned out that 2009 was a very good year for investment. A week may be a long time in politics, but a year in pension fund investment can also reflect a world of change. A bull market was up and running from April and, although it flattened out a bit flat into 2010, general overall performance was positive.

Here in the Warwickshire pension scheme, there was a general feeling of optimism, like any fan at the beginning of the football season. With the major difference here being that there was no subsequent disappointment and fall out. The fund continued to perform very well. As at the 31st March 2010, the fund value stood at £1,099.3 million. That was an increase over the same time in 2009 of £279 million, or 34%. That has more than recovered the reduction in the previous year that largely reflected the state of our financial institutions and the disastrous downturn in the global economy.

Looking forward into 2010, it is unlikely that it will be a smooth year for investment, given the ripple effect of the world recession and historically low interest rates. Investments across a range of sectors are likely to continue to fluctuate, but it should be possible to get a return on investment that continues to strengthen the fund and build on the successes of this year. And with that, roll on the next international football match...

Dave Clarke

Strategic Director, Resources

Report from the Group Manager Treasury and Pensions



The financial year 2009/10 has been a very productive one for the Treasury and Pensions Group.

Achievements

The year has been one of recovery for the pension fund. The economic recovery has fed into positive returns on the equity markets with UK and Global zones performing very well. Whilst markets continue to recover, the Fund will be looking to further diversify into further alternative investments, having started the process of appointing a private equity manager late in the financial year. Further work on alternatives will be started after the outcome of the actuarial valuation.

With regard to the office administration, the Group's work on its systems and procedures continues with the work on new document imaging systems reaching an advanced stage. The scanning of existing paper files has been a long, huge task but has progressed well with completion now expected by the end of 2010. The Pension Fund website has now been up and running for five years with further development in the future envisaged.

The Warwickshire Pension Fund held its Annual Meeting on 24 November 2009 at Shire Hall. Representatives from the District Councils and the various scheduled and admitted bodies were invited to a morning of presentations from the fund's actuary, fund management and staff. The 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 2010 meeting will be held on 24 November at 9.30am.

The Fund

The Fund itself achieved a return of 34.5% compared with the Fund benchmark of 35.2%, an under-performance of 0.7%. By comparison, the average local authority fund performance in 2009/10 was 35.1%. This represents a remarkable turnaround in the market's fortunes since the start of the global banking crisis and subsequent global recession.

Governance

The Pension Fund Investment Board had a very busy year. Pre-meetings were held at

fund manager offices on a quarterly basis in order to take advantage of member training opportunities. Official meetings were 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 external audit issues. The Fund voted all of its shares in line with best governance practice and became fully Myners compliant. With the revised Myners Principles now published, officers are hard at work on governance issues and working towards the United Nations Principles for Responsible Investment as a standard.

Accommodation

The Treasury and Pensions Group has settled well into its new offices. 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 confidently into the future.

Highlights 2009/10

- Further progress made in becoming fully Myners compliant.
- Annual Meeting of the Pension Fund
- IT based systems further developed and implemented
- Website development continues

Feedback

We welcome any feedback and these should be directed to me at:

philtriggs@warwickshire.gov.uk

Report from the Pension Services Manager



This year the Treasury and Pensions Group welcomed 120 delegates representing 89 local authorities and eight private sector partners as Warwickshire hosted the prestigious Computerised Local Authority Superannuation System (CLASS) Group Annual General Meeting.

The CLASS AGM is a two-day event and entailed demonstrations of products available in the AXISe pension administration system, a social evening at Warwick Castle and the main event itself held again at the Racecourse. The entire event is fully sponsored by our private sector partners.

The CLASS/Heywood partnership is one of the most successful examples of a public/private sector partnership and involves the provision of a pension administration system for the 89 CLASS consortium members representing local authority pension funds in England and Wales, Scotland and Northern Ireland.

The first meeting of the founder members of CLASS was in 1974 and Warwickshire was one of those founding authorities. Over those 36 years, the administration of the Local Government Pension Scheme has changed considerably with the CLASS system evolving from a system primarily concerned with the

valuation of the pension funds assets and liabilities to a multifunctional system able to provide all facets of a modern day pension scheme for almost 1.7 million active scheme members, 1.1 million preserved beneficiaries and over 1 million pensioners.

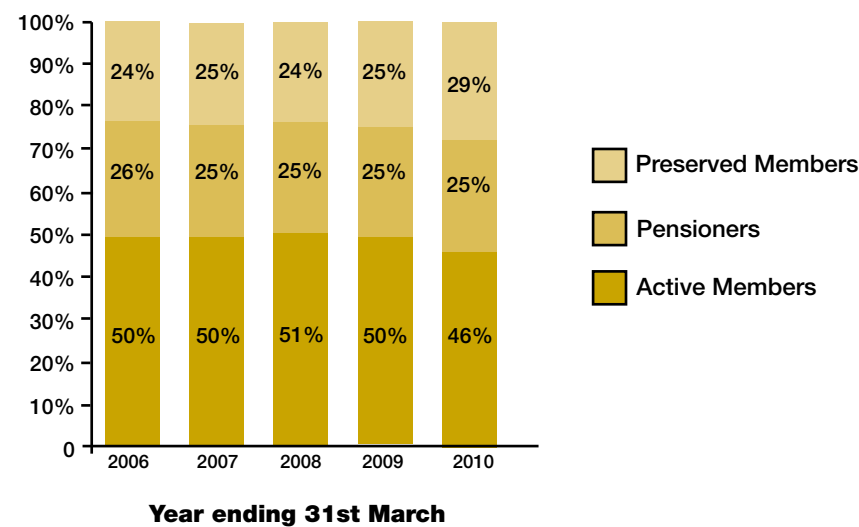
Heywood (part of the Aquila Group) provides the AXISe system (and the successor system Altair) to many public and private sector pension schemes and is well placed to assist the CLASS consortium with future changes to the LGPS. And changes there will be but as to what changes we can expect or when those changes will be introduced, we will have to wait and see.

The new Coalition Government has committed itself to implementing changes to public service pensions and has set up an Independent Public Service Pensions Commission which is to have a serious look at public sector pensions in the UK. The Commission is to produce an interim report by the end of September 2010 and a full report in time for the 2011 budget

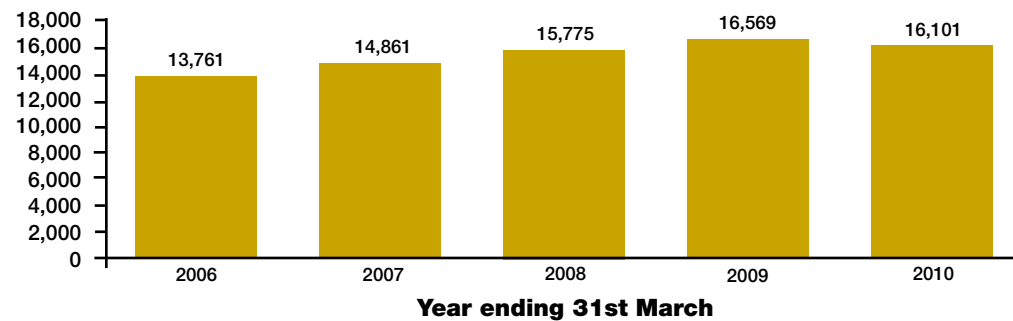
Whatever the future will bring, I remain confident that the Treasury and Pensions Group can rise to meet these challenges.

Neil Buxton
Pension Services Manager

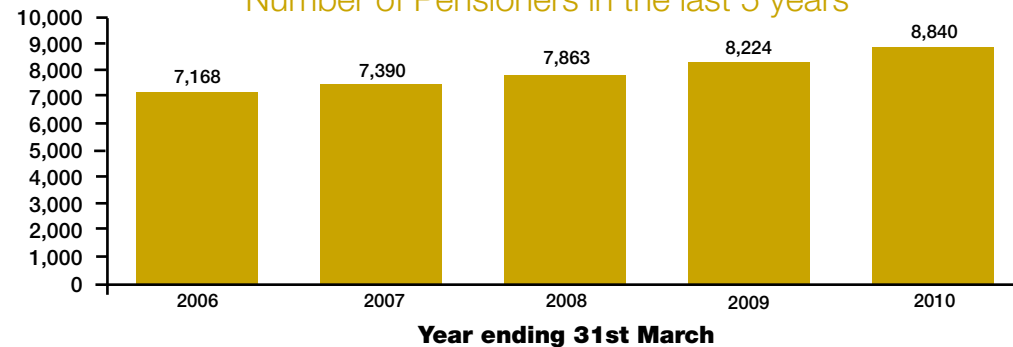
Scheme Membership profile over the last 5 years



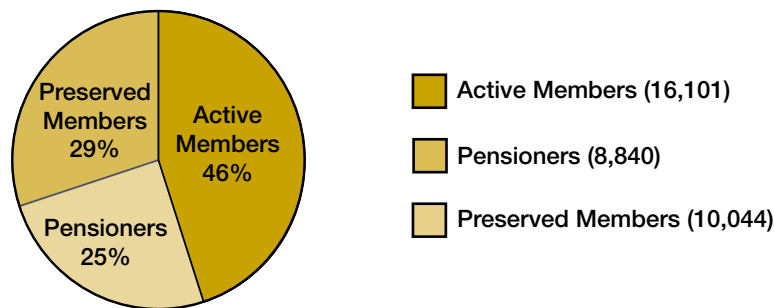
Active Membership in the last 5 years



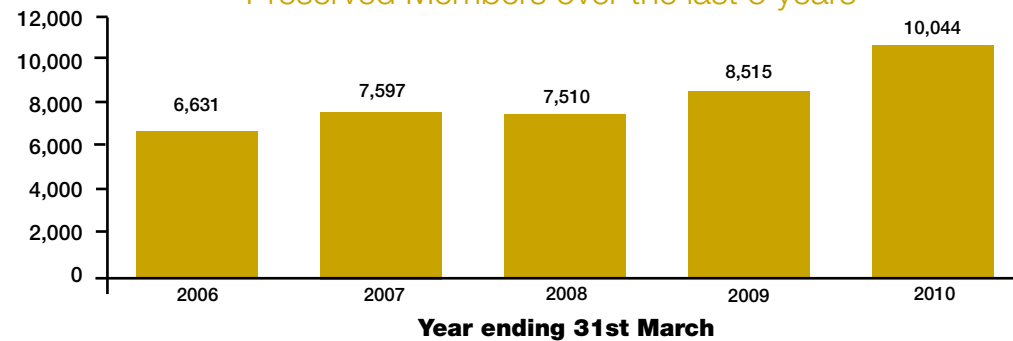
Number of Pensioners in the last 5 years



Membership profile as at 31 March 2010



Preserved Members over the last 5 years



1. Pensions Administration Performance Indicators

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

2. Pensions Administration Full Time Equivalent Staff

Pensions Admin total	18.0
less	
IT Staff	-0.5
Payroll Staff	-1.0
Communications Staff	-1.5
Employing authority work	-1.3
Work for other schemes	-0.7
Admin of LGPS	13.0

(There are 2889 members of the scheme for every full time equivalent member of staff)

3. In the financial year 2009/10 the Pensions Administration team received three complaints.



Participating Employers



The Strategic Director, Resources, administers the fund on behalf of the County Council, the five districts and 56 other Public Service Organisations.

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
- Bidford upon Avon Parish Council
- Coleshill Town Council
- Curdworth Parish Council
- King Edward VI College, Nuneaton
- Long Itchington Parish Council
- Mancetter Parish Council
- North Warwickshire and Hinckley College
- Ryton on Dunsmore Parish Council
- Royal Leamington Spa Town Council
- Shipston Town Council
- Southam Town Council
- Stratford upon Avon College

- Stratford upon Avon Town Council
- Warwickshire College
- Warwickshire Police Authority
- Warwickshire Probation Service
- Warwickshire Valuation Tribunal
- Wellesbourne Parish Council
- Whitnash Town Council

Current Admitted Bodies

- ABM Catering
- Alliance in Partnership
- Bedworth, Rugby and Nuneaton Citizens Advice Bureau
- Carillion Highways Maintenance
- Mid Warwickshire MENCAP
- Nuneaton and Bedworth Leisure Trust
- Orbit Housing Group
- Rugby Town Centre Company Limited
- Shipston Leisure
- Solihull School
- Stratford and District MENCAP
- Stratford upon Avon Council for Voluntary Service
- Stratford upon Avon Citizens Advice Bureau
- Stratford upon Avon Town Trust Co Ltd
- The Rowan Organisation
- Warwick District Citizens Advice Bureau

- Warwick Schools
- Warwickshire Association for the Blind
- Warwickshire Care Services Ltd
- Warwickshire Welfare Rights Service
- Westfield Community Development Association
- Youth Clubs UK

Other bodies with pensioners but no pensionable employees

- Beaudesert and Henley-in-Arden Joint Parish Council
- Lapworth Parish Council
- North Warwickshire Council for Voluntary Service
- Nuneaton and Bedworth Council for Voluntary Service
- People in Action
- Remnant Water Authority
- Rugby Council for Voluntary Service
- Rugby MENCAP Hostels
- Rugby MIND and Rugby Mental Health Association
- Severn Trent Water Plc
- Solihull Metropolitan Borough Council
- St Paul's College
- Stretton on Dunsmore Parish Council



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 2009/10



**Councillor
Chris Davis**
(Liberal Democrat)
Chairman



**Councillor
John Appleton**
(Conservative)



**Councillor
David Wright**
(Conservative)



**Councillor
Jim Foster**
(Conservative)



**Councillor
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

John Betts CPFA, Head of Corporate 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, Christine Barker, Chris Holmes, Sheila Taylor, Sonu Copson

Benefits Team: Karen Aston, Joy Batchelor, Ian Morris, Anthony Hall, Sam Green

Firefighters Pension Scheme: Helen Cox, Ali Wickens

Customer Liason External Support: Clive Shearsby, Linda Radley, Sue Lloyd

Investment Advisors

Independent Advisor: Peter Jones

Actuary: Chris Hull, Mercer

External Consultants: Paul Potter, Hymans Robertson

Investment Managers

UK Equities: Threadneedle Investments

Global Equities: MFS Investment Management

Fixed Income: Legal and General Investment Management

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

Fund of Hedge Funds: Blackstone Group International

UK Property: Schroder Investment Management and Threadneedle Investments

The Local Government Pension Scheme



The Warwickshire Pension Fund is part of the Local Government Pension Scheme (LGPS).

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

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

At 31 March 2010, the total membership of the fund stood at 34,985 and the total value of the Fund's net assets amounted to £1099.3 million. Of the 34,985 members 16,101 are active members currently contributing to the fund, 10,044 are members with deferred pension rights, and 8,840 are members receiving pensions.

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

All local government employees (except casual employees) are automatically entered into the scheme and must opt out if they do not want to join. Casual employees must make an election to join the scheme if they so wish.

Temporary employees on a contract of less than three months duration are not eligible for membership.

Benefits of the Pension Fund

Members of the LGPS belong to a scheme, which provides high quality pension benefits based on final year whole time equivalent pay and actual scheme membership. Because the Scheme is a defined benefit scheme members' benefits are calculated strictly in accordance with the Regulations and are not subject to changes generally affecting the fund assets. The Scheme is contracted out of the State Second Pension. This means that any pension paid from the Local Government Pension Scheme must be at least equal to the Guaranteed Minimum Pension (GMP) otherwise provided by SERPS to 5 April 1997.

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

The core benefits of the scheme are:-

- A guaranteed pension based on final pay and the length of service in the scheme.
- The ability to provide a tax-free lump sum by commutation of pension. Members of the scheme prior to 1 April 2008 have a tax free lump of approximately three times the pension accrued based on service to 31 March 2008.
- Life assurance of three times the members yearly pay from the day they join the scheme.
- Pensions for spouses, civilly registered partners and, qualifying cohabiting 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.
- Pensions are payable from age 55 with employers consent, including flexible retirement.

Cost of membership

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

Employers also pay a contribution towards the pension costs. This amount is decided every three years following an independent actuarial evaluation by the Fund's Actuary, Mercer. In 2009/10 the contribution rates for employers in the Warwickshire Pension Fund range from 0% to 29.3% based on the last valuation as at 31 March 2007.

Employer rates are being reviewed and will be revised from 1 April 2011

Investment report for the year ended 31 March 2010

The period under review - April 2009 to March 2010 - was a generally positive one for financial markets. Evidence of a global economic recovery continued to mount, with the US, UK and Eurozone economies officially emerging from recession, and growth in China remaining strong. This helped to support demand for a range of commodities, goods and services, allowing company earnings to recover from the depressed levels they had reached during the recession. Investor risk appetite continued to improve and, although there was a brief setback in January 2010 on the back of Greek debt concerns and fears of Chinese policy tightening, this proved short-lived and equity markets posted healthy returns over the year.

Greece's problems brought a renewed focus on government finances, with many commentators citing the UK, Portugal and Spain as other countries with unsustainably high budget deficits. As a result, both the euro and sterling weakened on the foreign exchange markets. Geographically, the biggest equity market returns for sterling investors came from Latin America and other emerging markets, but a wide range of markets delivered double-digit gains. In sector terms, areas exposed to the recovering global economy, such as industrials and mining, performed particularly well.

Within the developed economies, official Interest rates remained at historic lows. Base rates in the UK have now been held at 0.5% since March 2009. This is despite some upward pressure on inflation in the first quarter of 2010 due to higher energy prices and the re-imposition of the 17.5% rate of VAT. Elsewhere, the Federal Reserve held US interest rates at an all-time low of 0-0.25% while rates in the eurozone stand at a record low of 1.0%. Interest rates in Japan are just 0.10%.

The quantitative easing programmes that had been in place in the UK and US over the past year came to an end during the review period, removing an important buyer from government

bond markets. With new issuance remaining high, gilts struggled to make progress. However, higher yielding areas of fixed income, such as corporate and emerging market bonds, continued to perform well as investors concluded that an improving economic background would lead to further falls in default rates.

UK commercial property rallied strongly from early August 2009 as inflows to the asset class caused capital values to bounce back from depressed levels. Although performance moderated as the period came to an end, property continued to post positive monthly returns, in marked contrast to a year ago.

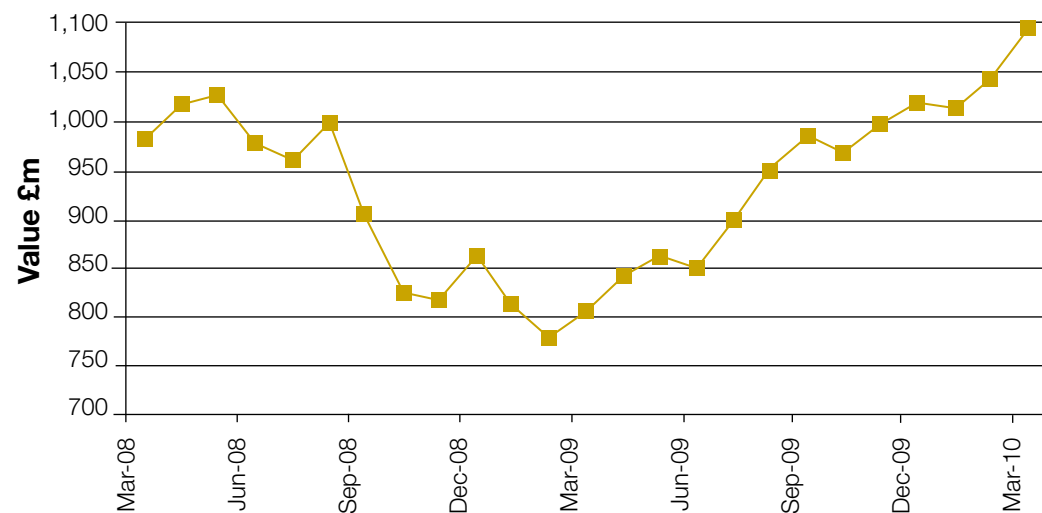
Investment Return Compared to the Local Authority Universe 2009/10

	1 Year Return	3 Year Return
Warwickshire	34.5%	2.7%
Warwickshire's Benchmark	35.2%	3.2%
Local Authority Universe	35.1%	2.6%
Out/under performance-	0.6%	- 0.5%

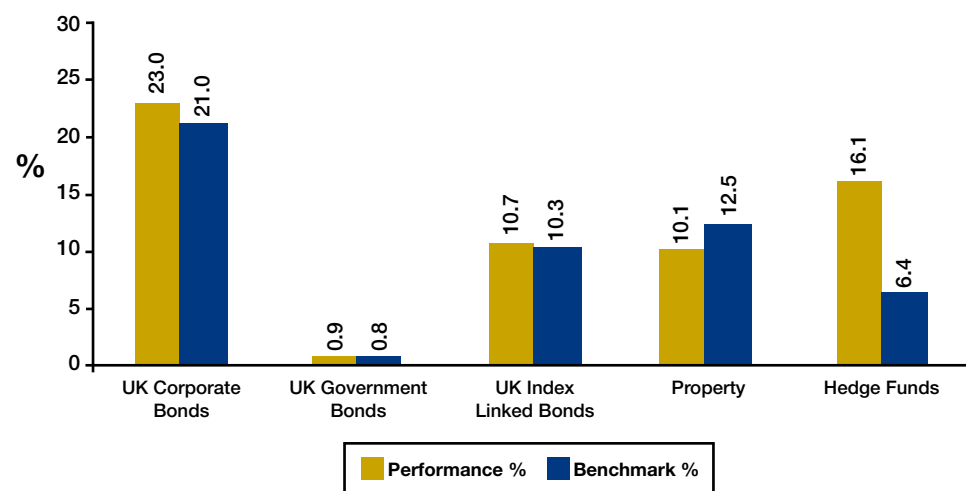
Top Ten Holdings

	£ millions
1 HSBC	10.7
2 BP	10.6
3 Rio Tinto	9.5
4 British American Tobacco	7.0
5 Glaxosmithkline	6.5
6 BG Group	6.4
7 Royal Dutch Shell	6.4
8 Vodafone Group	6.2
9 Nestle	4.8
10 Astrazeneca	4.6

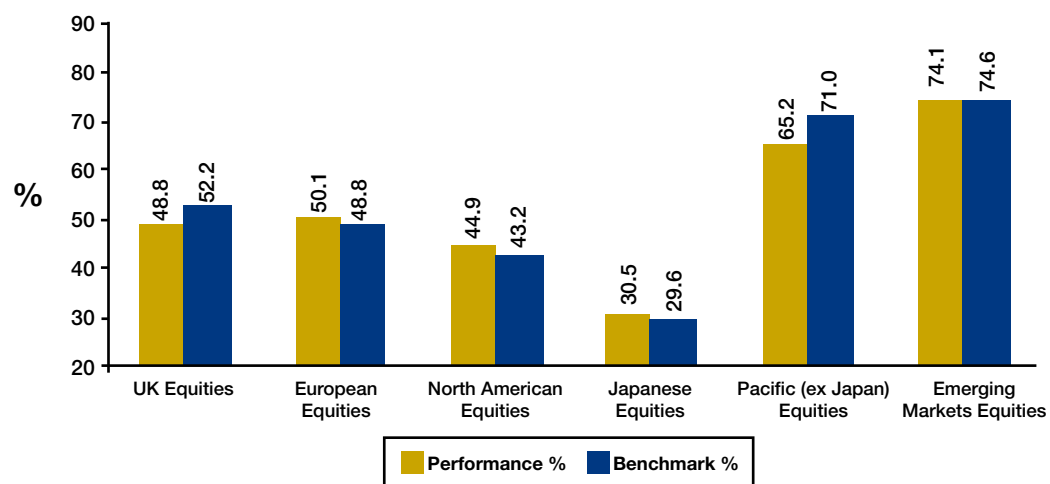
Total Fund Value Since March 2008



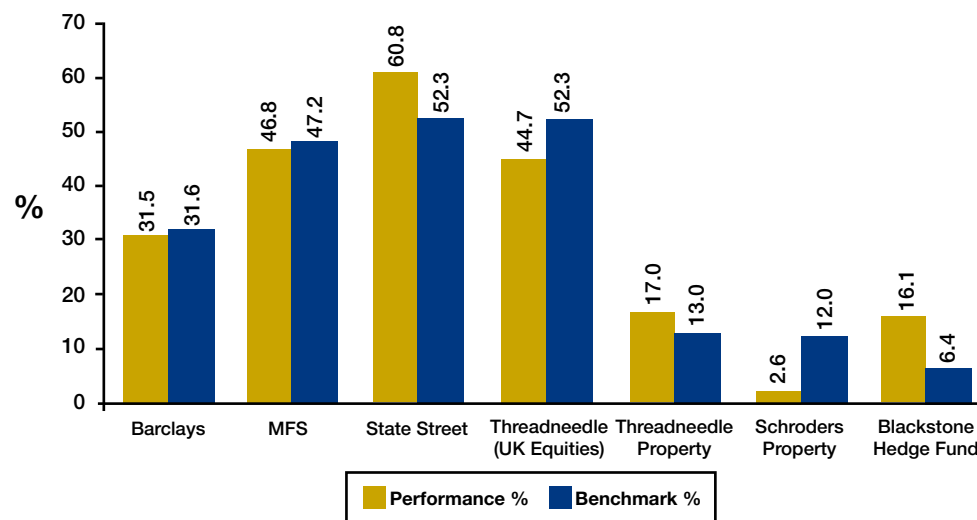
Bonds and Alternatives Performance by Asset type for the Year Ending 31 March 2010



Equity Performance by Location for the Year Ending 31 March 2010



Fund Manager Performance for the Year Ending 31 March 2010



Statement of Investment Principles



1. Introduction

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

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

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

Annex 2 sets out the role of the investment consultant.

2. Overall Responsibility

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

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

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

The day-to-day monitoring of investment managers is delegated to the Strategic Director, Resources. The Strategic Director, Resources also has a statutory duty to ensure that proper financial arrangements are in place to manage the Fund. The Pension Board Investment Board meets four times a year at the conclusion of each quarter. The active investment managers will attend these Board 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 investment in markets that over time are likely to give better returns relative to the liabilities.
- (iii) Acknowledge the risks of investing and

have regard to best practice in managing these risks.

- (iv) Have sufficiently liquid resources available to meet the Fund's current liabilities.
- (v) For the overall Fund to outperform the benchmark set out in 3.3, by 1.0475% per annum over rolling three-year periods (with regard to private equity, over the life of the contract).

3.2 Risk

There are various risks to which any pension fund is exposed. The approach is to monitor and control these risks as far as possible, consistent with earning a satisfactory return on investments. 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. This is controlled by regular monitoring of the suitability of the investment policy in the light of the Fund's developing liabilities and finances. Asset liability modelling studies are carried out to assist in setting the policy and strategic asset allocation.
- (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 53.5% 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 46.5% 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.
- (iv) Liquidity risk is controlled by forecasting on a regular basis the net benefit outgo or inflow and ensuring that sufficient cash balances are available.



3.3 Investment Strategy

The Authority sets a long-term investment strategy (the mix of asset types) to have regard to the Fund’s liability structure and the investment objectives above. This is reviewed at least every three years, after each actuarial

valuation. The Authority believes that the following investment strategy is currently appropriate for controlling the risks identified in 3.2, given the liability profile of the Fund and its financial position.

Asset Class	Index-Trackers	UK Equity Specialists	Global Equity Specialists	Alternative Assets	Total
UK Equities	15.00	13.50	1.80		30.30
Overseas Equities	18.50		11.20		29.70
European	8.80		2.90		11.70
North American	4.30		4.70		9.00
Far East/ Emerging Markets	5.40		3.60		9.00
Property			10.00	10.00	
Hedge Funds			5.00	5.00	
Private Equity			5.00	5.00	
UK Corporate Bonds	10.00				10.00
UK Fixed Interest	5.00				5.00
UK Index-Linked	5.00				5.00
Total	53.50	13.50	13.00	20.00	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 theme 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
Black Rock Global Investors (“BGI”)	Multi-asset Passive Portfolio	18%
State Street Global Advisors (“SSGA”)	Passive UK Equity Portfolio	11%
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	10.5%
Legal and General Investment Management (“LGIM”)	Passive Bond Portfolio	14%
Schroder Investment Management (“Schroder”)	Active Property (Multi-Manager) Portfolio	5%
Threadneedle Investments (“Threadneedle”)	Active Property Portfolio	5%
Blackstone Alternative Asset Management (“Blackstone”)	Active Fund of Hedge Funds Portfolio	5%
HarbourVest	Private Equity	5%





The investment managers' mandates include the following guidelines:

BlackRock (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, BlackRock will be expected to track the relevant benchmark index within agreed tolerance limits.

State Street Global Advisors and Threadneedle (UK Equities)

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	

For State Street Global Advisors, the performance target for each UK equity mandate is to match the FTSE All Share Index (gross of fees) over one-year rolling periods.

For Threadneedle, 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 Equities)

The details of the global equity mandate are:

	Benchmark (%)	Allowable Range (%)	Index
European (inc UK) Equities	30.56	+/- 2.25	FTSE Europe Developed (inc UK) Index
North American Equities	30.56	+/- 2.25	FTSE AW Developed North America Index
Pacific Basin (inc Japan) Equities	30.55	+/- 2.25	FTSE Asia Pacific Developed Pacific (inc Japan) Index
Emerging Markets Equities	8.33	+/- 0.75	FTSE AW All Emerging Index
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 and HarbourVest are monitored separately.



MFS (Global Equities)

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	+/- 2.5	iBoxx Sterling Non-Gilts All Stocks Index
UK Fixed Interest Gilts	50.0	+/- 2.5	FTSE A All Stocks Fixed Interest Gilt Index
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	100.00	

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

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

Threadneedle (Property)

The details of the property mandate are:

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

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

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





Blackstone (Fund of Hedge Funds)

The details of the fund of hedge funds mandate are:

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

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

HarbourVest (Fund of Private Equity Funds)

The details of the fund of hedge funds mandate are:

	Benchmark (%)	Index
Fund of private equity funds	100.0	MSCI World Index
Total	100.00	MSCI Global Equities Index Plus

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

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 2009. 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 BNY Mellon Asset Servicing, a subsidiary of the Authority’s global custodian, on a quarterly and annual basis. They provide quarterly and annual performance reports to the Authority.

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

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

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

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

5 Social, Environmental and Ethically Responsible Investment

The 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) The Investment Board employs a corporate governance service for the execution of share voting rights. Responsibility for voting is undertaken by the Fund in line with its voting policy approved by the Investment Board on 4 August 2008.
 - (iii) The Fund is a member of the National Association of Pension Funds (NAPF) and the Local Authority Pension Fund forum (LAPFF).
 - (iv) The Authority also supports the incorporation of the principles of the US Department of Labor Interpretive Bulletin and includes this requirement in the investment manager agreements.
 - (v) The Board has approved the adoption of the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. The Board has authorised officers to commence work on complying with the Statement, liaising with our investment consultant and fund managers as necessary.

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

Hymans Robertson 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.

Administration and fund management costs of the fund during 2009-10	
	£m
Administration costs (excluding fund management costs) charged to the fund	£1.4
Fund management costs charged to the fund	£3.0
Total costs charged to the fund (including management costs)	£4.4

Annex 1

Principles for Investment Decision-Making

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

Principle 1: Effective Decision-Making (Former Principles 1 and 4)

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

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

Best Principle Guidance

- The board has appropriate skills for, and is run in a way that facilitates, effective decision-making.
- There are sufficient internal resources and access to external resources for trustees and boards to make effective decisions.

- It is good practice to have an investment sub-committee, to provide the appropriate focus and skills on investment decision-making.
- There is an investment business plan and progress is regularly evaluated.
- Consider remuneration of trustees.
- Pay particular attention to managing and contracting with external advisers (including advice on strategic asset allocation, investment management and actuarial issues).

Evaluation of Compliance

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

Principle 2: Clear Objectives (Former Principles 2, 5 and 7)

Trustees should set out an overall investment objective(s) for the fund that takes account

of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

Best Practice Guidance

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

Evaluation of Compliance

- Full compliance. Fund objectives are set out in the Statement of Investment Principles. Fund managers operate to detailed written mandates that give clear investment objectives and timescales for measurement (rolling three years). A customised benchmark has been adopted based on asset/liability studies undertaken by the fund's actuary. Control ranges

are in place consistent with performance targets to which the fund managers should work. The fund has two balanced passive mandates, two specialist passive mandates, two specialist active equity mandates, two property portfolios, one private equity portfolio and a fund of hedge funds portfolio. Alternative asset classes are reviewed in asset/liability studies and researched as appropriate. Management styles and the impact of investment management costs are considered at the time of the regular procurement exercises.

Principle 3: Risk and Liabilities (Former Principle 3)

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

Best Practice Guidance

- Trustees have a clear policy on willingness to accept under-performance due to market conditions.
- Trustees take into account the risks associated with their liabilities' valuation and management.
- Trustees analyse factors affecting long-term

performance and receive advice on how these impact on the scheme and its liabilities.

- Trustees have a legal requirement to establish and operate internal controls.
- Trustees consider whether the investment strategy is consistent with the scheme sponsor's objectives and ability to pay.

Evaluation of Compliance

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

Principle 4: Performance Assessment (Former Principle 8)

Trustees should arrange for the formal measurement of the performance of the

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

Best Practice Guidance

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

Evaluation of Compliance

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

Principle 5: Responsible Ownership (Former Principle 6)

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

Best Practice Guidance

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

Evaluation of Compliance

- Part compliance. The Investment Board is still required to adopt a policy with regard to shareholder activism. All the Fund's investment managers need to be contacted with a view to establishing their policies of engagement and constructive dialogue with companies. Policies regarding responsible ownership need to be disclosed to scheme members in the Statement of Investment Principles and the Fund's Annual Report. This will be the subject of a future report to the Investment Board. The Board also needs to give consideration to adopting the United Nations Principles for Responsible Investment. The Investment Board has already adopted the Institutional Shareholders' Committee Statement of Principles.

Principle 6: Transparency and Reporting (Former Principles 9 and 10)

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

Best Practice Guidance

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

Evaluation of Compliance

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



Annex 2

Role of Investment Consultant

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

- i. assistance in helping the Authority formulate investment objectives;
- ii. advice on Investment Strategy;
- iii. advice on devising an appropriate investment manager structure;
- iv. assistance in selecting and monitoring of investment managers.

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-Trackers	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
<i>European</i>	<i>7.50</i>		<i>5.50</i>			<i>13.00</i>
<i>North American</i>	<i>1.25</i>		<i>8.50</i>			<i>9.75</i>
<i>Far East/ Emerging Markets</i>	<i>1.25</i>		<i>8.50</i>			<i>9.75</i>
Property				5.00		5.00
Hedge Funds				5.00		5.00
UK Corporate Bonds	2.00				8.00	10.00
UK Fixed Interest	2.00				8.00	10.00
UK Index-Linked	5.00					5.00
Total	21.00	27.00	26.00	10.00	16.00	100.00

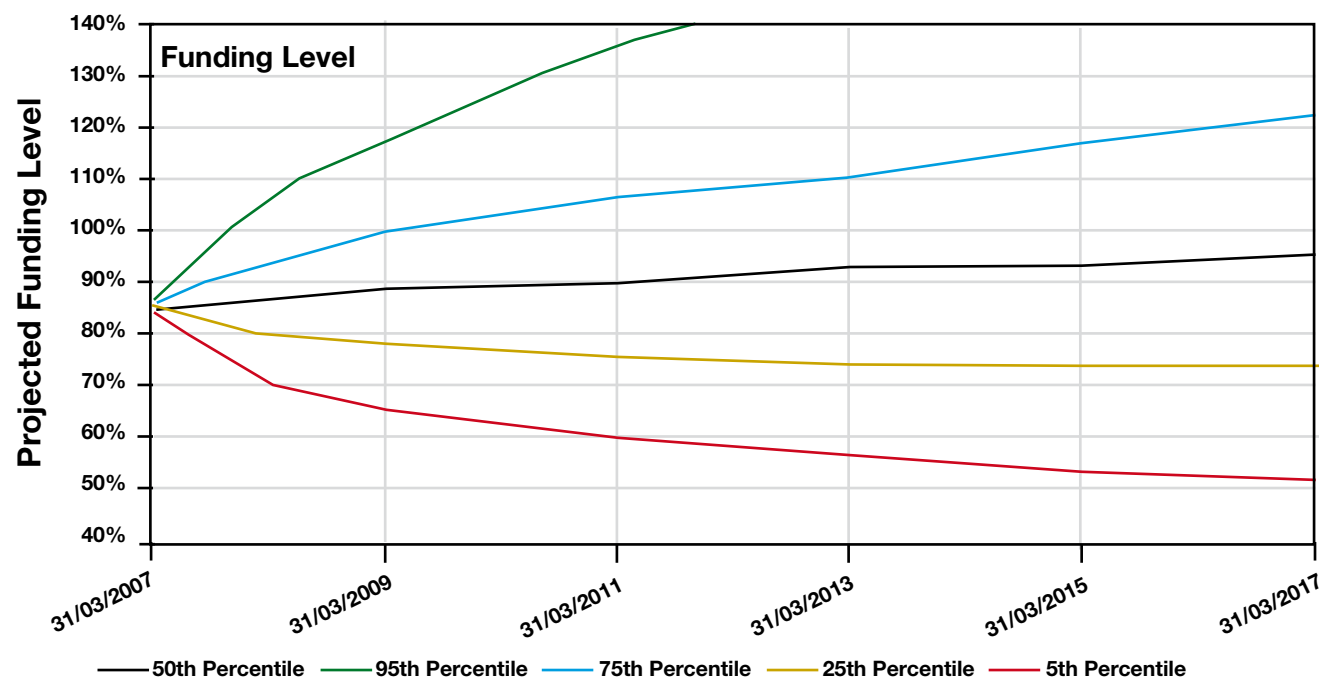
The funding strategy adopted for the 2007 valuation is based on an assumed asset out-performance of 2.5% in respect of liabilities pre-retirement, and 1.0% in respect of post-retirement liabilities. Based on the liability profile of the Scheme at the valuation, this equates to an overall asset out-performance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

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 ageing and decline of the current closed membership group.

Key Valuation Assumptions

Investment return (discount rate)

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

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

Individual Employers

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

employers therefore, a single, composite, pre and post retirement asset out-performance assumption has been calculated which, for the Fund as a whole, gives the same value of the Funding target as the separate pre and post retirement AOAs.

Inflation (Retail Prices Index)

The inflation assumption will be taken to be the investment market's expectation for 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.

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.

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).

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 health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 5 years older.

Method and assumptions used in calculating the cost of future accrual

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

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

- contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the valuation, and which are not directly linked to market conditions at the valuation date; and

- the future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of 3.75% per annum, with a long term average assumption for price inflation of 2.75% per annum. These two assumptions give rise to an overall discount rate of 6.5% p.a.

Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the "Common Rate" of contributions. In market conditions at the effective date of the 2007 valuation this approach gives rise to a somewhat more optimistic stance in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of the Funding target.

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

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

This is the statement required under Regulation 34(1)(d) of The Local Government Pension Scheme (Administration) Regulations 2008. 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.

Since the 2007 valuation the markets have shown a high degree of volatility, and the Fund has monitored the implications for funding closely with further actuarial advice provided.

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



C R Hull

Fellow of the Institute of Actuaries
Mercer Limited
August 2010

Risk Management

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

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

The process is summarised as follows:

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

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

www.warwickshire.gov.uk/pensions

Governance Compliance Statement

The Governance Compliance Statement requires LGPS funds to demonstrate their compliance (or non compliance) with best practice principles. These are contained in statutory guidance which is not mandatory but there is an obligation to comply unless there is a good reason not to do so.

This approach is termed as “comply or explain”. The move to a compliance based approach reinforces the need for pension funds to have well defined and transparent governance structures.

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

Principle	Warwickshire's Approach	Compliance
Representation		
That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: <ul style="list-style-type: none"> • employing authorities (including non-scheme employers, e.g., admitted bodies); 	Not all member bodies are represented on the Board or the Panel.	Explain
<ul style="list-style-type: none"> • scheme members (including deferred and pensioner scheme members); 	The Consultative Panel includes trades union representatives.	Comply
<ul style="list-style-type: none"> • independent professional observers; and 	The Board employs an independent consultant who is an experienced ex chief executive of an investment house. The consultant is present at all Board meetings.	Comply
<ul style="list-style-type: none"> • expert advisors (on an ad hoc basis). 	Expert advisors attend the Board as required depending on the nature of the decisions to be taken. For example, the actuary attends when the valuation is being considered and the investment consultant attends when strategic asset allocation decisions are being discussed.	Comply
That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	All members are treated equally in terms of access to papers and to training that is given as part of the Board processes. However, to date the Consultative Panel members have not been on any formal training.	Explain
Selection and role of lay members		
That Board or Panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Board members are given initial and ongoing training to support them in their role as trustees. There is no formal approach at present with regard to Panel members.	Explain
Voting		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Warwickshire is fully compliant with this principle. Most decisions are reached by consensus, but voting rights remain with councillors because the Council retains legal responsibility as the administering authority. Panel members do not have voting rights because they are not members of the Administering Authority which has the responsibility in law to administer the scheme.	Comply

Principle	Warwickshire's Approach	Compliance
Training/Facility time/Expenses		
That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	This falls within the County Council's normal approach to member expenses. Panel members do not receive expenses. Training has been referred to above.	Comply
That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	The policy applies equally to all elected members of the Investment Board. Unelected Panel representatives do not receive expenses from the Administering Authority.	Explain
Meetings (Frequency/Quorum)		
That an administering authority's main committee or committees meet at least quarterly.	The Consultative Panel meets every six months with the dates of the meetings synchronised with the dates of the Investment Board.	Comply
That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	All members are treated equally in terms of access to papers and to training that is given as part of the Board processes. However, to date the Consultative Panel members have not been on any formal training.	Comply
That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	The Pension Fund holds an annual meeting in November each year to which all key stakeholders are invited. The meeting is a two-way process in which all delegates have the opportunity to ask questions and express their views.	Comply
Access		
That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Certain papers involving confidential information about fund managers are held to be exempt from the usual distribution process.	Explain

Principle	Warwickshire's Approach	Compliance
Scope		
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Warwickshire is fully compliant with this principle by bringing both investment and benefit issues to the Board. An agenda will usually include a fund monitoring report, individual reports from managers, and reports on specific investment and administration issues. A business plan is approved each year.	Comply
Publicity		
That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Warwickshire is fully compliant with this principle by publishing statements in the Annual Report and on its website.	Comply

Accounts for the year ending 31 March 2010



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 2010;
- 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 2010 and its income and expenditure for the year then ended.

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 2009 to 31 March 2010.

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

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

The accounts are set out in the following order:

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

Fund account

Dealings with members, employers and other people directly involved in the scheme

2008/2009 £ millions	Revenue account	2009/2010 £ millions
	Income to the fund	
	Contributions receivable (funds due to us during the year):	
	From employers	
-31.2	~ normal	-31.6
-0.3	~ augmented	-0.2
-4.5	~ deficit funding	-7.3
-16.3	From employees	-16.6
-10.5	Individual transfers in from other schemes	-7.0
-62.8	Income to the fund	-62.7
	Pending by the fund	
	Benefits to be paid:	
34.2	Pension payments	37.3
10.0	Commutation of pensions and lump sum retirement benefits	13.0
1.0	Lump sum death benefits	1.6
	Payments to and on behalf of leavers	
0.1	Refunds of contributions to people who leave the scheme	0.0
4.9	Individual transfers out of the scheme	7.3
1.2	Administration expenses paid by the scheme	1.5
51.4	Spending by the fund	60.7
-11.4	Net additions from dealing with members	-2.0
	Return on investments:	
-16.2	Dividends from stocks and shares	-14.3
-1.2	Income from pooled investment vehicles	-1.3
-0.9	Interest on cash deposits	0.4

2008/2009 £ millions	Revenue account	2009/2010 £ millions
Change in market values of investments:		
67.7	Realised profit (-) or loss on sales	-36.0
-0.4	Realised profit (-) or loss on Derivatives (Foreign Ex)	0.2
124.0	Unrealised profit (-) or loss on investments	-229.4
Taxation		
1.5	Tax we cannot claim back	1.2
3.2	Investment management expenses	3.0
177.7	Net returns on investments	-277.0
166.3	Net increase (-) / decrease in fund during the year	-279.0

2008/2009 £ millions	Pension fund net assets	2009/2010 £ millions
-166.3	Net increase / decrease (-) in fund during the year	279.0
986.6	Add opening net assets of the scheme	820.3
820.3	Net assets at the end of the year	1099.3



March 2009 Restated £ millions	Net asset statement	As at March 2010 £ millions
Investment assets		
1.0	Fixed interest securities	4.7
305.3	Stocks and shares	301.7
0.0	Unit trusts	0.0
483.9	Managed funds	779.8
0.1	Derivative Contracts	0.0
9.6	Cash and deposits	11.0
4.6	Other Investments	1.4
804.5		1098.6
Current assets		
1.6	Contributions due from employers	1.3
0.2	Other debtors	0.6
15.4	Cash balances	0.2
Current liabilities		
0.0	Unpaid benefits (creditors)	0.0
-1.4	Other creditors	-1.4
15.8		0.7
820.3	Net assets at the end of the year	1099.3

Certain investment asset class opening balances totalling £94.9m were restated after the 31 March 2009 period end, the overall Pension Fund net investment assets however remains the same. This restatement was due to the re allocation of active global equities to managed funds after a change in investment manager.

Notes to the Accounts

1. Operations and membership

We administer the statutory Warwickshire Local Government Pension Fund (a defined benefit scheme set up under the Local Government Pension Scheme Regulations 1997). The fund is open to our employees, the five district and borough councils and 56 other organisations. You can find a list of scheduled and admitted bodies in Note 8. The fund does not cover teachers, police officers or firefighters as these staff have different pension arrangements. The Pension Fund Investment Board is responsible for managing the pension fund. The Board is made up of five county councillors. A specialist advisor provides advice and guidance to the Board as well as the Strategic Director, Resources and his staff.

As at 31 March 2009	Membership	As at 31 March 2010
16,569	Number of members contributing to the scheme	16,101
8,224	Number of pensioners paid by the fund	8,840
8,514	Number of ex-members whose pension rights are 'frozen' until they retire	10,044

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 2009 (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 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.

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. This is included in 'Other Investments' in the accounts and Note 5.

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 class this gain separately as realised profit in the revenue account.

e Contributions

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

f Benefits due to be paid

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

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

g Transfer to and from other schemes

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

h Other expenses

We account for administration and investment management expenses on an accruals basis.

These expenses do not include any VAT that can be recovered. We have worked out our fund manager fees in line with the appropriate contract and the associated contract agreement as follows.

Fund manager	Mandate	Negotiated fee
State Street Global Advisors	Passive index tracker (UK stocks and shares)	Percentage of the fund
Threadneedle Investments	UK stocks and shares	Percentage of the fund
MFS Investment Management	Global stocks and shares	Percentage of the fund
BlackRock Global Investors	Passive index tracker	Percentage of the fund
Schroder Investment Management	Fund of funds (UK property)	Percentage of the fund
Legal and General Investment Management	Passive index tracker (global stocks and shares)	Percentage of the fund
Legal and General Investment Management	Passive index tracker (fixed income)	Percentage of the fund
Threadneedle Investments	Pooled Fund (UK property)	Percentage of the fund
Blackstone Group International	Fund of funds (hedge funds)	Percentage of the fund

We still have small amounts with the following managers whose contracts have been terminated.

Fund manager	Mandate	Negotiated fee
State Street Global Advisors	UK stocks and shares	n/a
UBS Global Asset Management	Global stocks and shares	n/a
UBS Global Asset Management	Fixed income	n/a

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 2009/2010, the County Council paid employers' contributions at a rate of 13.8%. The district and borough councils paid employers' contributions at rates ranging between 14.2% and 15.3%.

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

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

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

2008/2009 Restated £ millions	%	Market value of external investments	2009/2010 £ millions	%
101.2	12.6	State Street Global Advisors (UK Equities)	0.7	0.1
0.0	0.0	State Street Global Advisors (Index Tracker UK Equities)	151.4	13.8
106.5	13.2	Threadneedle Investments (UK Equities)	154.0	14.0
0.1	0.0	UBS Global Asset Management (Global Equities)	0.1	0.0
104.2	12.9	MFS Investment Management (Global Equities)	152.9	13.9
1.2	0.1	UBS Global Asset Management (Fixed Interest)	2.8	0.2
173.1	21.5	BlackRock Global Investors (Index Tracker)	227.6	20.7
103.7	12.9	Legal and General Investment Management (Index Tracker - Global Equities)	145.2	13.2
126.9	15.9	Legal and General Investment Management (Index Tracker - Fixed Income)	135.8	12.4
18.0	2.2	Threadneedle Investments (Property)	38.6	3.5
17.8	2.2	Schroder Investment Management (Property)	35.8	3.3
46.2	5.8	Blackstone Group International (Hedge Funds)	53.7	4.9
5.6	0.7	BlackRock Investment Management (Transition Manager)	0.0	0.0
804.5	100.0	Total	1098.6	100.0

5 Investments

	Value 1 April 2009 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 2010 £ millions
Fixed interest securities	1.0	4.7	-0.9	-0.7	0.6	0.0	4.7
Stocks and shares	305.3	221.0	-356.4	27.6	104.2	0.0	301.7
Managed funds	483.9	225.7	-63.4	9.1	124.5	0.0	779.8
Derivative contract	0.1	0.0	0.0	0.0	-0.1	0.0	0.0
Cash and deposits	9.6	75.1	-76.0	-0.1	0.0	2.4	11.0
Other investments	4.6	0.2	-1.1	-0.1	0.2	-2.4	1.4
Total	804.5	526.7	-497.8	35.8	229.4	0.0	1,098.6



2008/2009 Restated £ millions		2009/2010 £ millions
Fixed interest securities		
0.0	UK public sector	0.0
0.8	UK quoted	4.7
0.0	Overseas public sector	0.0
0.2	Overseas other	0.0
1.0		4.7
Stocks and shares		
187.9	UK quoted	153.7
117.4	Overseas quoted	148.0
305.3		301.7
Managed funds		
483.9	Managed funds	779.8
483.9		779.8
Derivative Contracts		
0.1	Futures contracts - UK Gilts	0.0
0.1		0.0
Cash and deposits		
7.9	Sterling	8.8
1.7	Foreign currency	2.2
9.6		11.0
Other investments		
10.0	Debtors	1.6
-5.4	Creditors	-0.2
4.6		1.4

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

The total contributions we received from employers was £39.1 million (£36.0 million in 2008/2009) and £16.6 million (£16.3 million in 2008/2009) from employees.

Employees contributions during the year included payments of £0.3 million to buy added year and additional regular contributions (£0.3 million in 2008/2009 for added years).

Employers' contributions during the year included £2.7 million received from employers for compensation to the fund for those retiring early and being made redundant (£1.7 million in 2008/2009).

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.

2008/2009 £ millions	Contributions we receive	2009/2010 £ millions
Administering authority		
20.0	~ From employers	21.9
9.5	~ From employees	9.8
29.5		31.7
Scheduled bodies		
14.1	~ From employers	15.3
6.0	~ From employees	6.1
20.1		21.4
Admitted bodies		
1.8	~ From employers	1.8
0.8	~ From employees	0.7
2.6		2.5
Non-scheduled bodies		
0.1	~ From employers	0.1
0.0	~ From employees	0.0
0.1		0.1
52.3	Total	55.7

2008/2009 £ millions	Analysis of contributions by type	2009/2010 £ millions
15.9	Employee contributions - normal	16.3
0.4	Employee contributions - purchase of additional years	0.3
31.2	Employers' normal contributions	31.6
0.3	Employers' augmentation Contributions	0.2
4.5	Employers' deficit funding Contributions	7.3
52.3	Total	55.7

2008/2009 £ millions	Benefits to be paid	2009/2010 £ millions
Administering authority		
23.6	~ Pension paid (including lump sums)	26.8
2.3	~ Transfers out	3.9
25.9		30.7
Scheduled bodies		
19.7	~ Pension paid (including lump sums)	22.7
2.5	~ Transfers out	3.4
22.2		26.1
Admitted bodies		
1.9	~ Pension paid (including lump sums)	2.3
0.1	~ Transfers out	0.0
2.0		2.3
Non-scheduled bodies		
0.1	~ Pension paid (including lump sums)	0.1
0.0	~ Transfers out	0.0
0.1		0.1
50.2	Total	59.2

The total pensions paid out (including lump sums) was £51.9 million (£45.3 million in 2008/2009) and the total transfers out was £7.3 million (£4.9 million in 2008/2009).

7 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.

8 Additional voluntary contributions

In 2009/2010, 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 £0.8 million in Equitable Life, and £2.0 million in Standard Life on 31 March 2010. The pension fund accounts also do not include additional voluntary contributions. During the financial year 2009/2010, employees contributed £0.3 million in additional voluntary contributions to Standard Life and £10,000 to Equitable Life.

9 Other disclosures

There were no material related party transactions during the year.

At 31 March 2010, the fund had stock valued at £9.6 million (£1.5 million at 31 March 2009) which was lent out to other organisations.

This generated a total income of £0.1 million up to 31 March 2010.

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

Our policy is to reinvest income from fixed interest securities within the pooled units of the fund.

During 2009/2010 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 £20,000.

The fund currently has no outstanding loans to external organisations.

During the year 2009/2010, the pension fund paid refunds of contributions to employees of £20,000 after tax has been deducted.

Transaction costs totalling £2.1m 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.

10 Investment performance

Investment performance	Our pension fund %	Our benchmark %	Local Authority Average %
Yearly return on investments for 2009/2010	34.5%	35.2%	35.1%

Overall in the financial year 2009/2010, the fund had a return of 34.5% compared with the fund's specific benchmark of 35.2%.

11 Contingent liability

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

Employers Contributions paid for 2009/2010

Employers Contributions	
< £20m	Warwickshire County Council
< £3m	Warwickshire Police Force
	Nuneaton and Bedworth BC
< £2m	Warwick District Council
	Rugby Borough Council
	Warwickshire College
	Stratford on Avon District Council
	North Warwickshire BC
< £1m	North Warwickshire and Hinckley College
	Warwickshire Probation
< £500k	Warwick Schools
	Stratford College
	Orbit Heart of England Housing Association
	Carillion Highways Maintenance Ltd
	Warwickshire Care Services
	Nuneaton and Bedworth Leisure Trust
	Solihull School
	Myton School
	The Rowan Organisation
	Avon Valley School
< £100k	Orbit Heart of England Housing and Care Association
	Hartshill School
	Studley GM School
	Queen Elizabeth School
	King Edward VI Form College
	Rugby High School
	Ash Green School

Employers Contributions	
< £50k	Stratford and District Mencap
	BRANCAB
	Warwick District CAB
	Alcester Grammar School
	Dunchurch First School
	Stratford on Avon Town Trust
	Stratford upon Avon Town Council
	Warwickshire Welfare Rights Service
	Work First
	Shipston on Stour GM School
	Rugby Town Centre Company Limited
	Warwickshire Valuation Tribunal
	Middlemarch Middle School
	Westfield Community Development Association
	Warwickshire Association for the Blind
	Royal Leamington Spa Town Council
	South Warwickshire Tourism
< £10k	Dunnington CE Junior and Infant
	Haselor School
	Alcester Town Council
	Stratford on Avon CAB
	Moreton Morrell CE School
	Duchy Catering / Henley School
	Wolverton Junior and Infants School
	Stratford on Avon Council for Voluntary Services
	North Warwickshire CAB
	Shipston on Stour Town Council
	Coleshill Town Council

Employers Contributions	
< £5k	Atherstone Town Council
	Bidford on Avon Parish Council
	Southam Town Council
	Whitnash Town Council
	Wellesbourne Parish Council
	Ryton on Dunsmore Parish Council
	Bishops Itchington Parish Council
	ABM Catering / North Leamington School
	Mid Warwicks Society for Mentally Handicapped Children
	Long Itchington Parish Council
	Mancetter Parish Council

Employees Contributions paid for 2009/2010

Employees Contributions	
< £10m	Warwickshire County Council
< £2m	Warwickshire Police Force
< £1m	Nuneaton and Bedworth BC
	Warwick District Council
	Rugby Borough Council
	Warwickshire College
	Stratford on Avon District Council
< £500k	North Warwickshire BC
	North Warwickshire and Hinckley College
	Warwickshire Probation
	Warwick Schools
	Stratford College
	Nuneaton and Bedworth Leisure Trust
< £100k	Orbit Heart of England Housing Association
	Carillion Highways Maintenance Ltd
	Warwickshire Care Services
	Solihull School
	Myton School
	The Rowan Organisation

Employees Contributions	
< £50k	Avon Valley School
	Orbit Heart of England Housing and Care Association
	Hartshill School
	Studley GM School
	Queen Elizabeth School
	King Edward VI Form College
	Rugby High School
	Ash Green School
	Stratford and District Mencap
	BRANCAB
	Warwick District CAB
	Alcester Grammar School
	Dunchurch First School
	Stratford on Avon Town Trust
	Stratford upon Avon Town Council
	Warwickshire Welfare Rights Service
< £10k	Work First
	Shipston on Stour GM School
	Rugby Town Centre Company Limited
	Warwickshire Valuation Tribunal
	Middlemarch Middle School
	Warwickshire Association for the Blind
	Youth Clubs UK

Employees Contributions	
< £5k	Westfield Community Development Association
	Royal Leamington Spa Town Council
	South Warwickshire Tourism
	Dunnington CE Junior and Infant
	Haselor School
	Alcester Town Council
	Stratford on Avon CAB
	Moreton Morrell CE School
	Duchy Catering / Henley School
	Wolverton Junior and Infants School
	Stratford on Avon Council for Voluntary Services
	North Warwickshire CAB
	Shipston on Stour Town Council
	Coleshill Town Council
	Atherstone Town Council
	Bidford on Avon Parish Council
	Southam Town Council
	Whitnash Town Council
	Wellesbourne Parish Council
	Ryton on Dunsmore Parish Council
	Bishops Itchington Parish Council
	ABM Catering / North Leamington School
	Mid Warwicks Society for Mentally Handicapped Children
	Long Itchington Parish Council
	Mancetter Parish Council

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 our staff on the benefits of the 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 co habiting partners and death grants.
- Articles about changes/updates/reminders featured in Working for Warwickshire (W4W).

Key Date for 2010/11

Annual Employers meeting:

- Wednesday 24 November 2010, Shire Hall

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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 $14\% - (10\% \times 1.2) = 2\%$. If a fund has a consistently high alpha this can indicate skilful management.

Alternative investments

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

Asset allocation

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

Asset/liability modelling

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

Asset-backed securities

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

B

Balanced management

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

Bear market

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

Benchmark

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

Beta

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

Bull market

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

C

Class action

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

Combined Code

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

Commission recapture

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

Commodity

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

Corporate governance

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

Currency hedging

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

Currency overlay

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

Currency risk

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

D

Defined benefit scheme

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

Defined contribution scheme

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

Derivatives

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

Diversification

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

Dow Jones Industrial Average

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

Duration

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

Dynamic alpha

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

F

FRAG 21

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

FRS 17

An accounting standard which requires companies to incorporate their pension funds into their balance sheets and specifically that all pension fund *liabilities* should be valued using an AA corporate bond yield. Any mismatch between assets and liabilities is effectively brought on to the company's balance sheet, and can potentially increase the *volatility* of a company's share price.

FTSE All-Share Index

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

Fund of hedge funds

See *hedge funds*.

G

Gold

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

Growth manager

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

H

Hedge Funds

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

Hedging

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

I

IMA

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

L

LIBID

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

LIBOR

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

London Stock Exchange (LSE)

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

M**Myners Report**

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

N**NAPF**

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

P**PRAG**

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

Private equity

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

R**Risk**

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

Risk appetite

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

Risk budget

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

Risk-free asset/rate

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

Risk premium

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

S**SORP**

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

Scrip issue

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

Specialist management

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

Statement of Investment Principles (SIP)

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

Stocklending

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

T**Transaction costs**

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

Transition

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



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www.warwickshire.gov.uk/pensions



Pictures of Warwick taken by Sam Green - Pensions Officer