# Warwickshire County Council Pension Fund

## Annual Report & Financial Statements

## 2011-2012

WARWICKSHIRE pension fund

Warwickshire County Council

Working for Warwickshire

# Contents



**Front Cover**
A trig point at Burton Dassett Country Park, overlooking the Warwickshire countryside at sunset.

# Chairman's Statement

After many years on the Investment Board and latterly as Chairman I realise this is almost certainly my last annual report and that the governance challenges do not seem to diminish. During the last few years we have been through unprecedented global economic turmoil and threatened financial disaster. I am pleased to say that although the value of the fund has dipped during the year, thanks to our diversification strategy, we have finished up at the opening position of about £ 1.2 billion. However our funding level valuation of 83% in 2010 has undoubtedly reduced somewhat due to continuing falls in interest rates and the fact that our pensioners are generally living longer.

Owing to this increasing liability and also the likely reduction in active membership of the scheme due to early retirement programmes we commissioned a review of investment strategy through our investment consultants Hymans Robertson. This review recommended that we move 10% of our holdings into absolute return type investments in both multi-asset and bond funds. This has been agreed as it should maintain our growth of the fund whilst reducing downside risk and is expected to be implemented during next year.

The work of the Board has continued as we review and meet our investment managers and discuss performance. We have followed the Hutton proposals for public sector pension reform and are pleased that the unique funding position of local government funds has been recognised. Together with 54 other authorities we continue support of the Local Government Pension Fund Forum (LAPFF) which actively engages with companies on topical issues such as board remuneration and governance, climate change and employment standards.

Our eighth Annual Meeting took place on 24 November 2011 and was again well attended by employer organisations. Paul Craven of Goldman Sachs gave a fascinating talk about behavioural finance and John Wright, from our newly appointed actuary, Hymans Robertson, updated us on the fund and how changing membership will impact on future cash flows.

Fund administration and communication with contributors remain as important as ever as new reforms come in and auto-enrolment approaches.

We were again shortlisted for the Local Government Pension Fund of the Year Award and the Treasury and Pension Group achieved the Government quality standard of Customer Service Excellence Accreditation.

Finally Group Treasury and Pensions Manager, Phil Triggs, is to be congratulated on being awarded the coveted LGC accolade of Finance Officer of the Year for 2011.

**Chris Davis**
Chairman of the Pension Fund Investment Board

# Introduction from the Head of Corporate Finance

The ancient Mayan tribe used its calendar to predict that in 2012 there would be a surfeit of disasters that would flood the earth with stories of impending worldwide doom. Or something like that. In any event, they seemed to fail to spot that there would be an ongoing financial crisis that would have a particular fallout across Europe and lead to all time low levels of trust in many institutions, particularly financial institutions, but also of politicians and the state.

So where does this leave the pensions world? Following on from the Hutton report changes have been suggested for 2014 that include an accrual rate of 1/49th, tiered contributions – particularly for higher earners and a career average rather than final salary scheme. But this still leaves intact a valuable and viable scheme that seems to have been broadly welcomed.

Our Fund has continued to perform well, thanks to a sensible diversification strategy that has gradually been put in place to mitigate risk. And there are good reasons to maintain high levels of trust in the Warwickshire Pension Fund. It continues to perform well versus other similar funds, delivering steady growth whilst remaining prudent.

In the classic movie "It's a Wonderful Life", the hero George Bailey, (played by James Stewart) reflects the values of decency, equity and morality, even when faced with a corrupt banking system. Here in the Warwickshire Pension Fund we continue to rigorously scrutinise and improve our governance systems to ensure that your money is being well looked after. Likewise, changes to the Local Government Pension Scheme due for implementation in 2014 continue that difficult path in terms of delivering an equitable deal for future pensioners in the face of challenging financial circumstances.

So, there are reasons to be optimistic. Despite the doom and gloom, a year that started with predictions of disaster ended with the Warwickshire Pension Fund continuing to be a good news story that provides its current contributing members and its pensioners with a happy ending. That is due largely to the high level of customer care provided by staff who run the scheme, the success of senior managers in delivering our investment strategy and the members of the Pension Fund Board who monitor, scrutinise and govern so effectively .

Thanks to them all.

**John Betts**
Head of Corporate Finance

# Report from the Pension Services Manager

These are unprecedented times for change within the Local Government Pension Scheme (LGPS) both nationally and within the Warwickshire Pension Fund.

As a public service pension scheme, the LGPS is part of Lord Hutton's review of the public service scheme which will bring about major change for the ongoing benefit structure of the scheme (from April 2014), protecting provisions for membership accrued until the end of March 2014, changes in retirement age with the introduction of the link to state pension age and a possible change in the rate of contribution some members will pay to the scheme. All these changes have been deemed necessary to assure the future sustainability of the LGPS.

The proposed introduction of the new scheme in April 2014 is considered to be a tight timescale but administrators remain confident that this target can be met.

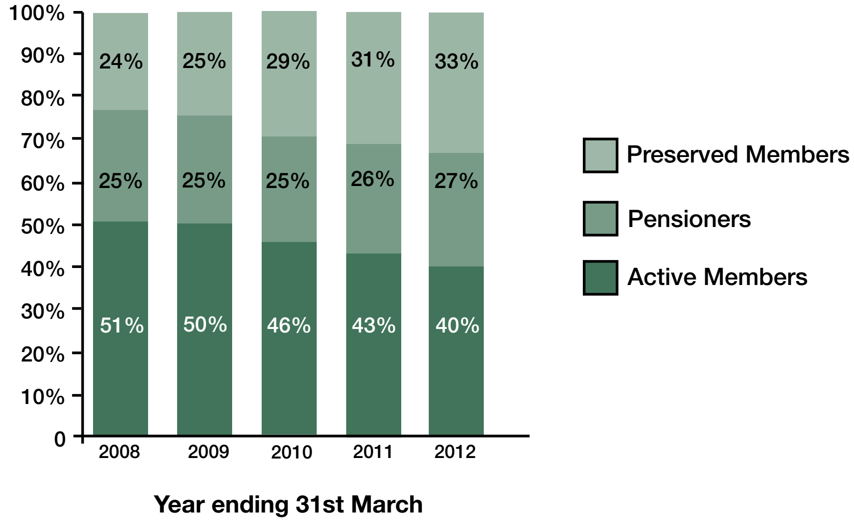
This year also saw a change in the way education is provided locally with a number of schools moving away from control of the Local Education Authority to academy status. Under the provisions of the Local Government Pension Scheme Regulations, each academy is to be treated as a separate employer in the local pension fund, thereby protecting the pensionable status of its support staff. For the Fund administrators however, this will mean an increase in the number of employers the pension team has to deal with. This policy, coupled with an increase in the number of services being outsourced by local government employers, has seen an increase in the number of employers we now administer in the Warwickshire Fund.

Locally, employers have been reviewing the structure of their staff and the services to such an extent that the Treasury and Pensions Group has seen a 46% increase in the number of retirements, when compared with the year ending 31 March 2011. This, coupled with the increase in enquiries and requests for estimates for benefit entitlement, has seen an increase in our workload. It is to the credit of the officers within the Group that we continue to provide an excellent standard of service.

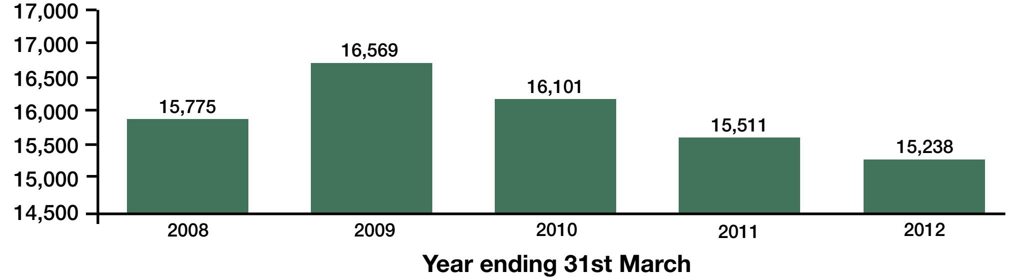
It is not all enforced change on the Group. By the end of 2012, we will have upgraded our administration system to an internet based platform with the aim of greater access to personal pensions information for the member and the employer.

**Neil Buxton**
Pension Services Manager

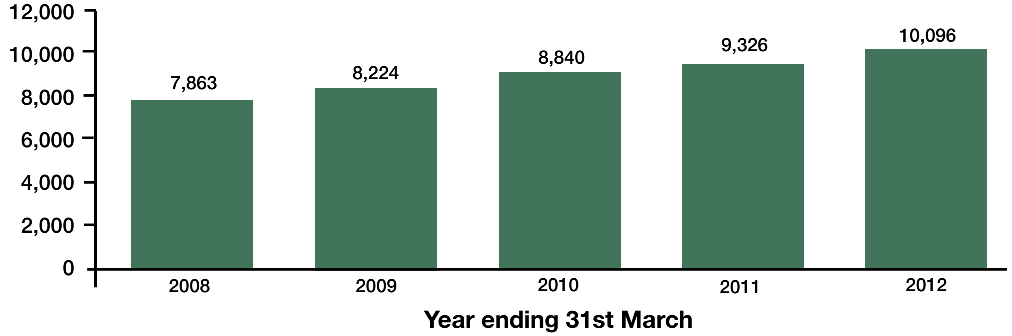
## Scheme Membership profile over the last 5 years



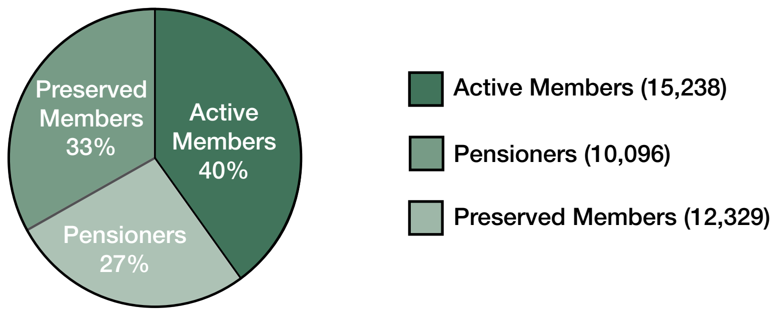

## Active Membership in the last 5 years



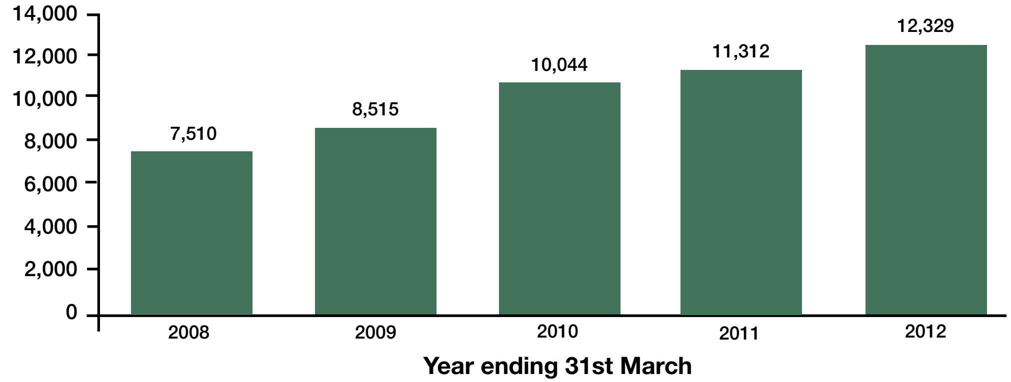

## Number of Pensioners in the last 5 years




## Membership profile as at 31 March 2012




## 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 | 96% |
| Letter notifying estimate of retirement benefit | 10 days | 96% |
| Letter notifying actual retirement benefit | 5 days | 94% |
| Letter acknowledging death of member | 5 days | 99% |
| Letter notifying amount of dependants benefits | 5 days | 95% |
| Calculate and notify deferred benefits | 10 days | 75% |

## 2. Pensions Administration Full Time Equivalent Staff

| | | |
|---|---|---|
| Pensions Admin total | | 16.0 |
| 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** | | **11.0** |

(There are 2345 members of the scheme for every full time equivalent member of staff)

# Participating Employers

Warwickshire County Council administers on behalf of the County Council, district and borough councils and 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 Grammar Academy
- Alcester High Academy
- Alcester Town Council
- Ash Green Academy
- Ashlawn Academy
- Atherstone Town Council
- Aylesford School Academy
- Bilton High Academy
- Bidford upon Avon Parish Council
- Bishops Itchington Parish Council
- Campion School Academy
- Coleshill Academy
- Coleshill Town Council
- Curdworth Parish Council
- Etone Academy
- Henley High Academy
- Higham Lane Academy
- King Edward VI College, Nuneaton
- Long Itchington Parish Council
- Mancetter Parish Council
- Myton Academy
- North Warwickshire and Hinckley College
- North Warwickshire Borough Council
- The Midlands Academies Trust
- Nuneaton and Bedworth Borough Council
- Polesworth Academy
- The Priors Free School Academy
- Rugby Borough Council
- Royal Leamington Spa Town Council
- Rugby High Academy
- Ryton on Dunsmore Parish Council
- Shipston Town Council
- Southam Town Council
- Stratford upon Avon College
- Stratford upon Avon District Council
- Stratford upon Avon Girls Grammar Academy
- Stratford upon Avon Girls King Edward VI Academy
- Stratford upon Avon School Academy
- Stratford upon Avon Town Council
- Studley High Academy
- Warwick District Council
- Warwickshire College
- Warwickshire County Council
- Warwickshire Police Authority
- Warwickshire Probation Service
- Warwickshire Valuation Tribunal
- Wellesbourne Parish Council
- Whitnash Town Council

**Current Admitted Bodies**

- ABM Catering
- Alliance in Partnership (3 contracts)
- Balfour Beatty
- Bedworth, Rugby and Nuneaton Citizens Advice Bureau
- Carillion Highways Maintenance (closed)
- Class Catering (5 contracts)
- Coventry Mind
- Goldcrest Cleaning
- Lawrence Cleaning
- Mid Warwickshire MENCAP
- North Warwickshire Citizens Advice Bureau
- Nuneaton and Bedworth Leisure Trust
- Orbit Housing and Care Group (Sanctuary Housing)
- Orbit Housing Group
- Rugby Town Centre Company Limited
- Shipston Leisure
- Solihull School
- Stratford and District MENCAP
- Stratford upon Avon Council for Voluntary Service
- Stratford upon Avon Citizens Advice Bureau
- Stratford upon Avon Town Trust Co Ltd
- Taylor Shaw
- The Rowan Organisation
- Warwick District Citizens Advice Bureau
- Warwick Schools
- Warwickshire Association for the Blind
- Warwickshire Care Services Ltd
- Warwickshire Day Care Centres
- 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 2011/12

## Employers Contributions

**> £20m**

- Warwickshire County Council

**< £3m**

- Warwickshire Police Authority
- Nuneaton & Bedworth Borough Council

**< £2m**

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

**< £1m**

- North Warwickshire & Hinckley College
- Warwickshire Probation Service

**< £500k**

- Warwick Schools
- Stratford-Upon-Avon College
- Carillion Highways Maintenance Ltd
- Warwickshire Care Services Ltd
- N B Leisure Trust
- Heart of England Housing Group Ltd
- Balfour Beatty
- Polesworth Academy
- Midland Academies Trust
- Ashlawn Academy
- Solihull School
- Myton School Academy
- Stratford upon Avon High School Academy
- The Rowan Organisation

**< £100k**

- Studley High Academy
- Coleshill School Academy
- Rugby High Academy
- King Edward VI College Nuneaton
- Heart of England Housing & Care Ltd
- Alcester Grammar Academy
- Alcester High School Academy
- Nuneaton Academy School
- Stratford Girls Grammar Academy

**< £50k**

- Bilton High School (Academy)
- Henley High School Academy
- Bedworth & District Citizens Advice Bureau
- Stratford-Upon-Avon MENCAP
- Stratford-Upon-Avon Town Trust Co. Ltd
- Stratford-Upon-Avon King Edward VI Academy
- Warwick District Citizens Advice Bureau
- Rugby Town Centre Company Ltd
- Campion School Academy
- Etone College
- Stratford-Upon-Avon Town Council
- Higham Lane Academy
- Aylesford School
- Warwickshire Welfare Rights Service
- Warwickshire Valuation Tribunal
- Ash Green School
- Warwick Association for the Blind
- Westfield Community Development Association
- Shipston On Stour Town Council

**< £10k**

- Royal Leamington Spa Town Council
- Mappleborough Green School
- Alcester Town Council
- Stratford-Upon-Avon Council for Voluntary Service
- Taylor Shaw Catering (Myton Sch)
- Stratford-Upon-Avon Citizens Advice Bureau
- Coleshill Town Council
- Atherstone Town Council
- North Warwickshire Citizens Advice Bureau

**< £5k**

- Bidford-On-Avon Parish Council
- Southam Town Council
- WCS Day Care Centres
- Wellesbourne Parish Council
- ABM Catering North Leam School
- Goldcrest Cleaning Ltd (WDC)
- Alliance In Partnership - Henley
- Whitnash Town Council
- Mid Warwickshire MENCAP
- Ryton on Dunsmore Parish Council
- Bishops Itchington Parish Council
- Coventry and Warwickshire Mind
- Alliance in Partnership - Tanworth In Arden & Lapworth
- Long Itchington Parish Council
- Class Catering (Thomas Jolyffe)
- Mancetter Parish Council
- Curdworth Parish Council
- Lawrence Cleaning Racemeadow
- The Priors Free School
- Class Catering (Bishopton Sch)
- Mappleborough Green School (Alliance in Partnership)
- Class Catering (Bridgetown Sch)
- Class Catering (SoA Primary Sch)

# Employees Contributions

**< £10m**

Warwickshire County Council (including foundation schools)

**< £2m**

Warwickshire Police Authority

**< £1m**

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

**< £500k**

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

**< £100k**

Solihull School
Balfour Beatty
Heart of England Housing Group Ltd
Polesworth Academy
Midland Academies Trust
Ashlawn Academy

**< £50k**

The Rowan Organisation
Myton School Academy
Warwickshire Care Services Ltd
Stratford upon Avon High School Academy
King Edward VI College Nuneaton
Coleshill School Academy
Rugby High Academy
Studley High Academy
Heart of England Housing & Care Ltd
Alcester High School Academy
Alcester Grammar Academy
Nuneaton Academy School
Bedworth & District Citizens Advice Bureau
Stratford Girls Grammar Academy
Stratford-Upon-Avon Town Trust Co. Ltd
Bilton High School (Academy)
Stratford-Upon-Avon MENCAP
Henley High School Academy
Warwick District Citizens Advice Bureau
Rugby Town Centre Company Ltd
Stratford upon Avon King Edward VI Academy

**< £10k**

Stratford-Upon-Avon Town Council
Warwickshire Welfare Rights Service
Etone College
Campion School Academy
Carillion Highways Maintenance Ltd
Higham Lane Academy
Aylesford School
Warwick Association for the Blind
Ash Green School

**< £5k**

Warwickshire Valuation Tribunal
Shipston On Stour Town Council
Royal Leamington Spa Town Council
Westfield Community Development Association
Stratford-Upon-Avon Council for Voluntary Service
Mappleborough Green School
Alcester Town Council
Atherstone Town Council
North Warwickshire Citizens Advice Bureau
Stratford-Upon-Avon Citizens Advice Bureau
Coleshill Town Council
Atherstone Town Council
Taylor Shaw Catering (Myton Sch)
Bidford-On-Avon Parish Council
Southam Town Council
Wellesbourne Parish Council
Alliance In Partnership - Henley
WCS Day Care Centres
ABM Catering North Leam School
Whitnash Town Council
Mid Warwickshire MENCAP
Ryton on Dunsmore Parish Council
Bishops Itchington Parish Council
Goldcrest Cleaning Ltd (WDC)
Coventry and Warwickshire Mind
Alliance in Partnership - Tanworth In Arden & Lapworth
Shipston Leisure
Long Itchington Parish Council
Class Catering (Thomas Jolyffe)
Mancetter Parish Council
Curdworth Parish Council
Class Catering (The Willows)
Lawrence Cleaning Racemeadow
The Priors Free School
Class Catering (Bishopton Sch)
Mappleborough Green School (Alliance in Partnership)
Class Catering (Bridgetown Sch)
Class Catering (SoA Primary Sch)
Shipston Leisure

# 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 2011/12**

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

**Councillor John Appleton**
(Conservative)

**Councillor David Wright**
(Conservative)

**Councillor Jim Foster**
(Conservative)

**Councillor Brian Moss**
(Labour)

# Staff, Advisors and Investment Managers

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

## Management and Administration

**John Betts** CPFA, Head of Corporate Finance

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

**Neil Buxton**, Pensions Services Manager

**Mathew Dawson** ACCA, Principal Accountant

**Pension Fund Investment Team:** Jennifer Turner, Christine Gough

**Membership Team:** Dawn Clutton, Lisa Webb, Kelly Harrow, 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:** Richard Warden, Hymans Robertson

**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

# 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 Head of Corporate Finance on behalf of Warwickshire County Council, the five district councils and eighty five 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 2012, the total membership of the fund stood at 37,663 and the total value of the Fund's net assets amounted to £1211.7 million. Of the 37,663 members 15,238 are active members currently contributing to the fund, 12,329 are members with deferred pension rights, and 10,096 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.

## 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. In 20011/12 the contribution rates for employers in the Warwickshire Pension Fund range from 0% to 32.5% based on the valuation as at 31 March 2010.

The next triennial valuation in 2013 will set the contribution rates from 2014/15 onwards.

# Investment Report for the year ending 31 March 2012

It was a volatile year for global equity markets, although some fared notably better than others. While the US achieved a healthy gain, Europe posted a negative return amid heightened concerns over the sovereign debt crisis facing the eurozone periphery. Elsewhere, the Japanese TOPIX Index ended the year little changed despite the country having to cope with the after-effects of the earthquake and tsunami of March 2011. These natural disasters disrupted component supply chains for both domestic and overseas manufacturers.

Elsewhere, concerns over the slowdown in the global economy, heavy flooding in Thailand and fears that China could experience a hard landing dampened investor appetite for Asian equities. However, the more defensive profile of the UK market proved supportive with the FTSE All Share Index achieving a modest return for the year. Another concern globally was the political unrest in the Arab World, which triggered a rise in the price of oil and led to increased inflationary pressures.

August proved a particularly challenging month for world equity markets with the escalation of the eurozone debt crisis taking centre stage. Contagion spread from Greece to Italy, which accounts for just under a quarter of all eurozone sovereign debt, and investors also became more worried over the outlook for Spain. Equity markets subsequently maintained their downward path in September.

However, towards the end of 2011 markets responded very favourably to the decision by the European Central Bank to embark on its Long-Term Refinancing Operation (LTRO), which resulted in a strong liquidity boost and dispelled fears of a second credit crunch. The positive momentum in global equity markets was maintained into 2012, with a second tranche of LTRO funding on 29 February providing further support. In addition, investors have been encouraged by recent US economic data suggesting a pick-up in economic activity. The revised figure for Q4 2011 GDP growth came in at an annualised rate of 3%, while the US housing market has shown signs of stabilising and the unemployment rate has fallen to 8.2% from 9.2% in June.

Towards the end of the reporting period equity markets lost their momentum as the stimulative effects of central bank policy began to wane. Economic data also became more mixed. While March saw an acceleration in manufacturing activity in the US, the official 2012 GDP growth target for China was reduced to 7.5%. However, while growth in China is slowing, the country is still enjoying a healthy pace of expansion compared to the developed world.

Against the backdrop of fluctuating risk appetite, government bonds performed well over the year as a whole, helped by their ‘safe haven’ appeal. The gilt market recorded a particularly strong performance, buoyed by additional quantitative easing by the Bank of England. Investment grade and high yield corporate bonds, along with emerging market bonds, also posted positive returns with investors drawn to the attractive yields available on these assets.

In the commodity markets, the price of crude oil rose to an eight-month high in February amid concerns over the situation in Iran, one of the world's biggest oil exporters. In response to the threat of sanctions, Iran cut off supplies to a number of European countries. Another important feature of the review period has been the weakness of US natural gas prices.
UK commercial property produced a modest positive return.  With the UK economic backdrop remaining difficult, vacancy rates in areas such as retail rose and this adversely affected capital values towards the end of the period.  However, rental income continued to make a positive contribution.

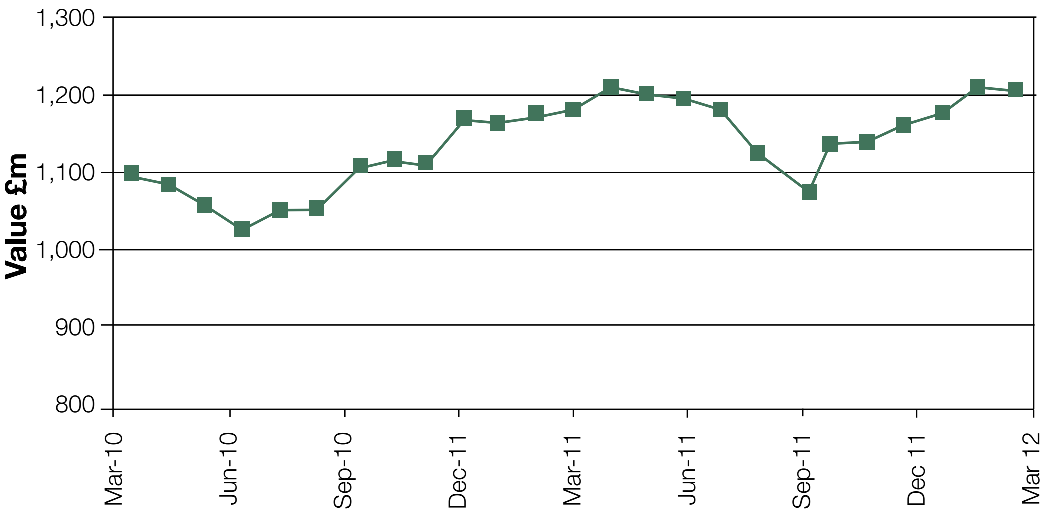
## Investment Return Compared to the Local Authority Universe 2011/12

| | **1 Year Return** | **3 Year Return** |
|---|---|---|
| Warwickshire | 3.6% | 14.5% |
| Warwickshire's Benchmark | 3.5% | 14.7% |
| Local Authority Universe | 2.6% | 14.5% |
| Out/under performance | 0.1% | - 0.2% |

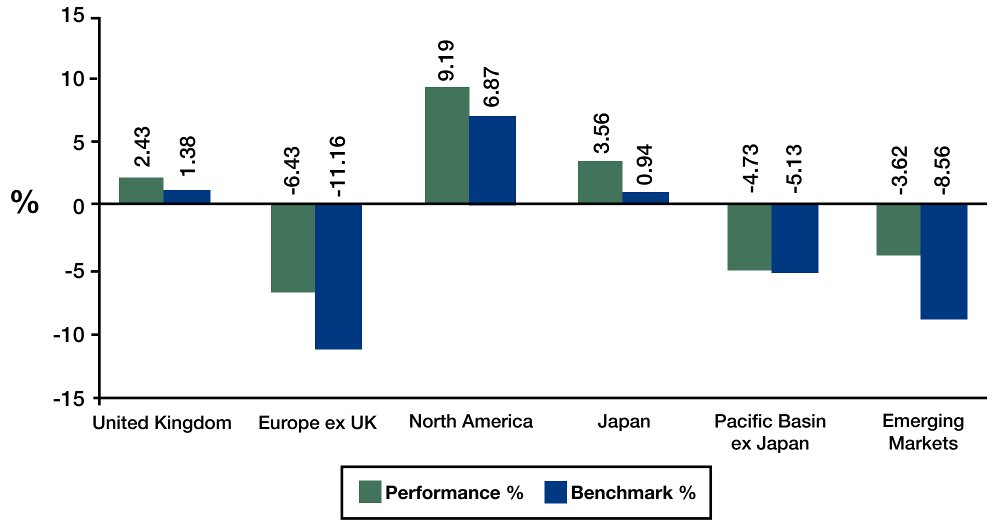
## Top Ten Holdings at 31 March 2012

| | | **£ millions** |
|---|---|---|
| **1** | Shell | 8.4 |
| **2** | GSK | 7.4 |
| **3** | HSBC | 6.6 |
| **4** | BG Group | 6.3 |
| **5** | BP | 6.2 |
| **6** | BAT | 6.1 |
| **7** | Rio Tinto | 6.0 |
| **8** | Linde | 5.9 |
| **9** | Standard Chartered | 5.6 |
| **10** | BT | 5.4 |

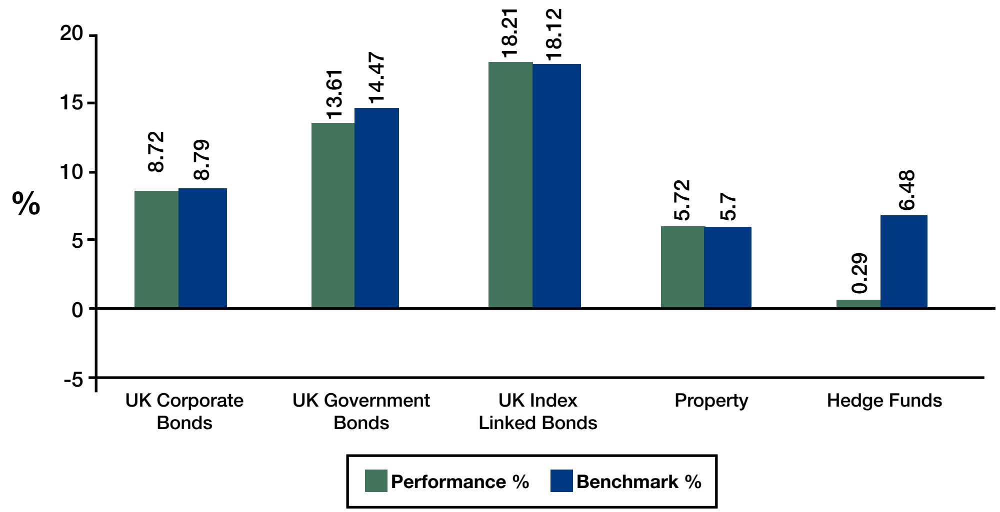
## Total Fund Value Since March 2010




## Equity Performance for the Year Ending 31 March 2012




## Bonds and Alternatives Performance by Asset type for the Year Ending 31 March 2012



# 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 Head of Corporate Finance 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 responsibility to shareholders, employees and wider society

(ii) The Investment Board employs a corporate governance service for the execution of share voting rights. Responsibility for voting is undertaken by the Fund in line with its voting policy approved by the Investment Board on 4 August 2008.

(iii) The Fund is a member of the National Association of Pension Funds (NAPF) and the Local Authority Pension Fund forum (LAPFF).

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

(v) The Board has approved the adoption of the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. The Board has authorised officers to commence work on complying with the Statement, liaising with our investment consultant and fund managers as necessary.

## 7 Fee Structures

### 7.1 Rationale for Fee Structure

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

### 7.2 Investment Consultant Fees

Hymans Robertson fees are either based on fixed quotes for particular projects or, more normally, on a time cost basis.

## 8 Compliance with this Statement

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

## 9 Review of this Statement

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

# 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 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (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 (Administration) Regulations 2008 (as amended) ("the Regulations") 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 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009;

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 (Benefits, Membership and Contributions) Regulations 2007 (as amended) ("the BMC Regulations"). The required levels of employee contributions are also specified in the Regulations.

Employer contributions are determined in accordance with the Regulations (principally Regulation 36) which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate. Contributions to the Fund should be set so as to "secure its solvency", whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

## 2. Purpose of the FSS in policy terms

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

**The purpose of this Funding Strategy Statement is:**

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

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

## 3. Aims and purpose of the Fund

**The aims of the Fund are to:**

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

**The purpose of the Fund is to:**

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses, as defined in the Local Government Pension Scheme (Administration) Regulations 2008 (as amended), the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

## 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 after determining the appropriate employee contribution rate (in accordance with BMC Regulation 3)
- 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 standard maximum deficit recovery period of 19 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 different period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan below).
- With effect from April 2011 employer contributions will be expressed and certified as two separate elements:
  - A percentage of pensionable payroll in respect of the future accrual of benefits
  - A schedule of lump sum amounts over 2011/2014 in respect of the past service deficit subject to the review from April 2014 based on the results of the 2013 actuarial valuation.
- Where increases in employer contributions are required from 1 April 2011, following completion of the 2010 actuarial valuation, the increase from the rates of contribution payable in the year 2011/12 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.

- Where agreed by the Administering Authority, an employer may allocate a specific reserve to cover estimated early retirement costs over the three years commencing 1 April 2011. In such cases the amount of that reserve will be taken into account in determining the employer's contribution rate from 1 April 2011. The payment of additional contributions in respect of early retirements will be required once the specific reserve has been used up.

- 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 and Termination Policy document.

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 annual monetary lump sums subject to review at the 2013 and subsequent actuarial valuations.

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.

- length of expected period of participation in the Fund

**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"). These contributions will be expressed as a percentage of the employer's pensionable payroll, subject to review at the 2013 and subsequent actuarial valuations. 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 2010 valuation show the liabilities to be 83% covered by the current assets, with the funding deficit of 17% being covered by future deficit contributions due from employers. This is allowing for the change in the Actuary's demographic assumptions and allowing for benefits to increase in line with CPI in future rather than RPI.

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 2010 valuation would have been significantly higher, by approximately 38% and the declared funding level would be correspondingly reduced to approximately 60%.

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 overall investment strategy of the Fund is based on a benchmark of 65% in equities (including private equity), 20% in bonds, 10% in property and 5% in hedge funds.

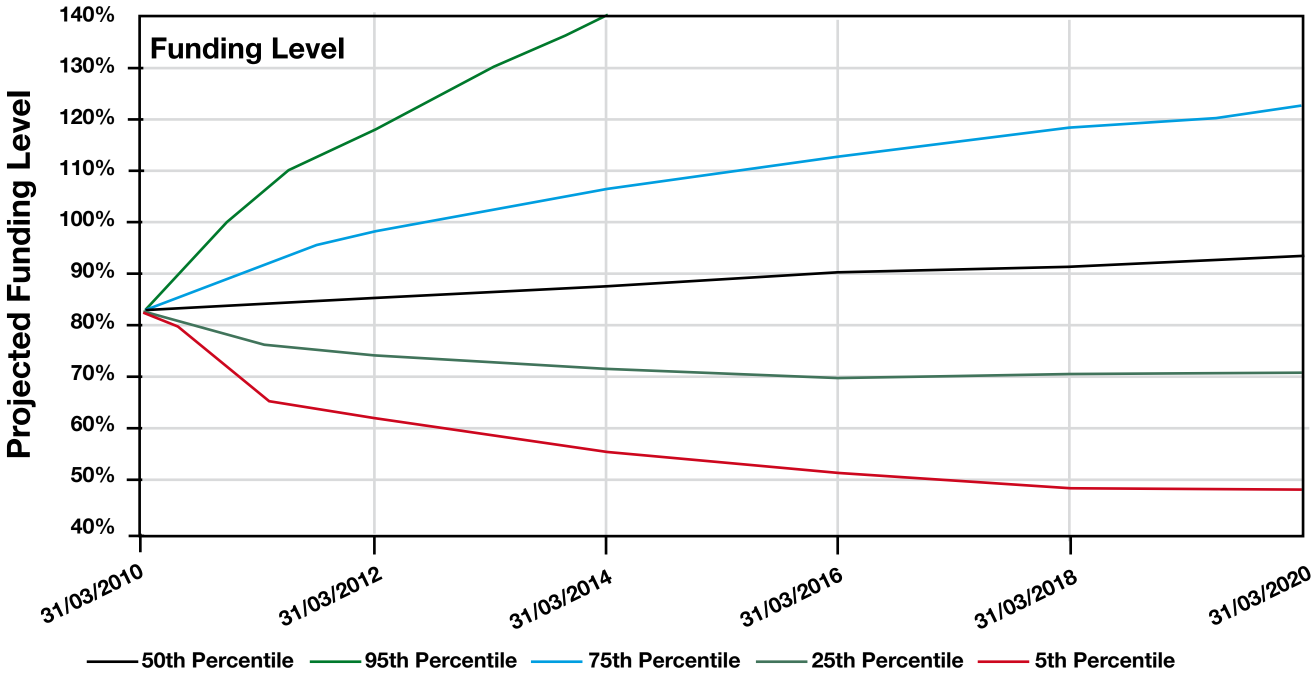
The funding strategy adopted for the 2010 valuation is based on an assumed asset out-performance of 2.5% in respect of liabilities pre-retirement and 1% in respect of post-retirement liabilities. Based on the liability profile at the valuation, this equates to an overall asset out-performance allowance against gilts of around 1.55% in the long-term to keep pace with the liabilities.

## 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 2010 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 aging and decline of the current closed membership group.

**Key Valuation Assumptions**

### Investment return (discount rate)

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

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

### Individual Employers

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

### Inflation (Retail Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI 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 but subject to the following two adjustments.

- An allowance for supply/demand distortions in the bond market is incorporated and
- Due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index, as announced in June. This change will apply from April 2011 and the assumptions make due allowance for this revision as advised by the Actuary.

The overall reduction to RPI inflation at the valuation date is 0.8% per annum.

### Salary increases

The assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 2% p.a. over the CPI inflation assumption as described above. This includes allowance for promotional increases. This has been modified from the assumption at the previous valuation (of 1.75% above the RPI inflation assumption) to reflect the change in inflation assumption from RPI to CPI.

### Pension increases

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with inflation (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 in relation to self-administered pension schemes published by the Continuous Mortality Investigation CMI, making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are set out below with a loading reflecting the Fund's specific experience. The derivation of the mortality assumption is based on the Club Vita Fund specific analysis. Members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a minimum rate of improvement of 1% per annum.

## 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 3% per annum. These two assumptions give rise to an overall discount rate of 6.75% 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 2010 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 2010 actuarial valuation

| | |
|---|---|
| **Long-term gilt yields** | |
| Fixed interest | 4.5% p.a. |
| Index linked | 0.7% p.a. |
| **Past service Funding Target financial assumptions** | |
| Investment return pre-retirement | 7.0% p.a. |
| Investment return post-retirement | 5.5% p.a. |
| CPI price inflation | 3.0% p.a |
| Salary increases | 5.0% p.a. |
| Pension increases | 3.0% p.a. |
| **Future service accrual financial assumptions** | |
| Investment return | 6.75% p.a. |
| CPI price inflation | 3.0% p.a. |
| Salary increases | 5.0% p.a. |
| Pension increases | 3.0% p.a. |

## Demographic assumptions

The mortality tables adopted for this valuation are as follows:

| | Table | Adjustment |
|---|---|---|
| Males actives | S1PMA CMI_2009_M [1%] | 104% |
| Female actives | S1PFA CMI_2009_F [1%] | 94% |
| Males deferreds | S1PMA CMI_2009_M [1%] | 110% |
| Female deferreds | S1PFA CMI_2009_F [1%] | 102% |
| Males normal health pensioners | S1PMA CMI_2009_M [1%] | 98% |
| Female normal health pensioners | S1PFA CMI_2009_F [1%] | 102% |
| Males ill health pensioners | As for male normal health pensioners +3 years | |
| Female ill health pensioners | As for female normal health pensioners +3 years | |
| Male dependants | S1PMA CMI_2009_M [1%] | 103% |
| Female dependants | S1DFA CMI_2009_F [1%] | 108% |
| Male future dependants | S1PMA CMI_2009_M [1%] | 118% |
| Female future dependants | S1DFA CMI_2009_F [1%] | 109% |

Other demographic assumptions are noted below:

| | |
|---|---|
| Withdrawal | As for 2007 valuation |
| Other demographics | Based on general LGPS experience |

## 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 statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2011/12.

## Description of Funding Policy

The funding policy is set out in the administering authority's Funding Strategy Statement (FSS). In summary, the key funding principles are as follows:

- 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 FSS sets out how the administering authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

## Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2010. This valuation revealed that the Fund's assets, which at 31 March 2010 were valued at £1,099 million, were sufficient to meet 83% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £229 million.

Individual employers' contributions for the period 1 April 2011 to 31 March 2014 were set in accordance with the Fund's funding policy as set out in its FSS.

## Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions adopted by Mercer for the formal valuation are described in the report dated 31 March 2011.

**Method**
The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

**Assumptions**
A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2010 valuation were as follows:

| Financial assumptions | Past service liabilities | Future service liabilities |
|---|---|---|
| Discount rate - pre retirement<br>Discount rate - post retirement | 7.0% per annum<br>5.5% per annum | 6.75% per annum<br>6.75% per annum |
| Pay increases* | 5.0% per annum | 5.0% per annum |
| Price inflation/Pension increases | 3.0% per annum | 3.0% per annum |

The key demographic assumption was the allowance made for longevity. The baseline longevity assumptions adopted at this valuation were in line with standard SAPS mortality tables, and included improvements based on CMI 2009 model methodology with a 1% p.a. long term trend. Based on these assumptions, the average future life expectancies at age 65 are as follows:

| | Males | Females |
|---|---|---|
| Current Pensioners | 21.9 years | 23.6 years |
| Future Pensioners | 22.8 years | 25.9 years |

* Figures assume members aged 45 at the last formal valuation date.

Copies of the 2010 valuation report and Funding Strategy Statement are available on request from Warwickshire County Council, administering authority to the Fund.

Experience over the period since April 2010
The administering authority monitors the funding position on a regular basis as part of its risk management programme.  The funding level (excluding the effect of any membership movements) will have worsened since the 2010 valuation due to falling real bond yields and lower asset returns than expected.

The next actuarial valuation will be carried out as at 31 March 2013. The Funding Strategy Statement will also be reviewed at that time.

**Richard Warden FFA**
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
31 July 2012

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

# Risk Management

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

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

The process is summarised as follows:

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

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

www.warwickshire.gov.uk/pensions

# Governance Compliance Statement

The Governance Compliance Statement requires LGPS funds to demonstrate their compliance (or non compliance) with best practice principles. These are contained in statutory guidance which is not mandatory but there is an obligation to comply unless there is a good reason not to do so. This approach is termed as "comply or explain". The move to a compliance based approach reinforces the need for pension funds to have well defined and transparent governance structures.

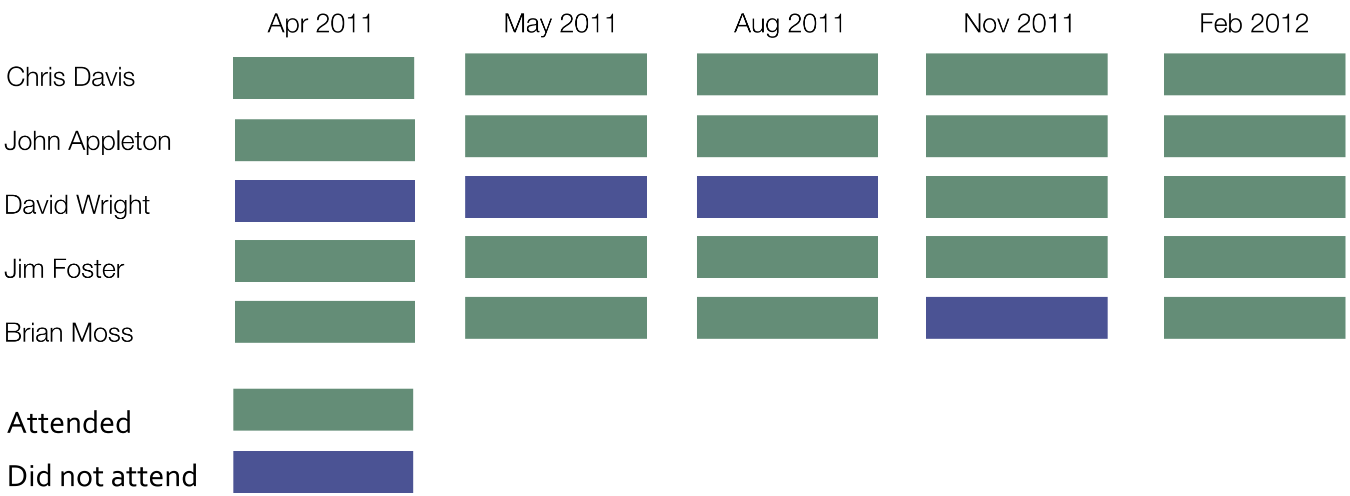
| Principle | Warwickshire's Approach | Compliance |
|---|---|---|
| **Structure** | | |
| The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council. | Warwickshire County Council delegates the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

| Principle | Warwickshire's Approach | Compliance |
|---|---|---|
| **Representation** | | |
| That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:<br>• 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 in wanting to be part of those arrangements. | Warwickshire is fully compliant with this principle by publishing statements in the Annual Report and on its website. | Comply |

## Member Attendance at Investment Board Meetings in 2011/12



# Accounts for the year ending 31 March 2012

## 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 Head of Corporate Finance 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 2012;
- manage the affairs of the Fund to secure economic, efficient use of resources and safeguard its assets.

In preparing the Statement of Accounts the Head of Corporate Finance 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 2012 and its income and expenditure for the year then ended.

**John Betts**
Head of Corporate Finance

## The Pension Fund

This section summarises the accounts of our pension fund. We use this fund to pay former employees their pensions and other benefits when they retire.

## Fund account

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

| 2010/2011 £ millions | Revenue account | 2011/2012 £ millions |
|---|---|---|
| | **Income to the fund** | |
| | **Contributions receivable:** | |
| -38.5 | From employers | -39.3 |
| -16.5 | From employees | -15.6 |
| -5.5 | Transfers in from other schemes | -5.7 |
| **-60.5** | **Income to the fund** | **-60.6** |
| | **Spending by the fund** | |
| | **Benefits to be paid:** | |
| 39.7 | Pension payments | 44.8 |
| 14.8 | Commutation of pensions and lump sum retirement benefits | 16.4 |
| 1.5 | Lump sum death benefits | 1.0 |
| | **Payments to and on behalf of leavers** | |
| 0.0 | Refunds of contributions to people who leave the scheme | 0.0 |
| 6.8 | Individual transfers out of the scheme | 3.5 |
| 1.5 | **Administration expenses paid by the scheme** | 1.5 |
| **64.3** | **Spending by the fund** | **67.2** |
| | | |
| **3.8** | **Net additions from dealing with members** | **6.6** |
| | **Return on investments:** | |
| -7.8 | Dividends from stocks and shares | -10.0 |
| -2.4 | Income from pooled investment vehicles | -3.6 |
| 0.0 | Interest on cash deposits | 0.0 |

| 2010/2011 £ millions | Revenue account | 2011/2012 £ millions |
|---|---|---|
| | **Change in market values of investments:** | |
| -23.2 | Realised profit (-) or loss on sales | -16.4 |
| -54.2 | Unrealised profit (-) or loss on investments | -14.8 |
| | **Taxes on Income** | |
| 0.4 | Tax we cannot claim back | 0.7 |
| 3.4 | **Investment management expenses** | 5.1 |
| **-83.8** | **Net returns on investments** | **-39.0** |
| **-80.0** | **Net increase (-) / decrease in fund during the year** | **-32.4** |

| 2010/2011 £ millions | Pension fund net assets | 2011/2012 £ millions |
|---|---|---|
| 80.0 | Net increase in fund during the year | 32.4 |
| 1,099.3 | Add opening net assets of the scheme | 1,179.3 |
| **1,179.3** | **Net assets at the end of the year** | **1,211.7** |

| As at 31 March 2011 £ millions | Net assets statement | As at 31 March 2012 £ millions |
|---|---|---|
| | **Investment assets** | |
| 5.3 | Fixed interest securities | 6.2 |
| 328.2 | Stocks and shares | 343.7 |
| 837.0 | Managed funds | 848.1 |
| 12.5 | Cash and deposits | 5.8 |
| 1.7 | Other Investments | 1.5 |
| **1,184.7** | | **1,205.3** |
| | **Current assets** | |
| 5.0 | Debtors | 5.6 |
| 11.8 | Cash balances | 3.4 |
| | **Current liabilities** | |
| -22.2 | Creditors | -2.6 |
| -5.4 | | 6.4 |
| **1,179.3** | **Net assets at the end of the year** | **1,211.7** |

# 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 2007). The fund is open to our employees, the five district and borough councils and 85 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 Head of Finance and his staff.

| As at 31 March 2011 | Membership | As at 31 March 2012 |
|---|---|---|
| 15,511 | Number of members contributing to the fund | 15,238 |
| 9,326 | Number of pensioners paid by the fund | 10,096 |
| 11,312 | Number of ex-members whose pension rights are 'frozen' until they retire | 12,329 |

## 2 Accounting policies

The accounts of the pension fund contain the information set out in the Code of Practice on Local Authority Accounting 2011/2012 (The Code). The Code says the accounts must keep to the SORP Financial Reports of Pension Schemes (the Pensions SORP). As a result, the accounting policies are consistent with the Pensions SORP. The accounts give a summary of the transactions and net assets of the fund. They do not take account 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

The values of investments as shown in the net assets statement have been determined as follows:

i) Market-quoted investments

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) Fixed interest securities

Fixed interest securities are recorded at net market value based on their current yields.

iii) Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the council expects to receive on wind-up, less estimated realisation costs.

- Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.

- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.

- Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.

iv) Limited partnerships

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

v) Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

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.

We include acquisition costs in the purchase costs of investments.

### c Investment income

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

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

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

### d Foreign currencies

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

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

### e Contributions

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

### f Benefits due to be paid

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

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

## g Transfer to and from other schemes

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

## h Other expenses

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

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

| Fund manager | Mandate | Negotiated fee |
|---|---|---|
| State Street Global Advisors | Passive index tracker (UK stocks and shares) | Percentage of the fund |
| Threadneedle 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 |
| HarbourVest Partners | Fund of funds (private equity) | Percentage of the fund |

## i Private Equity

The determination of fair value of private equity investments can be subjective as these investments are not publicly listed. Valuations are based on forward looking estimates and judgements involving many factors. The unquoted private equity has been valued by the fund manager using guidelines set out by the British Venture Capital Association. The total fund of private equity investment in the pension fund is valued at £4.9m. There is a risk that this investment may be under or overstated in the accounts.

## 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 as at 31 March 2010 in the report dated March 2011 decided that the funding level was at 83%. A revised schedule of employers' contribution rates came into force from 1 April 2011.

During 2011/2012, the County Council paid employers' contributions at a rate of 14.9%. The district and borough councils paid employers' contributions at rates ranging between 15.4% and 16.8%.

The assumptions used for the March 2010 actuarial valuation were as follows.

| Actuarial valuation | Past service % | Future service % |
|---|---|---|
| Rate of return on investments - before retirement | 7.00% | 7.00% |
| Rate of return on investments - after retirement | 5.50% | 5.50% |
| Salary and earnings increases | 5.00% | 5.00% |
| Rate of increase in pensions | 3.00% | 3.00% |

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 2010 actuarial valuation, the fund's assets were valued at £1,099 million.

## 4 Fund Manager Holdings

| 2010/2011 £ millions | % | Market value of external investments | 2011/2012 £ millions | % |
|---|---|---|---|---|
| 0.0 | 0.0 | State Street Global Advisors (UK Equities) | 0.0 | 0.0 |
| 165.9 | 14.0 | State Street Global Advisors (Index Tracker UK Equities) | 168.2 | 14.0 |
| 169.5 | 14.3 | Threadneedle Investments (UK Equities) | 174.1 | 14.4 |
| 164.6 | 13.9 | MFS Investment Management (Global Equities) | 176.3 | 14.6 |
| 204.9 | 17.3 | BlackRock Global Investors (Index Tracker) | 211.7 | 17.6 |
| 162.0 | 13.7 | Legal and General Investment Management (Index Tracker - Global Equities) | 146.2 | 12.1 |
| 139.0 | 11.8 | Legal and General Investment Management (Index Tracker - Fixed Income) | 142.0 | 11.8 |
| 60.9 | 5.1 | Threadneedle Investments (Property) | 64.8 | 5.4 |
| 57.1 | 4.8 | Schroder Investment Management (Property) | 59.8 | 5.0 |
| 57.0 | 4.8 | Blackstone Group International (Hedge Funds) | 57.2 | 4.7 |
| 0.0 | 0.0 | HarbourVest (Private Equity) | 4.9 | 0.4 |
| 3.8 | 0.3 | BNY Mellon (Global Custodian) | 0.1 | 0.0 |
| **1,184.7** | **100.0** | **Total** | **1,205.3** | **100.0** |

## 5 Investments

| | Value 1 April 2011 £ 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 2012 £ millions |
|---|---|---|---|---|---|---|---|
| Fixed interest securities | 5.3 | 0.0 | 0.0 | 0.0 | 0.9 | 0.0 | 6.2 |
| Stocks and shares | 328.2 | 130.2 | -121.5 | 11.7 | -4.9 | 0.0 | 343.7 |
| Managed funds | 837.0 | 25.2 | -37.6 | 4.6 | 18.9 | 0.0 | 848.1 |
| Cash and deposits | 12.5 | 40.1 | -42.2 | 0.0 | 0.0 | -4.6 | 5.8 |
| Other investments | 1.7 | 0.2 | -4.9 | -0.1 | 0.0 | 4.6 | 1.5 |
| **Total** | **1,184.7** | **195.7** | **-206.2** | **16.2** | **14.9** | **0.0** | **1,205.3** |

The change in market value of investments during the year includes all increases and reductions in the market value of investments held at any time during the year, including profits and losses made when selling investments during the year.

| 2010/2011 £ millions | | 2011/2012 £ millions |
|---|---|---|
| | **Fixed interest securities** | |
| 5.3 | UK quoted | 6.2 |
| **5.3** | | **6.2** |
| | **Stocks and shares** | |
| 162.9 | UK quoted | 166.8 |
| 165.3 | Overseas quoted | 176.9 |
| **328.2** | | **343.7** |
| | **Managed funds** | |
| 837.0 | Managed funds | 848.1 |
| **837.0** | | **848.1** |
| | **Cash and deposits** | |
| 10.7 | Sterling | 3.0 |
| 1.8 | Foreign currency | 2.8 |
| **12.5** | | **5.8** |
| | **Other investments** | |
| 1.8 | Debtors | 2.5 |
| -0.1 | Creditors | -1.0 |
| **1.7** | | **1.5** |

## 6 Contributions and Benefits

The total contributions we received from employers was £39.3 million (£38.5 million in 2010/2011) and £15.6 million (£16.5 million in 2010/2011) from employees.

Employees contributions during the year included payments of £0.3 million to buy added year and additional regular contributions (£0.4 million in 2010/2011 for added years).

Employers' contributions during the year included £0.5 million received from employers for compensation to the fund for those retiring early and being made redundant (£1.0 million in 2010/2011).

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 2010 actuarial valuation stated that the deficit could be eliminated by an average contribution addition of 4.8% of pensionable pay for 19 years.

The deficit funding contributions figure is an actuarial calculation based on a proportion of normal employer contributions. However, in the year 2011/12 the fund received a cash amounts from three employers settling their deficits which totalled £0.3m.

| 2010/2011 £ millions | Contributions we receive | 2011/2012 £ millions |
|---|---|---|
| | **Administering authority** | |
| 22.1 | ~ From employers | 21.4 |
| 9.8 | ~ From employees | 8.9 |
| **31.9** | | **30.3** |
| | **Scheduled bodies** | |
| 14.7 | ~ From employers | 15.8 |
| 6.0 | ~ From employees | 6.0 |
| **20.7** | | **21.8** |
| | **Admitted bodies** | |
| 1.6 | ~ From employers | 2.0 |
| 0.7 | ~ From employees | 0.7 |
| **2.3** | | **2.7** |
| | **Non-scheduled bodies** | |
| 0.1 | ~ From employers | 0.1 |
| 0.0 | ~ From employees | 0.0 |
| **0.1** | | **0.1** |
| **55.0** | **Total** | **54.9** |

| 2010/2011 £ millions | Analysis of contributions by type | 2011/2012 £ millions |
|---|---|---|
| 16.1 | Employee contributions - normal | 15.3 |
| 0.4 | Employee contributions - purchase of additional years | 0.3 |
| 28.7 | Employers' normal contributions | 31.2 |
| 0.1 | Employers' augmentation Contributions | 0.0 |
| 9.7 | Employers' deficit funding Contributions | 8.1 |
| **55.0** | **Total** | **54.9** |

| 2010/2011 £ millions | Benefits to be paid | 2011/2012 £ millions |
|---|---|---|
| | **Administering authority** | |
| 29.6 | ~ Pension paid (including lump sums) | 35.5 |
| 4.5 | ~ Transfers out | 2.0 |
| **34.1** | | **37.5** |
| | **Scheduled bodies** | |
| 23.8 | ~ Pension paid (including lump sums) | 23.6 |
| 1.9 | ~ Transfers out | 1.4 |
| **25.7** | | **25..0** |
| | **Admitted bodies** | |
| 2.6 | ~ Pension paid (including lump sums) | 2.6 |
| 0.4 | ~ Transfers out | 0.1 |
| **3.0** | | **2.7** |
| | **Non-scheduled bodies** | |
| 0.3 | ~ Pension paid (including lump sums) | 0.5 |
| 0.0 | ~ Transfers out | 0.0 |
| **0.3** | | **0.5** |
| **63.1** | **Total** | **65.1** |

The total pensions paid out (including lump sums) was £62.2 million (£56.3 million in 2010/2011) and the total transfers out was £3.5 million (£6.8 million in 2010/2011).

## 7 Statement of Investment Principles

The Investment Board approved a statement of investment principles on 2 August 2010. You can get a copy by writing to the Resources Group, PO Box 3, Shire Hall, Warwick CV34 4RH or from the website. You can view the pension fund website at **www.warwickshire.gov.uk/pensions**

## 8 Bulk transfer out of the fund

The Magistrates' Courts left the County Council to join the Civil Service on 1 April 2005. The fund now receives an annual payment of £0.7 million which commenced in April 2011 with the last payment to be received in April 2020. This is shown within the total balance of transfers in.

| 2010/2011 £ millions | Transfers in from other Pension Funds | 2011/2012 £ millions |
|---|---|---|
| 0.0 | Group Transfers | -0.7 |
| -5.5 | Individual Transfers | -5.0 |
| **-5.5** | | **-5.7** |

## 9 Additional voluntary contributions

In 2011/2012, 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 £0.5 million in Equitable Life, and £2.4 million in Standard Life on 31 March 2012. The pension fund accounts also do not include additional voluntary contributions. During the financial year 2011/2012, employees contributed £0.3 million in additional voluntary contributions to Standard Life and £5,189 to Equitable Life.

## 10 Related Party transactions

Warwickshire County Council is the administering authority and largest employer of the Pension Fund, consequently there is a strong relationship with the council and the fund. The County Council incurred costs of £0.9m in relation to the staffing and running costs of the fund and has been reimbursed by the fund for these expenses. There is no co-mingling in terms of cash holdings, the Pension Fund manages its own bank account and operates its own cash-flow.

There is one member of the investment board in receipt of a pension from the fund and one active member of the pension fund. Each member is required to declare their interests at each meeting. Several employees of Warwickshire County Council hold key positions in the financial management of the Pension Fund. These employees and their financial relationship with the fund (expressed as cash-equivalent transfer values) are set out below.

| | Accrued pension as at 31 March 2011 £ | Accrued pension as at 31 March 2012 £ |
|---|---|---|
| Head of Corporate Finance | 367,812.82 | 457,563.01 |
| Head of Corporate Financial Services | 136,015.01 | 172,874.13 |
| Group Manager, Treasury and Pensions | 293,916.74 | 342,907.65 |
| Pensions Manager | 223,331.90 | 303,983.54 |
| Principal Accountant | 47,715.69 | 69,272.72 |

## 11 Contingent liability

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

## 12 Actuarial Present Value of Promised Retirement Benefits as Provided by Hymans Robertson Pension Fund Actuary

CIPFA's Code of Practice on Local Authority Accounting 2011/12 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19. There are three options for its disclosure in pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed.

The valuation should be carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions. I have been instructed by the Administering Authority to provide the necessary information for the Warwickshire County Council Pension Fund, which is in the remainder of this note.

## Balance Sheet

| Year ended | 31 March 2012 £m |
|---|---|
| Present value of Promised Retirement Benefits | 1,802.0 |

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2010. I estimate this liability at 31 March 2012 comprises £1,023m in respect of employee members, £233m in respect of deferred pensioners and £546m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable.

However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

## Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below.

## Financial Assumptions

My recommended financial assumptions are summarised below:

| Year ended | 31 March 2012 % p.a. |
|---|---|
| Inflation/Pensions Increase Rate | 2.50% |
| Salary Increase Rate | 4.80%* |
| Discount Rate | 4.80% |

*Salary increases are 1% p.a. nominal for the three years to 31 March 2015 reverting to the long term rate thereafter

## Longevity assumption

As discussed in the accompanying report, the life expectancy assumption is based on standard "SAPS" tables with member category specific adjustments. Improvements are based on the CMI 2009 model methodology with a 1% p.a. long term trend. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

| | Males | Females |
|---|---|---|
| Current Pensioners | 21.9 years | 23.6 years |
| Future Pensioners* | 22.8 years | 25.9 years |

*Future pensioners are assumed to be currently aged 45

### Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 50% of the maximum tax-free cash 2008 service.

### Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2012 for the purposes of International Accounting Standard 19' dated May 2012. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-
Richard Warden FFA
May 2012
For and on behalf of Hymans Robertson LLP

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

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £1,802m. This figure is used for statutory accounting purposes by Warwickshire County Council Pension Fund and complies with the requirements of IAS26.

The assumptions underlying the figure match those adopted for the Administering Authority's FRS17/IAS19 reports at each year end. The figure is only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

## 13 Nature and Extent of Risk and how the Pension Fund Manages Those Risks

The Pension Fund's activities expose it to a variety of risks:

*Credit risk:* the possibility that other parties might fail to pay amounts due to the Pension Fund.

*Liquidity risk:* the possibility that the Pension Fund might not have funds available to meet its commitments to make payments.

*Market risk:* the possibility that financial loss might arise for the Pension Fund as a result of changes in such measures as interest rates and stock market movements.

*Credit risk*
The Pension Fund is exposed to credit risk through stock lending, derivative contracts, and its daily treasury activities.

The stock lending programme is administered by the Fund's custodian, Bank of New York Mellon, who manage and monitor the counterparty risk, collateral risk and the overall lending programme. The minimum level of collateral for stock on loan is 105%. This level is assessed daily to ensure it takes account of market movements. In accordance with investment regulations, stock lending is restricted at no more than 25% of the total market value of the stock held within the Fund at any time.

Responsibility for managing the financial risks associated with derivative contracts rests with the appointed investment fund managers, whose performance is regularly monitored and reviewed.

The Pension Fund's bank account is held at Lloyds TSB, which holds a Fitch AA- long term credit rating (or equivalent). The Fund's cash balance is lent to borrowers in accordance with the County Council's Treasury Management Strategy. There are rigorous procedures in place to manage the security of all cash deposits, including criteria for the quality of counterparties and limits on the amount that can be placed with any one of those counterparties.

*Liquidity risk*
The Pension Fund holds a working cash balance or overdraft in its bank account to pay pensions and other benefits. Cash is also required if the Fund's Private Equity Fund of

Fund's manager requires additional funds. The Fund currently enjoys a long term positive cash flow. Cash flow surpluses are invested with fund managers as and when required. The Pension Fund is authorised to borrow in its own right on a short term basis to fund cash flow deficits.

*Market risk*

To mitigate market risk, the Pension Fund is invested in a diversified pool of assets to ensure a reasonable balance between different asset categories, having taken external professional advice as necessary.
The management of the assets is split between a number of investment fund managers with different benchmark performance targets and investment strategies. Each manager is expected to maintain a diversified portfolio within their allocation. Risk associated with the strategy and investment return are regularly monitored and reviewed by the Pension Fund Investment Board.

Interest rate risk is the risk to which the Pension Fund is exposed to changes in interest rates and mainly relates to holdings in bonds. This risk is managed by Legal & General and BlackRock who are the Fund's appointed bond portfolio investment managers.

For investments denominated in non sterling currencies, the Pension Fund is exposed to currency risk as a result of possible fluctuations in foreign currency exchange rates. So far as the Fund's equity investments are concerned, these risks are mitigated to some extent by the global nature of their underlying businesses. Furthermore, investment fund managers will take account of currency risk in their investment decisions.

We have prepared a table for our exposure to all non-UK assets. In order to calculate this, we created a currency basket based on the fund's foreign currency mix. We do this by multiplying the weight of each currency by the change in its exchange rate (relative to GBP) and sum to create the aggregate currency change of the 'basket'.

| Currency at 31/3/2012 | Value (£000) | Change % | Value on Increase (£000) | Value on Decrease (£000) |
|---|---|---|---|---|
| Australian Dollar | 5 | 10.5% | 6 | 5 |
| Koruna | 957 | 11.2% | 1,064 | 850 |
| Danish Krone | 1,230 | 8.3% | 1,332 | 1,127 |
| EURO | 47,295 | 8.4% | 51,249 | 43,341 |
| Japanese Yen | 7,537 | 13.3% | 8,539 | 6,535 |
| Norwegian Krone | 12 | 10.5% | 13 | 11 |
| Swedish Krona | 2,585 | 10.2% | 2,850 | 2,321 |
| Swiss Franc | 15,191 | 10.2% | 16,748 | 13,635 |
| US Dollar | 92,070 | 9.8% | 101,050 | 83,091 |
| **Total** | **166,884** | **9.6%** | **182,851** | **150,916** |

Price risk is the risk of losses associated with the movement in prices of the underlying assets. By diversifying investments across asset classes and managers, the Pension Fund aims to reduce the exposure to price risk. Statutory limits prescribed by Regulations are also in place to avoid concentration of risk in specific areas.

An additional area of risk is the outsourcing of custody and accounting services to external third party service organisations. The main service area that the Pension Fund outsources is its custody arrangements with Bank of New York Mellon. The Fund's custodian is responsible for the safekeeping of the Fund's assets and acts as the Fund's clearing bank, settling transactions and collecting income. In addition, they provide a range of support services including stock lending and investment accounting. Bank of New York Mellon is a global industry leader and provides the custodian service to many English local government pension scheme administering authorities.

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend largely on funds' asset allocations. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This can then be applied to the period end asset mix . The closing investment assets of the scheme have been assessed for price risk in the following table.

| Asset Type at 31/3/2012 | Value (£m) | Change % | Value on Increase (£m) | Value on Decrease (£m) |
|---|---|---|---|---|
| UK Equities | 536.7 | 14.9% | 616.8 | 456.6 |
| Overseas Equities | 264.4 | 15.3% | 304.8 | 224.0 |
| Total Bonds a & IL | 217.2 | 4.6% | 227.1 | 207.3 |
| Cash | 5.8 | 0.0% | 5.8 | 5.8 |
| Alternatives | 62.1 | 4.9% | 65.1 | 59.1 |
| Property | 119.1 | 5.5% | 125.7 | 112.5 |
| **Total** | **1205.3** | **9.6%** | **1,345** | **1,065** |

## 14 Other disclosures

At 31 March 2012, the fund had stock valued at £11.0 million (£2.9 million at 31 March 2011) which was lent out to other organisations. The collateral held against this stock was valued at £11.7 million. This generated a total income of £0.045 million up to 31 March 2012.

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 2011/2012 we did not earn any interest from fixed interest securities held in pooled units.

During the year 2011/2012, the pension fund paid refunds of contributions to employees of £18,314 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.

Withholding tax has only been incurred against equities held actively by the fund.

The fund paid its external auditors a fee of £34,500 during the year 2011/12.

## 15 Administrative Expenses

| 2010/2011 £m | Administration Expenses | 2011/2012 £m |
|---|---|---|
| 0.2 | Actuary Fees | 0.1 |
| 0.9 | Costs Incurred by Administratering Authority | 0.9 |
| 0.0 | Support/Audit/Financing Costs | 0.1 |
| 0.4 | Payroll Charges | 0.4 |
| **1.5** | | **1.5** |

## 16 Investment Income

| 2010/2011 £000 | Investment Income | 2011/2012 £000 |
|---|---|---|
| 5.9 | Cash - UK - From administration of the Fund | 5.2 |
| 23.3 | Cash & Other Investments - UK - Fund Mgrs | -18.2 |
| 0.0 | Cash & Other Investments - Overseas | 1.3 |
| 4,667.9 | Equities - UK | 6,637.3 |
| 1,042.0 | Equities - North America | 1,264.6 |
| 1,391.3 | Equities - Europe | 1,576.6 |
| 317.2 | Equities - Japan | 288.4 |
| 114.6 | Equities - Pacific (Ex Japan) | 75.0 |
| 192.2 | Equities - Emerging Markets | 78.4 |
| 89.6 | Stock Lending | 47.8 |
| 2,311.4 | Managed Funds - UK | 2,263.7 |
| 122.4 | Managed Funds - Overseas | 1,316.9 |
| **10,277.8** | | **13,537.2** |

## 17 Investment Expenses

| 2010/2011 £m | Investment Expenses | 2011/2012 £m |
|---|---|---|
| 3.0 | Fund Managers Fees | 3.7 |
| 0.3 | Fund Expenses | 1.3 |
| 0.1 | Custody and Governance Fees | 0.1 |
| **3.4** | | **5.1** |

## 18 Analysis of Current Assets and Liabilities

| 2010/2011 £m | Current Assets | 2011/2012 £m |
|---|---|---|
| 2.6 | Contributions due from Employers | 2.5 |
| 1.2 | Contributions due from Employees | 1.2 |
| 0.0 | Deficit Recovery Contributions due from Employers | 0.3 |
| 0.1 | Debtors - Strain on Fund | 0.1 |
| 0.6 | Sales to Cash (Invoiced Debtors) | 0.6 |
| 0.5 | Other Debtors | 0.9 |
| 11.8 | Cash Balances | 3.4 |
| **16.8** | | **9.0** |

| 2010/2011 £m | Current Liabilities | 2011/2012 £m |
|---|---|---|
| 15.3 | Contributions due from Employers | 1.0 |
| 5.0 | Contributions due from Employees | 0.0 |
| 0.8 | Deficit Recovery Contributions due from Employers | 1.3 |
| 1.1 | Debtors - Strain on Fund | 0.3 |
| **22.2** | | **2.6** |

## 19 Financial Instruments

The following tables present the funds closing net assets by category of financial instrument. (Fair values and the carrying values of Fund assets are the same).

| Financial Instruments 2011/12 | Fair Value Through Profit and Loss | Loans and Receivables | Financial Liabilities (current) | Total |
|---|---|---|---|---|
| Fixed interest securities | 6.2 | 0.0 | 0.0 | 6.2 |
| Stocks and shares | 343.7 | 0.0 | 0.0 | 343.7 |
| Managed funds | 848.1 | 0.0 | 0.0 | 848.1 |
| Cash and deposits | 0.0 | 5.8 | 0.0 | 5.8 |
| Other Investments | 0.0 | 2.5 | -1.0 | 1.5 |
| Debtors | 0.0 | 5.6 | 0.0 | 5.6 |
| Cash balances | 0.0 | 3.4 | 0.0 | 3.4 |
| Creditors | 0.0 | 0.0 | -2.6 | -2.6 |
| **Net assets at the end of the year** | **1,198.0** | **17.3** | **-3.6** | **1,211.7** |

| Financial Instruments 2010/11 | Fair Value Through Profit and Loss | Loans and Receivables | Financial Liabilities (current) | Total |
|---|---|---|---|---|
| Fixed interest securities | 5.3 | 0.0 | 0.0 | 5.3 |
| Stocks and shares | 328.2 | 0.0 | 0.0 | 328.2 |
| Managed funds | 837.0 | 0.0 | 0.0 | 837.0 |
| Cash and deposits | 0.0 | 12.5 | 0.0 | 12.5 |
| Other Investments | 0.0 | 1.7 | -0.1 | 1.7 |
| Debtors | 0.0 | 5.0 | 0.0 | 5.0 |
| Cash balances | 0.0 | 11.8 | 0.0 | 11.8 |
| Creditors | 0.0 | 0.0 | -22.2 | -22.2 |
| **Net assets at the end of the year** | **1,170.5** | **31.0** | **-22.3** | **1,179.3** |

The following table shows the net gains on the different categories of instruments above, (catagorises in the fund accounts as realised and unrealised profit).

| 2010/2011 £m | | 2011/2012 £m |
|---|---|---|
| -77.4 | Fair Value through profit and loss | -31.3 |
| 0.0 | Loans and Receivabless | 0.1 |
| 0.0 | Financial Liabilities (current) | 0.0 |
| **-77.4** | | **-31.2** |

The following tables categorise financial instruments according to the information used to determine their fair values:

Quoted market price - where fair values are derived from a price in an active market.

Using observable inputs - where valuation techniques have been used to arrive at a value in a market that it is not active.

With significance unobservable inputs - where there is no market data to use the values will rely on judgement and assumptions.

| Valuation at 31 March 2012 | Quoted market price | Using observable inputs | With significant unobservable inputs | Total |
|---|---|---|---|---|
| Financial assets at fair value | 1,017.1 | 124.6 | 62.1 | 1,203.8 |
| Loans and Receivables | 10.5 | 0.0 | 0.0 | 10.5 |
| Financial Liabilities | -2.6 | 0.0 | 0.0 | -2.6 |
| **Net assets at the end of the year** | **1,025.0** | **124.6** | **62.1** | **1,211.7** |

| Valuation at 31 March 2011 | Quoted market price | Using observable inputs | With significant unobservable inputs | Total |
|---|---|---|---|---|
| Financial assets at fair value | 1,008.0 | 118.0 | 57.0 | 1,183.0 |
| Loans and Receivables | 18.5 | 0.0 | 0.0 | 18.5 |
| Financial Liabilities | -22.2 | 0.0 | 0.0 | -22.2 |
| **Net assets at the end of the year** | **1,004.3** | **118.0** | **57.0** | **1,179.3** |

# 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.

# Key Date for 2012

Annual Employers meeting:

- Friday 23 November 2012, Shire Hall

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# Glossary

## An A to Z of Investment terms

## A

### Absolute Return
Absolute return investing aims to produce a positive return over time, regardless of the prevailing market conditions.

### 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.

WARWICKSHIRE
pension fund

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