Pension Fund

Annual Report & Financial Statements

2010-2011

WARWICKSHIRE
pension fund

Warwickshire
County Council

Working for Warwickshire

Contents

A coin of Emperor Claudius (AD 41-54) from the Newdigate Coin Collection.

Chairman's Statement

The theme of this year's Annual Report is local history, so it is interesting to take a glimpse back to the Warwickshire actuarial valuation of 31 March 1964. At that time the fund had 3,750 active members, 503 pensioners and 105 widows. The investment portfolio was valued at £4,860,012, 16 shillings and 7 pence! Not a great amount even in those days but many pensioners died within one or two years of retirement.

In the last 47 years the fund has risen nearly 250 times to £1,184.7 million and the number of members by almost 10 times to some 36,149. Life expectancy at age 65 is now over 20 years. How times have changed!

Coming back to the last financial year of 2010/11, the fund has successfully made steady progress from about £1.1billion to almost £1.2 billion as markets have continued in a recovery phase after the low point of 2008/9.

The work of the Investment Board has continued as we review and meet our investment managers and discuss performance. Significantly, as part of our long term diversification strategy, we have appointed HarbourVest as Private Equity Fund of Funds managers. We also continue to review and finalise our corporate governance in line with Myners/CIPFA principles and move towards the target of the adoption of the United Nations Principles for Responsible Investment (UNPRI). I attend meetings of the Local Authority Pension Fund Forum (LAPFF) which continues to engage actively with our FTSE companies on various environmental, social and governance issues.

Our seventh Pension Fund Annual Meeting on 24 November 2010 was the usual highlight of the year, again being well attended by representatives of member organisations, and we were pleased to learn from our actuary that our funding level at the valuation date of 31 March 2010 is 83%, at the very top end of local authority funds. We also heard about the interim conclusions of the Hutton review on the future of public pensions, which is yet to be played out.

Last year's Annual Report was posted onto the Fund's website and used as the basis for our entry into the Local Government Pension Scheme Fund of the Year Award 2010. Once again, we were shortlisted into the Final Three.

Finally, I would like to thank Group Treasury and Pensions Manager, Phil Triggs, and his dedicated staff for their help, commitment and enthusiasm during another demanding year and I'd particularly like to wish our former Strategic Director for Resources, Dave Clarke, well in his retirement.

Chris Davis
Chairman of the Pension Fund Investment Board

Medieval face jug - made in Nuneaton, Warwickshire.

Introduction from the County Treasurer

The last time the Olympics were held in London was 1948. In that year the average life expectancy for men was nearly 66 years and for women was over 70 years. Moving on to the turn of the century, life expectancy had shifted dramatically to nearly 76 (for men) and over 80 (for women).

This forms part of the huge demographic change that is proving such a challenge to the future of pension schemes, allied with huge economic and social changes.

As I write, the Chief Secretary to the Treasury is announcing a plethora of changes to public sector pension schemes, including a switch to a career average scheme, proposed retirement age and increases in pension contributions.

Yet, despite all this, the Local Government Pension Scheme will still provide good value for money for its members. All benefits already secured under the current final salary scheme should be protected and the Chief Secretary has pledged not to make any other changes to how public sector workers contribute to their pension. Moreover, there does seem to be recognition at last that the Local Government Pension Scheme is different, in that it is a funded scheme. We plan to have assets to meet future liabilities, unlike most “pay as you go” public sector schemes.

Meanwhile, in Warwickshire the scheme continues to be well run, with the Fund continuing to grow in value and comparing well with similar Pension Funds run elsewhere within the country.

So, much like the mood of the nation eyeing up the 2012 Olympics, there is some space for cautious optimism. Although public sector pensions remain under the spotlight, there doesn’t appear to be any “race to the bottom”. Rather, a set of sensible reforms to ensure that public service pensions remain affordable, sustainable, high quality and fair, not just now, but in the decades to come. And that has to be worth a gold medal.

John Betts
County Treasurer

County Museum, Market Hall, Warwick.

Report from the Group Manager Treasury and Pensions

The financial year 2010/11 has been a very productive one for the Treasury and Pensions Group.

Achievements

The year has been one of consolidation for the pension fund, following the recovery we experienced in the year before. The economic recovery has continued to feed positive returns on the equity markets, with UK and Global zones performing very well. Whilst markets continue to recover, the Fund is still looking for further diversification into alternative investments. We have started the process of feeding funds to our recently appointed private equity fund of funds manager. Continuing work on alternatives will be started after the outcome of the current investment strategy review.

With regard to the office administration, the Group's work on its systems and procedures continues apace with the work on new document imaging systems almost complete. The scanning of all our active paper files has been a long, drawn out task and is now complete with all files accessible online. The Pension Fund website has now been up and running for six years with more development in the future envisaged.

The Warwickshire Pension Fund held its Annual Meeting on 24 November 2010 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 pensions 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. This year's meeting will be held on 24 November 2011 at 9.30am.

The Fund

The Fund itself achieved a return of 7.8% which was equal to the Fund benchmark. By comparison, the average local authority fund performance in 2010/11 was 7.9%. This represents a remarkable turnaround in the market's fortunes since the start of the global banking crisis and subsequent global recession. We remain vigilant of the possible effects that the current sovereignty crisis might impact on the Fund.

A beautiful Roman Samien bowl found at Alcester, Warwickshire.

The Fund concluded its actuarial valuation during the year with an 83% funding level that places it in the top echelon of the LGPS funds. The Government’s decision to switch from the RPI inflation index to CPI was the joker in the pack. Once you start to undermine members’ accrued rights, it will start to undermine confidence in the scheme. Such a move added around 4% to our funding level but the switch will reduce the value of a pension by about 10% over an average 20-year duration. Unlike the BA pension scheme, the chorus of disapproval from LGPS scheme members has failed to materialise and you have to nod admiration to the Government for thinking up the masterstroke and implementing it so easily.

Governance

Official meetings are 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 remains 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.

Highlights 2010/11

- Further progress made in becoming fully Myners compliant
- Private Equity contracts finalised
- 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

There are a variety of museums specialising in one antiquity or another, ranging from what we would see as traditional and local with a wide range of exhibits, through to the Museum for Bakelite.

A museum exists to educate people on what went before, how things were, how our forefathers lived and how society was. They reflect how things have changed over the years.

Being a bit of a pensions enthusiast, I wonder if sometime in the future there will be a museum of the Local Government Pension Scheme (or the Local Government Superannuation Scheme, as it used to be called), illustrating how the scheme has evolved and yet still remains current for society today.

Back in the days when I first started as a superannuation officer, the scheme was seen as pension provision for a career workforce. Officers made up the majority of the membership and the expectation would be for a junior clerk, such as myself, to progress in their career and ultimately, after 40 years of service, to receive a pension based on a proportion (reflecting their service) of their final pay. It was the accepted norm in society that there was a job for life.

Since the days of the early 1980s, a great deal has changed in the demographic of scheme members. Access to the scheme for part-time employees was first introduced in 1986 and this saw an increase in the number of female members and a workforce who were more likely to have a variety of working patterns and family breaks, and I would suggest that the career scheme became less applicable to the membership as a whole.

And so the scheme needs to change again. No longer are people prepared to spend their whole working life with one employer, people are living longer and there is an argument that the current scheme is no longer fair for the majority of the membership and is seen as less affordable for society.

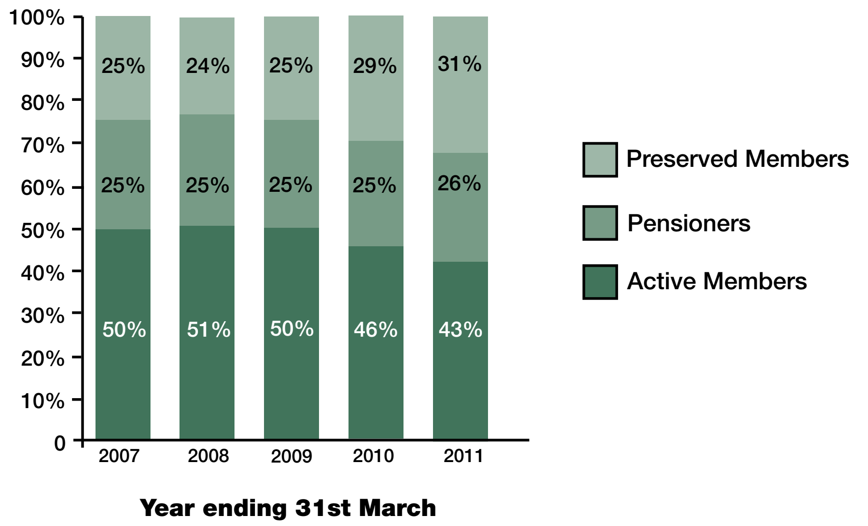
The proposals for changes in public service pensions will see the Local Government Pension Scheme move towards a benefit entitlement based on a career average salary rather than the current final salary. This will see members accruing a pension for each year of service which is adjusted for increases in the cost of living. Members will be expected to pay more for their pension (with some protection for the lower paid) and the date the benefit becomes due will be linked to State Pension Age.

All of these changes will mean that the scheme continues to be affordable and sustainable for society and remains adequate and fair for the membership.

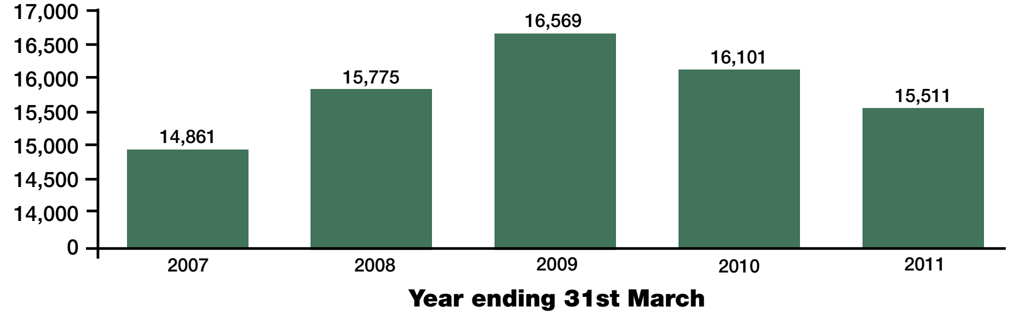
Neil Buxton
Pension Services Manager

A Slipware dish.

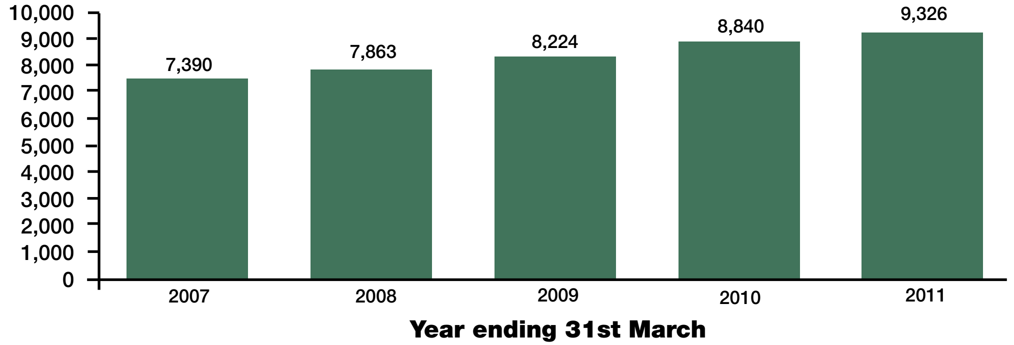
Scheme Membership profile over the last 5 years



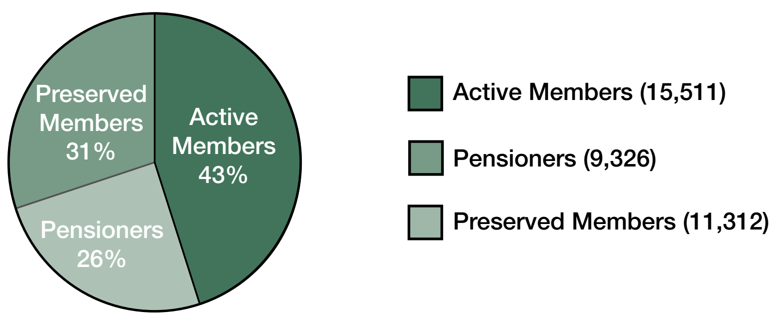
Active Membership in the last 5 years



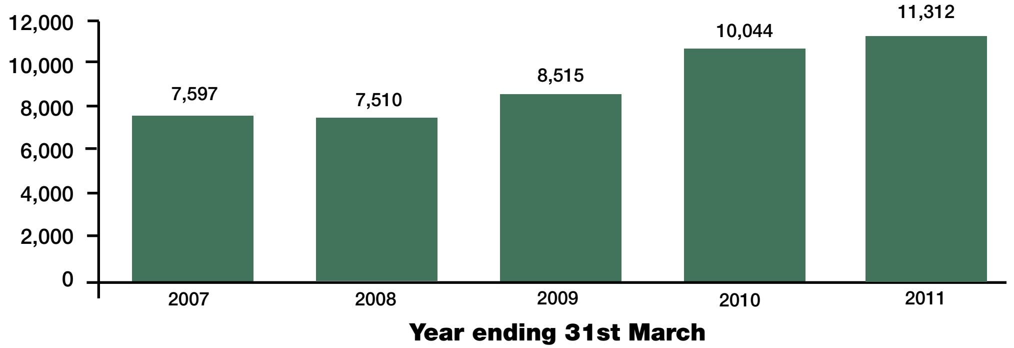
Number of Pensioners in the last 5 years



Membership profile as at 31 March 2011



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	98%
Letter notifying estimate of retirement benefit	10 days	99%
Letter notifying actual retirement benefit	5 days	99%
Letter acknowledging death of member	5 days	99%
Letter notifying amount of dependants benefits	5 days	99%
Calculate and notify deferred benefits	10 days	75%

2. Pensions Administration Full Time Equivalent Staff

Pensions Admin total		17.0
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		**12.0**

(There are 2126 members of the scheme for every full time equivalent member of staff)

A fossil fish from Warwickshire's nineteenth century collection.

Participating Employers

Warwickshire County Council administers the Warwickshire Pensions Fund on behalf of the County Council, five district councils and 61 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
- Bishops Itchington 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
- North Warwickshire Borough Council
- Nuneaton Academy
- Polesworth Academy
- 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
- North Warwickshire Citizens Advice Bureau
- Nuneaton and Bedworth Leisure Trust
- Orbit Housing Group
- Rugby Town Centre Company Limited
- Sanctuary Housing
- 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

Fossil crinoid ossicles from Napton-on-the-Hill, Warwickshire.

- 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

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
- Youth Clubs UK (ceased October 2010)

Contributions Paid 2010/11

Employers Contributions

> £20m
- Warwickshire County Council

< £3m
- Warwickshire Police Authority
- Nuneaton & Bedworth Borough Council

< £2m
- Warwick District Council
- Rugby Borough Council
- Warwickshire College, Leamington, Rugby & Moreton Morrell
- Stratford-On-Avon District Council
- North Warwickshire Borough Council

< £1m
- North Warwickshire & Hinckley College
- Warwickshire Probation Service

< £500k
- Warwick Schools
- Stratford-Upon-Avon College
- Heart of England Housing Group Ltd
- Warwickshire Care Services Ltd
- Carillion Highways Maintenance Ltd
- N B Leisure Trust
- Solihull School
- Myton School Warwick
- Stratford High School
- The Rowan Organisation
- Avon Valley School

< £100k
- Hartshill School
- Heart of England Housing & Care Ltd
- Studley High School
- Atherstone Queen Elizabeth School
- Rugby High School
- King Edward VI College Nuneaton
- Ash Green School
- Nuneaton Academy School
- Stratford-Upon-Avon MENCAP

< £50k
- Bedworth & District Citizens Advice Bureau
- Alcester Grammar School
- Warwick District Citizens Advice Bureau
- Stratford-Upon-Avon Town Trust Co. Ltd
- Dunchurch Infant School
- Stratford-Upon-Avon Town Council
- Warwickshire Welfare Rights Service
- Polesworth Academy
- Shipston Primary School
- Warwickshire Valuation Tribunal
- Rugby Town Centre Company Ltd
- Middlemarch Middle School
- Warwick Association for the Blind
- Studley St Mary's School
- Shipston On Stour Town Council
- Westfield Community Development Association
- Dunnington C of E Junior & Infant School

< £10k
- Royal Leamington Spa Town Council
- Alcester Town Council
- Wolverton Junior & Infant School
- Haselor School
- Stratford-Upon-Avon Citizens Advice Bureau
- Alliance In Partnership - Henley
- Stratford-Upon-Avon Council for Voluntary Service
- Moreton Morrell Church of England School
- North Warwickshire Citizens Advice Bureau

< £5k
- Wellesbourne Parish Council
- Atherstone Town Council
- Bidford-On-Avon Parish Council
- Southam Town Council
- ABM Catering North Leam School
- Whitnash Town Council
- Ryton on Dunsmore Parish Council
- Mid Warwickshire MENCAP
- Bishops Itchington Parish Council
- Long Itchington Parish Council
- Mancetter Parish Council
- Curdworth Parish Council
- Shipston Leisure
- Alliance in Partnership - Tanworth In Arden & Lapworth
- Lawrence Cleaning Racemeadow

Employees Contributions

< £10m

- Warwickshire County Council

< £2m

- Warwickshire Police Authority

< £1m

- Nuneaton & Bedworth Borough Council
- Warwick District Council
- Warwickshire College, Leamington, Rugby & Moreton Morrell
- Rugby Borough Council

< £500k

- Stratford-On-Avon District Council
- North Warwickshire Borough Council
- North Warwickshire & Hinckley College
- Warwickshire Probation Service
- Warwick Schools
- Stratford-Upon-Avon College
- N B Leisure Trust

< £100k

- Carillion Highways Maintenance Ltd
- Heart of England Housing Group Ltd
- Solihull School
- Myton School Warwick
- Stratford High School

< £50k

- The Rowan Organisation
- Avon Valley School
- Warwickshire Care Services Ltd
- Hartshill School
- Atherstone Queen Elizabeth School
- Studley High School
- Rugby High School
- King Edward VI College Nuneaton
- Ash Green School
- Heart of England Housing & Care Ltd
- Nuneaton Academy School
- Stratford-Upon-Avon MENCAP
- Bedworth & District Citizens Advice Bureau
- Warwick District Citizens Advice Bureau
- Stratford-Upon-Avon Town Trust Co Ltd
- Alcester Grammar School
- Dunchurch Infant School
- Stratford-Upon-Avon Town Council

< £10k

- Warwickshire Welfare Rights Service
- Polesworth Academy
- Shipston Primary School
- Warwick Association for the Blind
- Rugby Town Centre Company Ltd
- Middlemarch Middle School
- Studley St Mary's School

< £5k

- Warwickshire Valuation Tribunal
- Shipston On Stour Town Council
- Dunnington C of E Junior & Infant School
- Royal Leamington Spa Town Council
- Westfield Community Development Association
- UK Youth
- Stratford-Upon-Avon Council for Voluntary Service
- Alcester Town Council
- Wolverton Junior & Infant School
- Stratford-Upon-Avon Citizens Advice Bureau
- Haselor School
- Atherstone Town Council
- North Warwickshire Citizens Advice Bureau
- Moreton Morrell Church of England School
- Wellesbourne Parish Council
- Coleshill Town Council
- Alliance In Partnership - Henley
- Bidford-On-Avon Parish Council
- Southam Town Council
- Mid Warwickshire MENCAP
- ABM Catering North Leam School
- Whitnash Town Council
- Ryton on Dunsmore Parish Council
- Bishops Itchington Parish Council
- Long Itchington Parish Council
- Mancetter Parish Council
- Curdworth Parish Council
- Alliance in Partnership - Tanworth In Arden & Lapworth
- Shipston Leisure
- Lawrence Cleaning Racemeadow
- South Warwickshire Tourism Ltd

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.

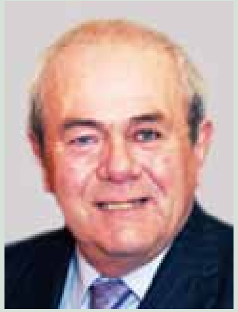
Membership of the Pension Fund Investment Board in the financial year 2010/11

Councillor Chris Davis
(Liberal Democrat)
Chairman

Councillor John Appleton
(Conservative)

Councillor David Wright
(Conservative)

Councillor Jim Foster
(Conservative)



Councillor Brian Moss
(Labour)

A jurassic scallop shell from the Hornton Stone.

Staff, Advisors and Investment Managers

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

Management and Administration

John Betts CPFA, County Treasurer

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

Neil Buxton, Pensions Services 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, Sonu Copson

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

Firefighters Pension Scheme: Helen Cox, Ali Wickens

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

Investment Advisors

Independent Advisor: Peter Jones

Actuary: John Livesey, 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

Fund of Private Equity Funds: HarbourVest Partners

Westgate, Warwick

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 County Treasurer on behalf of Warwickshire County Council, the five district councils and sixty one 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 2011, the total membership of the fund stood at 36,149 and the total value of the Fund's net assets amounted to £1179.3 million. Of the 36,149 members 15,511 are active members currently contributing to the fund, 11,312 are members with deferred pension rights, and 9,326 are members receiving pensions.

The scheme is open to all local authority employees (except teachers, youth workers, police officers and 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.

One of a number of interesting local bank notes in the Warwickshire Museum collections.

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 39.0% based on the valuation as at 31 March 2007.

Employer rates are being reviewed following the 2010 valuation and will be revised from 1 April 2011

Investment Report for the year ending 31 March 2011

Most of the world's equity markets delivered healthy returns over the 12 months under review, helped by robust corporate earnings, attractive valuations and abundant liquidity, buoyed by a second phase of quantitative easing in the US.

Despite the full-year gains, there were bouts of volatility and weakness during the period. Some of these were driven by sovereign risk concerns, with Greece and Ireland eventually having to accept bail-out packages from the IMF and the EU. Markets also suffered from sporadic concerns about the sustainability of the global economic recovery given the austerity measures that were introduced in some countries, and from fears that rising inflationary pressures would feed through to higher interest rates.

Geopolitical risk resurfaced in the form of widespread unrest in the Middle East and North Africa. Moreover, on 11 March 2011 a devastating earthquake and tsunami hit Japan, which along with the resulting problems at the Fukushima Daiichi nuclear power station, affected risk appetite towards the end of the review period.

Despite these headwinds, companies in a wide range of sectors delivered impressive levels of profits growth. In particular, businesses that were domiciled in countries with relatively weak currencies, but which sold into fast-growing international markets, benefited from the combination of strong demand and positive currency effects. European luxury goods companies and industrials from a range of western markets were cases in point.

Commodity markets were generally strong during the period. In particular, grain prices accelerated sharply. Meanwhile, the oil price rose strongly as a result of robust emerging market demand, exacerbated later in the period by supply disruptions following the tensions in Libya. Copper and gold also delivered strong gains.

Government bonds began the period well but came under increasing pressure as the year unfolded, with expectations building that interest rates would soon be raised in the UK and Europe. This, in turn, pushed bond yields higher and prices lower as the period progressed. Corporate bonds performed better, with high yield and emerging market issues in particular benefiting from robust demand against a backdrop of low default rates.

It was a positive year for the UK commercial property market, with investors attracted by the sector's relatively high income return. The early part of the period saw very strong capital inflows into the UK's open-ended pooled property funds, and consequently considerable buying activity by these vehicles. However, as the period progressed, these flows slowed substantially. The more balanced supply/demand picture, together with an increasingly uncertain

Jury Street, Warwick

domestic economic background as a result of the coalition government's austerity measures, saw capital gains moderate. As a result, by the end of the review period the property market was exhibiting more typical performance characteristics whereby income accounted for the bulk of total returns.

Investment Return Compared to the Local Authority Universe 2010/11

	1 Year Return	3 Year Return
Warwickshire	7.8%	5.9%
Warwickshire's Benchmark	7.8%	6.3%
Local Authority Universe	7.9%	5.4%
Out/under performance-	0.0%	- 0.4%

Top Ten Holdings at 31 March 2011

		£ millions
1	HSBC	10.6
2	BP	10.5
3	BG Group	9.9
4	Rio Tinto	9.7
5	Shell	8.0
6	BAT	6.3
7	Vodaphone	5.8
8	Standard Chartered	5.3
9	Linde	5.2
10	Disney	5.0

Investment Returns by Manager

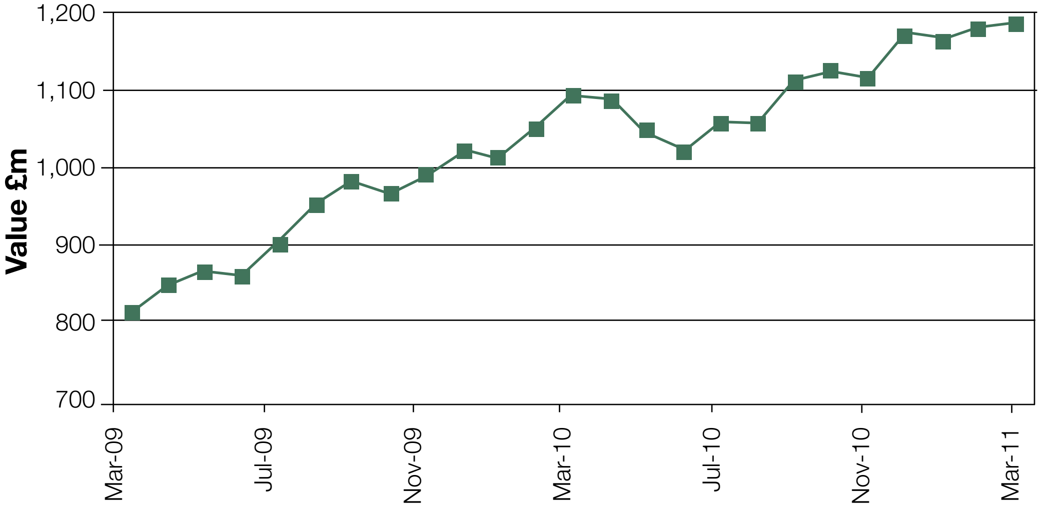
One Year Annualised Manager Performance to March 2011

Manager	Benchmark Measure	Performance (%)	Benchmark (%)	Variance (%)
BlackRock Global Investors		7.1		**-0.3**
	BlackRock Benchmark		7.4	
MFS		7.7		**0.3**
	Global Equity Benchmark		7.4	
State Street		9.1		**0.3**
	FTSE All-Share		8.8	
Threadneedle		10.0		**1.2**
	FTSE All-Share		8.8	
Legal and General (Global Equities)		7.7		**-0.1**
	LGIM Benchmark		7.8	
Legal and General (Fixed Interest)		5.4		**0.2**
	LGIM Benchmark		5.2	
Threadneedle Property		7.9		**-1.4**
	Threadneedle Property Benchmark		9.3	
Schroders Property		5.8		**-3.5**
	Schroders Property Benchmark		9.3	
Blackstone Hedge		6.3		**-0.1**
	Blackstone Hedge Benchmark		6.4	
Total Fund One Year Performance		**7.8**		**0.0**
	WCC Total Fund Benchmark		**7.8**	

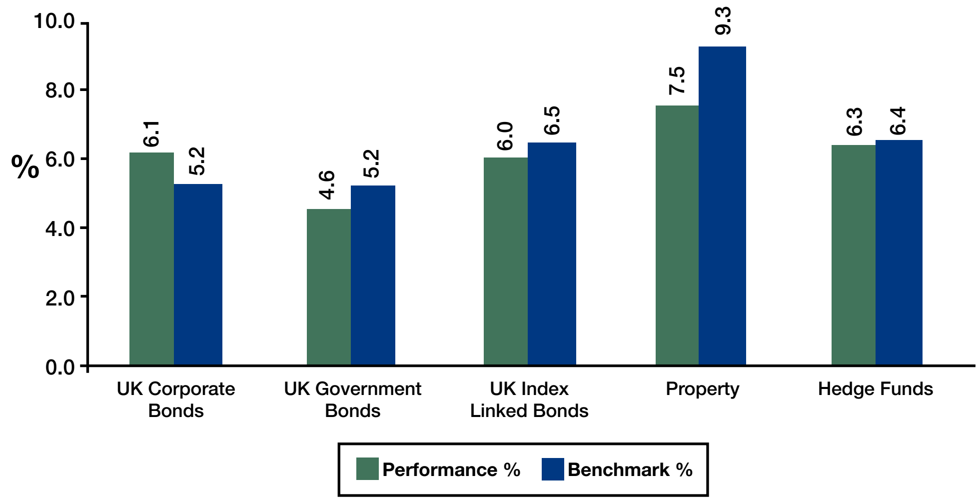
Three Year Annualised Manager Performance to March 2011

Manager	Benchmark Measure	Performance (%)	Benchmark (%)	Variance (%)
BlackRock Global Investors		6.4		**-0.5**
	BlackRock Benchmark		5.9	
MFS		11.1		**3.3**
	Global Equity Benchmark		7.8	
Threadneedle		5.5		**0.1**
	FTSE All-Share		5.4	
Threadneedle Property		1.5		**5.3**
	Threadneedle Property Benchmark		-3.8	
Schroders Property		-4.7		**-0.6**
	Schroders Property Benchmark		-4.1	
Blackstone Hedge		2.5		**-5.1**
	Blackstone Hedge Benchmark		7.6	
Total Fund Three Year Performance		**5.9**		**-0.4**
	WCC Total Fund Benchmark		**6.3**	

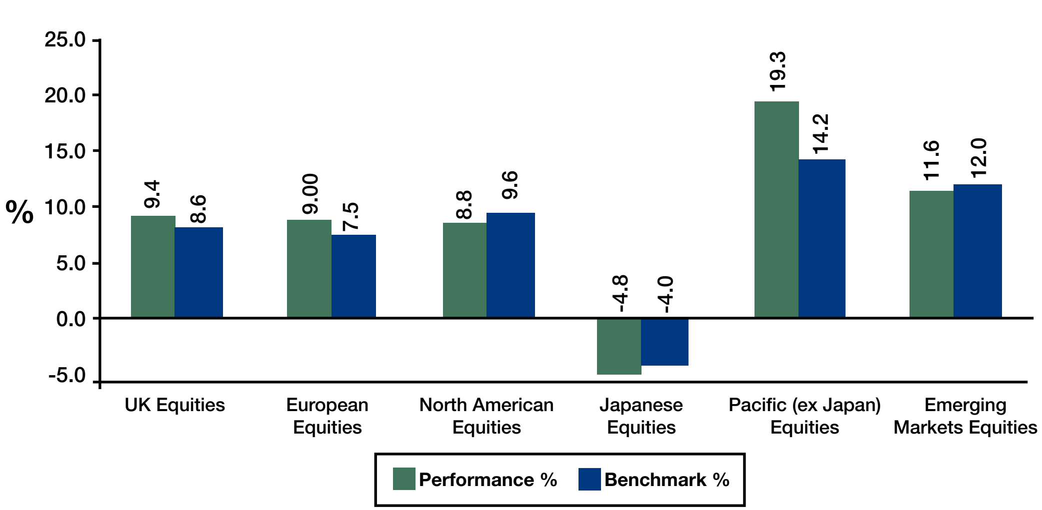
Total Fund Value Since March 2009



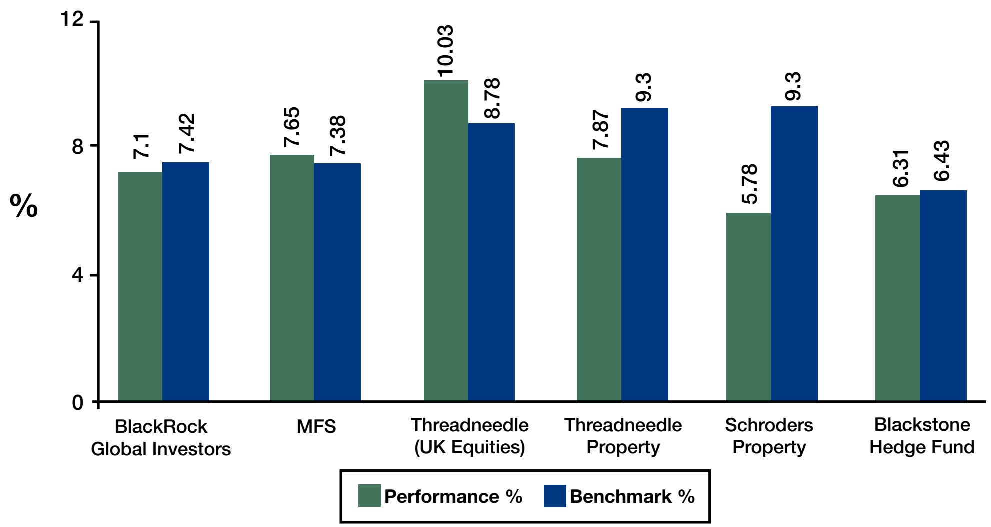
Bonds and Alternatives Performance by Asset type for the Year Ending 31 March 2011



Equity Performance by Location for the Year Ending 31 March 2011



Fund Manager Performance for the Year Ending 31 March 2011



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 County Treasurer who 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 responsibilityto 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.

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.

A Jurassic ichthyosaur at Warwick’s Market Hall Museum.

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	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**

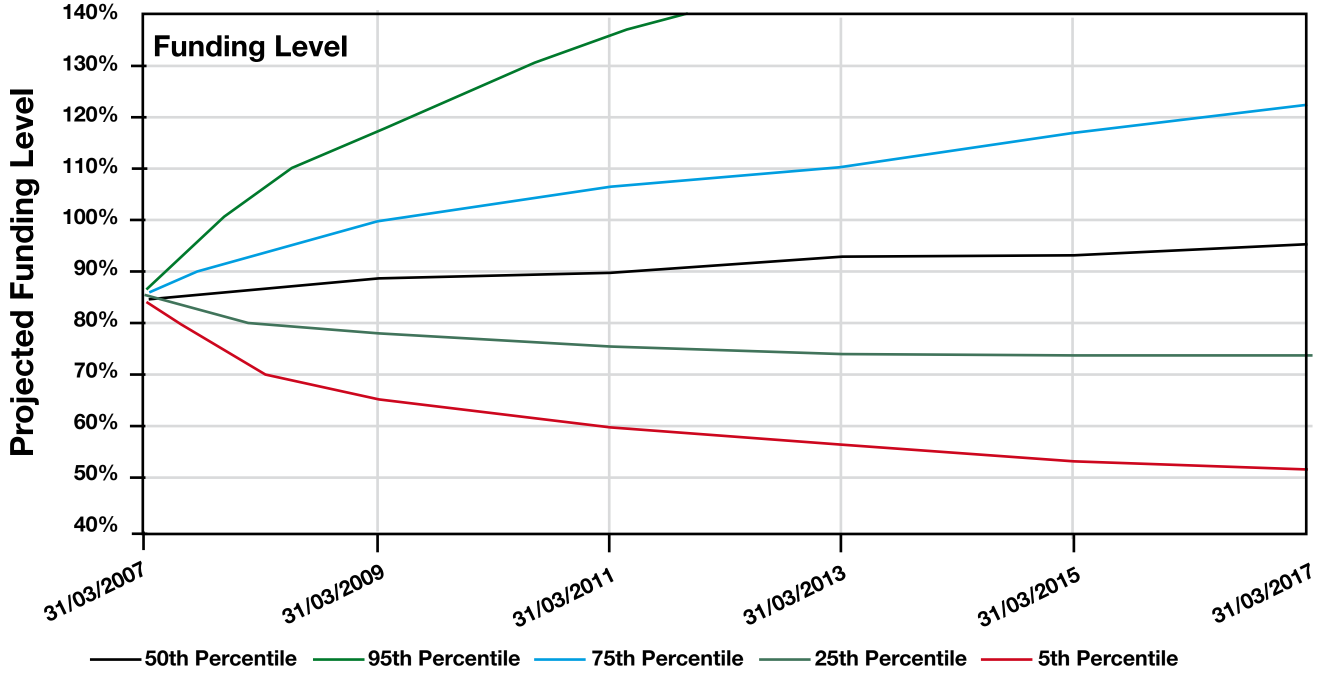
The funding strategy adopted for the 2007 valuation is based on an assumed asset out-performance of 2.5% in respect of liabilities pre-retirement, and 1.0% in respect of post-retirement liabilities. Based on the liability profile of the Scheme at the valuation, this equates to an overall asset out-performance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

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

New Street, Warwick

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

Method and assumptions used in calculating the cost of future accrual

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

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

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

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

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

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

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 2010 to determine the contribution rates with effect from 1 April 2011 to 31 March 2014. The results of the valuation are contained in our report dated 31 March 2011.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of £1,099 million represented 83% of the Funding Target of £1,328 million at the valuation date. The valuation also showed that a common rate of contribution of 12.8% 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 4.8% of pensionable pay for 19 years. This would imply an average employer contribution rate of 17.6% 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 2011. In addition to the certified contribution rates, 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. For certain employers, in accordance with the FSS, an increased allowance has been made for assumed investment returns on existing assets and future contributions, for the duration of the employer's deficit recovery period.

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	**7.0% per annum**	**6.75% per annum**
- post retirement	**5.5% per annum**	**6.75% per annum**
Rate of pay increases:	**5.0% per annum**	**5.0% per annum**
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension):	**3.0% per annum**	**3.0% per annum**

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2013. Based on the results of this valuation, the contribution rates payable by the individual employers will be reviewed with effect from 1 April 2014.

Former Crown and County Courts, Warwick

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

In order to assess the value of the benefits on this basis, we have used the same actuarial assumptions as those used for funding purposes, other than the discount rate where we have used a rate of 5.6% p.a. both before and after retirement, rather than the rates as outlined above. We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. On this basis, the value of the Fund's promised retirement benefits as at 31 March 2010 was £1,465 million.

We have also carried out similar calculations as at the previous actuarial valuation date of 31 March 2007, using the same actuarial assumptions as those used for funding purposes at that date, other than the discount rate where we have used a rate of 5.4% p.a. both before and after retirement. On this basis, the value, for IAS 26 purposes, of the Fund's promised retirement benefits at that date was £1,308 million.

John Livesey
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
June 2011

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

Medieval Annular brooch (2cm across) found near Stratford-upon-Avon, Warwickshire.

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.

St Marys Church, Warwick

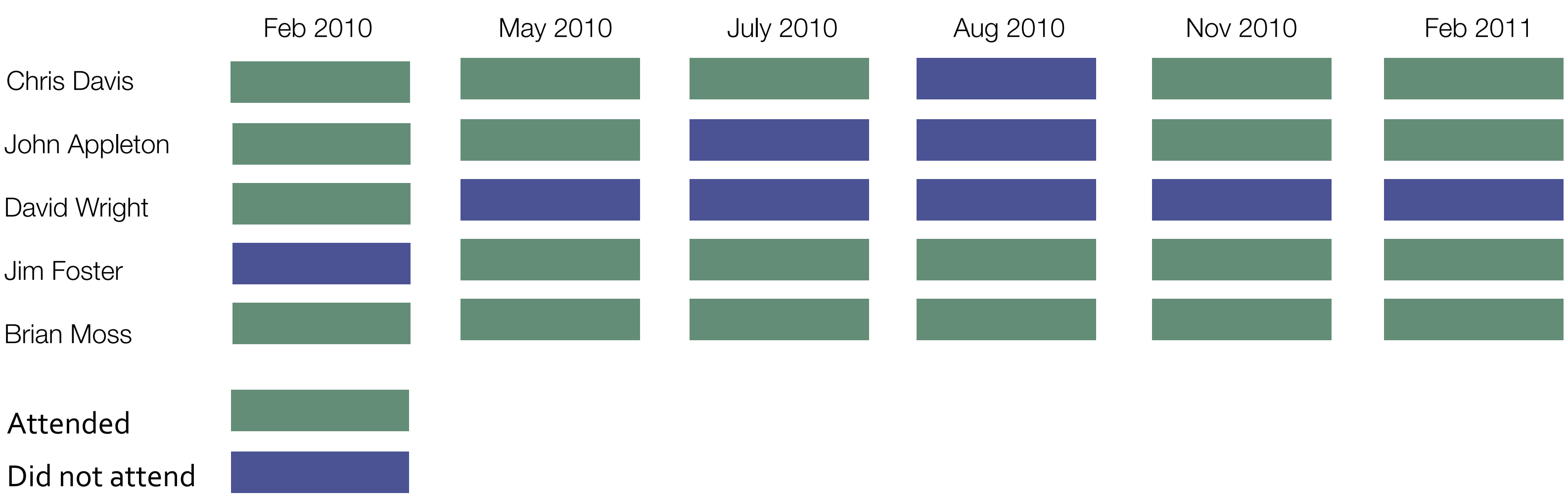
Principle	Warwickshire's Approach	Compliance
Structure		
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Warwickshire County Council delegates the management of the Warwickshire Pension 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: • employing authorities (including non-scheme employers, e.g., admitted bodies);	Not all member bodies are represented on the Board or the Panel.	Explain
• scheme members (including deferred and pensioner scheme members);	The Consultative Panel includes trades union representatives.	Comply
• 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
• 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 meting 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 inwanting 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

Member Attendance at Investment Board Meetings in 2010/11



Accounts for the year ending 31 March 2011

Responsibilities for the statement of accounts

Warwickshire County Council as Administering Authority of the Warwickshire County Council Pension Fund is required to:

- make arrangements for the proper administration of the financial affairs of the Fund and to secure that one of its officers has responsibility for the administration of those affairs. In this authority this is the County Treasurer, who is responsible for the preparation of the Authority's Statement of Accounts, to present fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2011;
- manage the affairs of the Fund to secure economic, efficient use of resources and safeguard its assets.

In preparing the Statement of Accounts the County Treasurer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- stated whether applicable accounting standards and the CIPFA code of Practice in the United Kingdom have been followed;
- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Statement of Accounts presents fairly the financial position of the Authority at 31 March 2011 and its income and expenditure for the year then ended.

John Betts
County Treasurer

Accounting report

The following statements comprise the accounts for the Warwickshire County Council Pension Fund. The accounts cover the financial year from 1 April 2010 to 31 March 2011.

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

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

The accounts are set out in the following order:

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

Fund account

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

2009/2010 £ millions	Revenue account	2010/2011 £ millions
	Income to the fund	
	Contributions receivable:	
	From employers	
-31.6	~ normal	-28.7
-0.2	~ augmented	-0.1
-7.3	~ deficit funding	-9.7
-16.6	From employees	-16.5
-7.0	Individual transfers in from other schemes	-5.5
-62.7	**Income to the fund**	**-60.5**
	Spending by the fund	
	Benefits to be paid:	
37.3	Pension payments	39.7
13.0	Commutation of pensions and lump sum retirement benefits	14.8
1.6	Lump sum death benefits	1.5
	Payments to and on behalf of leavers	
0.0	Refunds of contributions to people who leave the scheme	0.0
7.3	Individual transfers out of the scheme	6.8
1.5	**Administration expenses paid by the scheme**	1.5
60.7	**Spending by the fund**	**64.3**
-2.0	**Net additions from dealing with members**	**-3.8**
	Return on investments:	
-14.3	Dividends from stocks and shares	-7.8
-1.3	Income from pooled investment vehicles	-2.4
-0.4	Interest on cash deposits	0.0

2009/2010 £ millions	Revenue account	2010/2011 £ millions
	Change in market values of investments:	
-36.0	Realised profit (-) or loss on sales	-23.2
-0.2	Realised profit (-) or loss on Derivatives (Foreign Ex)	0.0
-229.4	Unrealised profit (-) or loss on investments	-54.2
	Taxes on Income	
1.2	Tax we cannot claim back	0.4
3.0	**Investment management expenses**	3.4
-277.0	**Net returns on investments**	**-83.8**
-279.0	**Net increase (-) / decrease in fund during the year**	**-80.0**

2009/2010 £ millions	Pension fund net assets	2010/2011 £ millions
279.0	Net increase / decrease (-) in fund during the year	80.0
820.3	Add opening net assets of the scheme	1099.3
1,099.3	**Net assets at the end of the year**	**1,179.3**

As at 31 March 2010 £ millions	Net asset statement	As at 31 March 2011 £ millions
	Investment assets	
4.7	Fixed interest securities	5.3
301.7	Stocks and shares	328.2
779.8	Managed funds	837.0
11.0	Cash and deposits	12.5
1.4	Other Investments	1.7
1098.6		**1184.7**
	Current assets	
1.3	Contributions due from employers	1.5
0.6	Other debtors	3.5
0.2	Cash balances	11.8
	Current liabilities	
0.0	Unpaid benefits (creditors)	0.0
0.0	Short term cashflow loan	-5.0
-1.4	Other creditors	-17.2
0.7		-5.4
1099.3	**Net assets at the end of the year**	**1179.3**

Under the IFRS based code requirements we are required to show a restated Net Assets Statement as at 1 April 2009. As we have no additional adjustments in respect of employer's augmentation contributions this is the same as that published as at 31 March 2009 and is shown below.

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**	**1,099.3**

As at 31 March 2009 Restated £ millions	Net asset statement	As at 31 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		**1,098.6**
	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**	**1,099.3**

Under the Code we are also required to disclose the actuarial present value of promised retirement benefits this can be found on page 46 of this report.

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 61 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 County Treasurer and his staff.

As at 31 March 2010	Membership	As at 31 March 2011
16,101	Number of members contributing to the scheme	15,511
8,840	Number of pensioners paid by the fund	9,326
10,044	Members whose pension rights are 'frozen' until they retire	11,312

2 Accounting policies

The accounts of the pension fund contain the information set out in the Code of Practice on Local Authority Accounting 2010/2011 (The Code). The Code says the accounts must keep to the SORP Financial Reports of Pension Schemes (the Pensions SORP). As a result, these accounting policies are consistent with the Pensions SORP. The accounts give a summary of the transactions and net assets of the fund. They do not take account 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.

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.

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

d Foreign currencies

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

We deal with gains and losses arising from converting currencies as part of the change to the market value of investments. The exception is where there is a foreign currency derivative acting as a cash-flow hedge on investments, where we would then class this gain separately as realised profit in the revenue account.

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 Investment Services	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 (Balanced)	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 appointed the following manager in July 2010 but as at 31 March 2011 there is no amount invested with them.

Fund manager	Mandate	Negotiated fee
HarbourVest Partners	Fund of Funds (private equity)	Percentage of the fund

3 Actuarial valuation

The purpose of an actuarial valuation, which must be carried out every three years by law, is to assess the ability of the fund to meet its long-term liabilities. The actuary assesses the future growth in the value of the fund, and the future liability to pay pensions to current and former employees. The difference between projected assets and liabilities sets the amount employers must contribute. The fund aims to set employers' contributions rates so that the projected assets equal at least 100% of the projected liabilities. 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 2010.

During 2010/2011, the County Council paid employer's contributions at a rate of 14.4%. The district and borough councils paid employers' contributions at rates ranging between 14.8% and 16.1%.

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

2009/2010 £ millions	%	Market value of external investments	2010/2011 £ millions	%
0.7	0.1	State Street Global Advisors (UK Equities)	0.0	0.0
151.4	13.8	State Street Global Advisors (Index Tracker UK Equities)	165.9	14.0
154.0	14.0	Threadneedle Investments (UK Equities)	169.5	14.3
0.1	0.0	UBS Global Asset Management (Global Equities)	0.1	0.0
152.9	13.9	MFS Investment Management (Global Equities)	164.6	13.9
227.6	20.7	BlackRock Global Investors (Index Tracker)	204.9	17.3
145.2	13.2	Legal and General Investment Management (Index Tracker - Global Equities)	162.0	13.7
135.8	12.4	Legal and General Investment Management (Index Tracker - Fixed Income)	139.0	11.8
38.6	3.5	Threadneedle Investments (Property)	60.9	5.1
35.8	3.3	Schroder Investment Management (Property)	57.1	4.8
53.7	4.9	Blackstone Group International (Hedge Funds)	57.0	4.8
0.0	0.0	BlackRock Investment Management (Transition Manager)	0.0	0.0
2.8	0.2	UBS Global Asset Management (Fixed Interest)	0.0	0.0
0.1	0.0	UBS Global Asset Management (Fixed Interest)	0.0	0.0
0.0	0.0	BNY Mellon (Global Custodian)	3.7	0.3
1098.6	**100.0**	**Total**	**1184.7**	**100.0**

5 Investments

	Value 1 April 2010 £ 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 2011 £ millions
Fixed interest securities	4.7	4.9	-4.6	0.1	0.2	0.0	5.3
Stocks and shares	301.7	85.9	-79.4	12.8	7.2	0.0	328.2
Managed funds	779.8	50.9	-50.7	10.3	46.7	0.0	837.0
Cash and deposits	11.0	34.8	-33.1	0.0	0.1	-0.3	12.5
Other investments	1.4	0.2	-0.2	0.0	0.0	0.3	1.7
Total	**1,098.6**	**176.7**	**-168.0**	**23.2**	**54.2**	**0.0**	**1,184.7**

2009/2010 £ millions		2010/2011 £ millions
	Fixed interest securities	
4.7	UK quoted	5.3
4.7		**5.3**
	Stocks and shares	
153.7	UK quoted	162.9
148.0	Overseas quoted	165.3
301.7		**328.2**
	Managed funds	
779.8	Managed funds	837.0
779.8		**837.0**
	Cash and deposits	
8.8	Sterling	10.7
2.2	Foreign currency	1.8
11.0		**12.5**
	Other investments	
1.6	Debtors	1.8
-0.2	Creditors	-0.1
1.4		**1.7**

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.

6 Contributions and Benefits

The total contributions we received from employers was £38.5 million (£39.1 million in 2009/2010) and £16.5 million (£16.6 million in 2009/2010) from employees.

Employee contributions during the year included payments of £0.4 million to buy added years and additional regular contributions (£0.3 million in 2009/2010 for added years) and additional regular contributions

Employers' contributions during the year included £1.0 million received from employers for compensation to the fund for those retiring early and being made redundant (£2.7 million in 2009/2010).

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.

2009/2010 £ millions	Contributions we receive	2010/2011 £ millions
	Administering authority	
21.9	~ From employers	22.1
9.8	~ From employees	9.8
31.7		**31.9**
	Scheduled bodies	
15.3	~ From employers	14.7
6.1	~ From employees	6.0
21.4		**20.74**
	Admitted bodies	
1.8	~ From employers	1.6
0.7	~ From employees	0.7
2.5		**2.3**
	Non-scheduled bodies	
0.1	~ From employers	0.1
0.0	~ From employees	0.0
0.1		**0.1**
55.7	**Total**	**55.0**

2009/2010 £ millions	Analysis of contributions by type	2010/2011 £ millions
16.3	Employee contributions - normal	16.1
0.3	Employee contributions - purchase of additional years	0.4
31.6	Employers' normal contributions	28.7
0.2	Employers' augmentation Contributions	0.1
7.3	Employers' deficit funding Contributions	9.7
55.7	**Total**	**55.0**

2009/2010 £ millions	Benefits to be paid	2010/2011 £ millions
	Administering authority	
26.8	~ Pension paid (including lump sums)	29.6
3.9	~ Transfers out	4.5
30.7		**34.1**
	Scheduled bodies	
22.7	~ Pension paid (including lump sums)	23.8
3.4	~ Transfers out	1.9
26.1		**25.7**
	Admitted bodies	
2.3	~ Pension paid (including lump sums)	2.6
0.0	~ Transfers out	0.4
2.3		**3.0**
	Non-scheduled bodies	
0.1	~ Pension paid (including lump sums)	0.3
0.0	~ Transfers out	0.0
0.1		**0.3**
59.2	**Total**	**63.1**

The total pensions paid out (including lump sums) was £56.3 million (£51.9 million in 2009/2010) and the total transfers out was £6.8 million (£7.3 million in 2009/2010).

7 Bulk transfer out of the fund

The Magistrates' Courts left the County Council to join the Civil Service on 1 April 2005. The Government's Actuaries Department have calculated that the fund will receive an annual payment of £0.7m commencing in April 2011 with the last payment to be received in April 2020.

8 Additional voluntary contributions

In 2010/2011, 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 £0.6 million in Equitable Life, and £2.5 million in Standard Life on 31 March 2011. The pension fund accounts also do not include additional voluntary contributions. During the financial year 2010/2011, employees contributed £0.2 million in additional voluntary contributions to Standard Life and £5,000 to Equitable Life.

9 Other disclosures

There were no material related party transactions during the year.

At 31 March 2011, the fund had stock valued at £2.9 million (£9.6 million at 31 March 2010) which was lent out to other organisations. The collateral held against this stock was valued at £3.1m. This generated a total income of £0.1 million up to 31 March 2011.

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 2010/2011 we did not earn any interest from fixed interest securities held in pooled units.

The fund currently has an outstanding loan with Greater Manchester Pension Fund for £5m with a maturity date of 30 June 2011.

During the year 2010/2011, the pension fund paid refunds of contributions to employees of £6,000 after tax had been deducted.

Transaction costs totalling £0.4 million 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 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) with whom we have lost contact. 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.

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.
- Factsheets are produced on various issues such as reducing hours and divorce/dissolution of Civil Partnership. These are available on our website or on request.
- 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.
- This 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) and website.

Miniature Roman cosmetic or offering pots from Coleshill, Warwickshire.

Key Date for 2010/11

Annual Employers meeting:

- Thursday 24 November 2011, 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%x1.2) = 2%. If a fund has a consistently high alpha this can indicate skilful management.

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

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

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

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/IAS19
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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