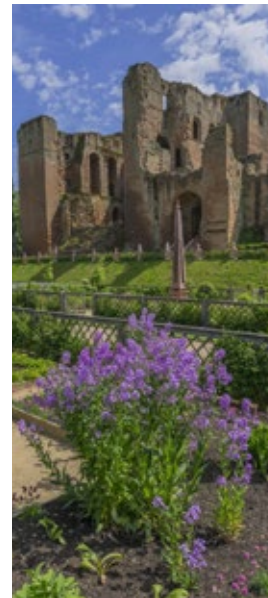
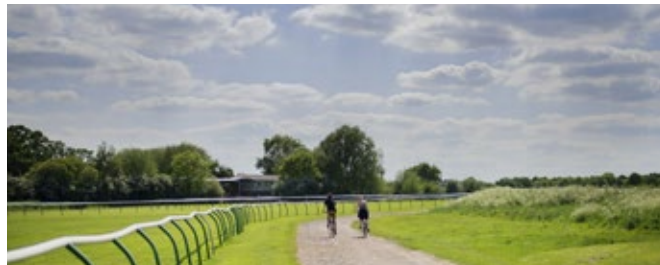
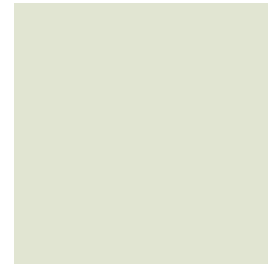




Annual Report & Financial Statements



2016-2017



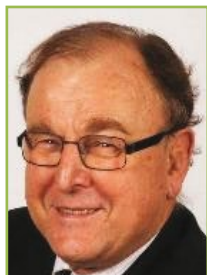
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Stratford-upon-Avon

Chairman's Statement



Following the County Council elections in May, the membership of the Pension Fund Investment Sub-Committee has changed. I would like to thank Councillors Appleton and Moss for their support and input during their time with the Committee, and I would like to welcome Councillors Horner and Redford to the Committee and I look forward to working with them.

2016/17 has seen the fund almost reaching the £2bn mark. There has been continued strong growth in fund investments and in markets generally, despite the many developments of the last

year that were not expected including Brexit and the US elections.

Work has continued through the year on setting up the Border to Coast Pensions Partnership. The Pension Fund plans to join this pool with effect from April 2018. We will move from being a £2bn fund to being part of a £40bn pool. Being a part of this pool will reduce investment costs and provide the benefits of greater scale and buying power for investment opportunities. Although we will be handing over the task of appointing and directing fund managers, the pension fund will retain the critical responsibility for making decisions about strategic asset allocations, and the overall governance of the Pension Fund. We will also have a degree of influence over the partnership through being one of the partners.

There will be a period of transition during which some funds will be managed within the pool, and some will remain under the management of the Warwickshire Pension Fund.

The 2016 actuarial valuation has been completed and shared with employers. The underlying assumptions and future employer contribution rates continue to be designed to move the fund towards fully funded status by 2036. However whether this is ultimately achieved depends upon factors such as investment performance and changes in membership.

I would like to acknowledge the support of the officers of Warwickshire County Council to the Sub-Committee through the year, and all of the staff working to ensure that members of the pension fund are receiving a good service whether they are employees, deferred members, or in receipt of a pension.

Cllr Bob Stevens

Chairman of the Pension Fund
Investment Sub-Committee



George Eliot, Nuneaton

Introduction from the Head of Finance



Last year I made reference to the alleged Chinese Curse “may you live in interesting times”. At that point, we were in the aftermath of the Brexit referendum, combined with a new Prime Minister and the departure of the Chancellor of the Exchequer, who had been the architect behind the pooling of LGPS assets. At that point, I thought things could not get any more uncertain. But since then we have had the unexpected result from a snap General Election and even more uncertainty regarding the UK’s ongoing relationship with Europe.

Generally, the financial markets do not like uncertainty, so it is perhaps even more amazing that I am able to report on the continuing improved financial position of Warwickshire’s Local Government Pension Fund. Last year, we had the results of the actuarial revaluation of the Fund up to the 31st March 2016. The overall funding level rose from 77% to 82% and this was largely the result of a very successful 21% increase in the market value of the assets under management in the Fund. Then, in the last quarter of 2016/17, assets in the Fund rose by a further 4.6%, so that the Fund is now worth a little under £2 billion.

Most of this successful performance is due to the hard work and dedication of all the staff and others who support us in running the Fund in such a successful manner. They have worked particularly hard in formalising the strategy to build on this success and this was reflected in the Funding Strategy Statement that was approved on the 13th March 2017. Added to this, the work on the Boarder to Coast pool continues, as we seek to ensure there are effective governance structures in place there so that we can continue to deliver positive returns for the Warwickshire Pension Fund as well as transfer our resources in a prudent and appropriate fashion.

We are also wrestling with a piece of legislation called the Markets in Financial Instruments Directive 2 (MIFID2). This is very important to the Fund, as we will need to ensure that we pass both qualitative and quantitative criteria to be able to meet a “professional” status so we can continue to proactively invest in the right assets for the Fund. This will help us continue to manage the Fund well, despite all the uncertainties and distractions created at the National and International level.

John Betts

Head of Finance



River Avon, Stratford-upon-Avon

Report from the Treasury and Pension Fund Manager



2016/17 surprised us all, several times. In spite of all the guesswork in the year that we were all guilty of, returns were very strong, particularly for the investor who made the decision not to hedge their sterling. Weaker sterling post-Brexit boosted already solid performance in investments held in overseas currencies.

Total fund performance for the year 2016/17 was 19.5% (versus benchmark of 20.3%). Equity performance was particularly strong at 22.7% as was fixed income 11.7%, once again directly contradicting the now long held view that the 30 year bull- run has come to an end. Our alternatives also did well on the whole, the one exception being UK property which performed poorly at below 4% though some of this was due to a change in pricing which was a tactical move by many property managers to protect the interests of long term investors by disincentivising outflows from funds in the days following Brexit.

Once again diversification is the key to long term success, diversification and always thinking in terms of the whole deficit recovery period and very much avoiding short-term opportunities that need pinpoint timing and a bit of fortune-telling to get right.

For the funds managers it was business as usual with no movement though it is good to see our private equity and infrastructure investments bedding down and performing, the nature of these private market assets means that these managers do take time to find the right opportunities and ask us for the cash to pay for them.

You will see references to the Border to Coast Pensions Partnership (BCPP) in other parts of the report. From an investment perspective things are coming together in terms of the range of sub-funds that BCPP will offer the underlying member funds. The timescale and complexity of the new investment sub-funds will vary by asset class but we do know that our active listed assets will be the first to be transitioned over in mid-late 2018.

Mat Dawson

Treasury and Pension Fund Manager



Grand Union Canal, Warwickshire

Scheme Administration Report



Back in the mists of time when I first started in, what was called, the Superannuation Section, the valuation of the Superannuation Scheme took place once every five years; a quinquennial valuation.

My involvement in those days as a “normal person” with the responsibility of calculating retirement benefits, widows / dependant benefits (society didn’t have widowers in those days) and preserved benefits for the superannuation scheme, all by hand, was very limited. The punch-girls would enter the data to the administration system and every five years the data would be sent to the Actuary

and employer rates determined for the 29 employers with active scheme members of 6,500. Deficits didn’t exist in the 80’s!

In the early 90’s the valuation moved to every three years and the triennial cycle we are now used to. The number of employers with members contributing to the scheme has risen to close to 170 with almost 17,000 members. Deficits do exist and don’t we know it!

The reality of today’s valuation process is that is more of an ongoing one. No longer is there a submission of data by way of a couriered tape to the Actuary sometime late September now it is all submitted by secure data transfer early July.

For one valuation, the Fund actually received notification of close to 700 new members all of which had to be created in the system before the submission of data. That set of circumstances would now simply not be acceptable neither to the Fund as the administrator, the individual scheme member or The Pension Regulator.

Our monthly return is designed not only to ensure that employers are paying the right amount on time but also to keep an eye for new starters and leavers ensuring that members are notified of their pension rights and their annual benefit statement, and importantly for the valuation cycle that your data is correct.

Data is King and the Fund is now spending a lot more time and effort to ensure that we hold the correct data for our scheme members and employers.

Neil R Buxton

Pension Services Manager



Pump Rooms, Leamington

1. Pensions Administration Performance Indicators

| Indicator | Target | |
|-------------------------------------------------|---------|-----|
| Letter detailing transfer in quote | 10 days | 80% |
| Letter detailing transfer out quote | 10 days | 94% |
| Process refund and issue payment voucher | 5 days | 88% |
| Letter notifying estimate of retirement benefit | 10 days | 96% |
| Letter notifying actual retirement benefit | 5 days | 83% |
| Letter notifying amount of dependant benefits | 5 days | 91% |
| Calculate and notify deferred benefits | 10 days | 80% |

2. Pensions Administration Full Time Equivalent Staff

| | |
|--------------------------|-------------|
| Pensions Admin total | 15.6 |
| IT staff | 0.5 |
| Payroll staff | 1.0 |
| Communications staff | 1.5 |
| Employing authority work | 1.0 |
| Work for other schemes | 1.0 |
| Admin of LGPS | 10.6 |

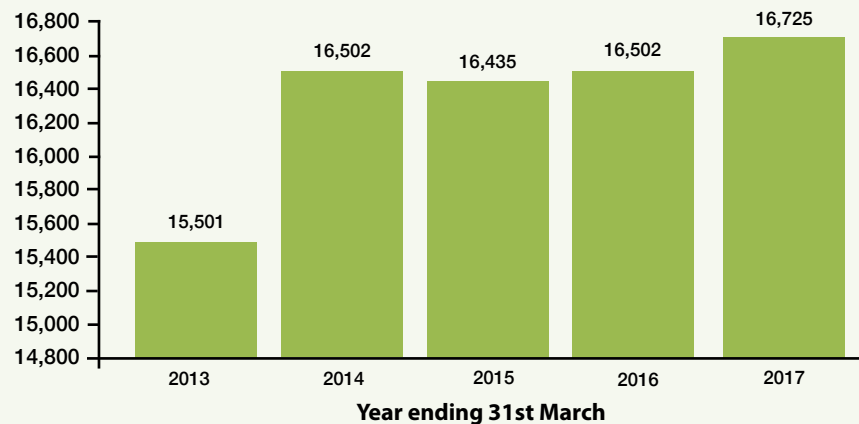
There is 1 member of administration staff for every 4360 LGPS scheme members

There are 3740 new starters and 7600 changes to details processed

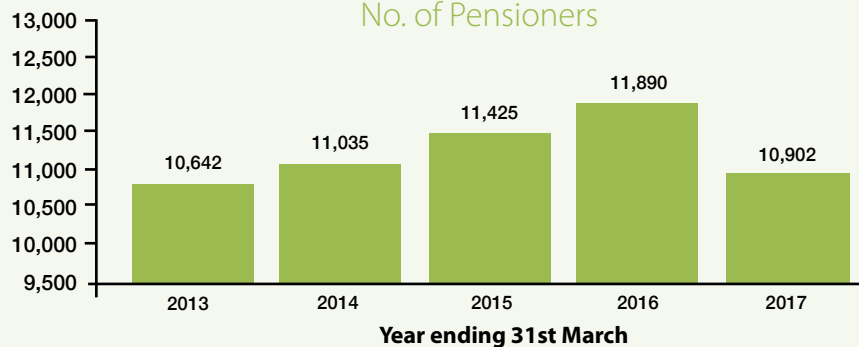
A total of 904 quotations to pension benefits

The total number of actual events (retirements, transfers, refunds, deaths) 3474

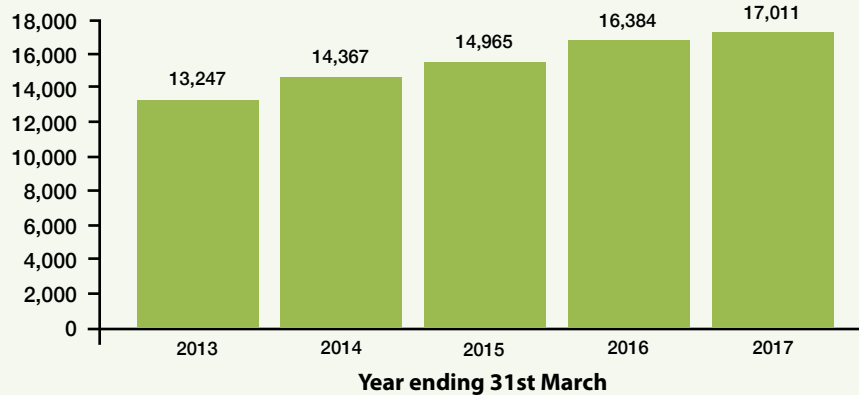
No. of Active Members



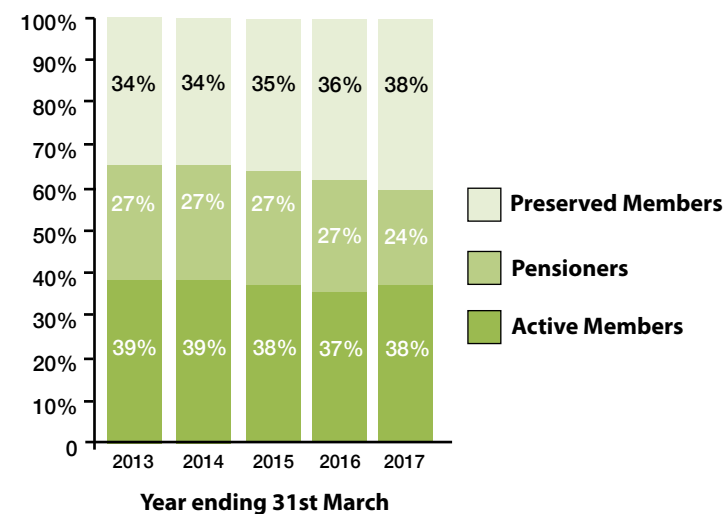
No. of Pensioners



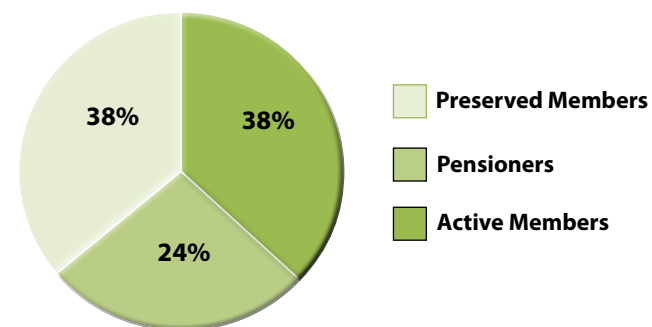
No. of Preserved Members



Scheme Membership profile over the last 5 years



Membership profile as at 31 March 2017



Contributions Paid 2016/17

>£1m

Warwickshire County Council
 Warwickshire Police and Crime Commission
 Warwickshire College
 Nuneaton & Bedworth Borough Council
 Warwick District Council
 Rugby Borough Council
 North Warwickshire Borough Council
 Stratford-On-Avon District Council

<£1m

North Warwickshire & Hinckley College

<£500k

Warwick Schools
 Oak Wood Primary and Secondary Academy
 Stratford-Upon-Avon College
 Community Academies Trust Polesworth
 Solihull School
 Balfour Beatty
 Avon Valley School
 Coventry Diocese - Harris High
 Myton Academy
 Griffin Trust (Nich Chamb)
 Stratford upon Avon School
 Higham Lane Academy
 Ashlawn Academy
 Coleshill School Academy
 Lawrence Sheriff School
 Discovery Academy Nuneaton

Coventry Diocese - St Michaels
 Midland Academies Trust (Hartshill)
 Bilton High Academy
 Holy Spirit Academy Trust St Thomas More Catholic School
 Castle Phoenix Trust (Kingsbury Academy)
 Midland Academies Trust (Nuneaton)
 King Edward VI College Nuneaton
 Midland Academies Trust (George Eliot)
 Champion School Academy
 Aylesford School Academy
 North Leamington Academy
 Stratford On Avon Grammar Academy
 Heart of England MENCAP

<£100k

Studley High Academy
 ATT (Queen Elizabeth Academy)
 Warwickshire Care Services Ltd
 Alcester Grammar Academy
 Community Academies Trust - Woodloes Primary
 Community Academies Trust Admin Centre
 Rugby High Academy
 Ash Green Academy
 Henley High Academy
 Stratford upon Avon King Edward VI Academy
 The Brandon Trust (North Warwicks)
 Coventry Diocese - St Nicolas
 Alcester High Academy
 Community Academies Trust Birchwood
 Cawston Grange Primary Academy

Employers Contributions

Matrix Academy Trust - Etone
 Shipston on Stour High School Academy
 Griffin Trust (Park Lane)
 Stour Federation (Shipston Primary)
 Barnardo's Rugby
 Midland Academies Trust (Admin)
 Holy Spirit Academy Trust St Anne's Catholic Primary School
 Holy Spirit Academy Trust St Joseph's Catholic Junior School
 Dunchurch Infant School
 The Rowan Organisation
 Central MAT (Admin Centre)
 NSL
 Polesworth Nethersole Academy
 Tanworth in Arden Academy
 The Brandon Trust (Rugby)
 Reach2 Academy (Oakfield)
 Coventry Diocese - St Oswalds
 National Education Trust (Henry Hinde Junior School)

<£50k

Alcester St Nicholas Academy
 Bedworth, Rugby and Nuneaton Citizens Advice Bureau
 National Education Trust (Keresley Newland)
 Stratford-Upon-Avon Town Council
 Coventry Diocese - Queens Middle School
 Stratford & District MENCAP
 Coventry Diocese - Studley St Marys
 Holy Spirit Academy Trust St Francis Catholic Primary School
 Sports and Leisure Management, Nuneaton Leisure Services
 Heartwood AT Woodside

Community Academies Trust Stratford Primary
 Henley Primary Academy
 Community Academies Trust Budbrooke
 Barnardo's Nuneaton
 Holy Spirit Academy Trust Our Lady of the Angels
 Reach2 (Newbold Riverside)
 Heart of England Housing & Care Ltd
 Middlemarch Middle School
 Coventry Diocese - St James
 Community Academies Trust Dordon
 Griffin Trust (Race Leys)
 Reach2 (RaceMeadow)
 Community Academies Trust Wood End
 Henry Hinde Academy (Infants)
 Heartwood AT Warton Nethersole
 Holy Spirit Academy Trust St Benedicts Catholic Primary School
 Warwickshire Welfare Rights Service
 Coleshill Town Council
 Barnardo's North Warwickshire
 People in Action
 Mappleborough Green School
 Stour Federation (Acorns)
 Stratford-Upon-Avon Town Trust Co. Ltd
 Coventry Diocese - Leamington Hastings C of E Academy
 Rugby Town Centre Company Ltd
 Warwick District Citizens Advice Bureau
 Tudor Grange Academy Trust (Haselor)
 Erudition (Queen Elizabeth)
 Royal Leamington Spa Town Council
 Heartwood AT Newton Regis
 Wolverton Junior & Infant School
 Rugby Free Secondary School

Westfield Community Development Association
 Dunnington C of E Junior & Infant School
 The Priors Free School Academy
 Heartwood AT Austrey
 Moreton Morrell Church of England School
 Warwick Association for the Blind
 Temple Grafton School
 North Warwickshire Citizens Advice Bureau
 Southam Town Council

<£10k

Atherstone Town Council
 Studley Parish Council
 Midland Academies Trust (Studio College)
 Shipston Town Council
 ABM Catering North Leam School
 Warwickshire Day Care Centres
 Long Lawford Parish Council
 Alcester Town Council
 Bidford-On-Avon Parish Council
 Whitnash Town Council
 Barnardo's Kenilworth
 Alliance in Partnership Oakfield Academy
 Wellesbourne Parish Council
 The Parenting Project
 Alliance in Partnership Henley Primary Academy
 Ryton on Dunsmore Parish Council
 Rugby Free Primary School
 Alliance in Partnership St Edwards RC
 Bishops Itchington Parish Council
 Mancetter Parish Council
 Taylor Shaw (Myton)
 Taylor Shaw (St Paul's)

Barnardo's Warwick
 Kingsbury Parish Council
 Harbury Parish Council
 Tanworth in Arden Parish Council
 Stratford-Upon-Avon Council for Voluntary Service
 Burton Green Parish Council
 Class Catering (St Mary Immaculate)
 Aspen Services Ltd, re catering for St Gregory's School
 Barnardo's Bedworth
 Long Itchington Parish Council
 Napton Parish Council
 Class Catering (Thomas Jolyffe)
 Wolvey Parish Council
 Ettington Parish Council
 Curdworth Parish Council
 Class Catering (The Willows)
 Superclean Services
 Lawrence Cleaning
 Alliance in Partnership Mappleborough
 Class Catering (SoA Primary Sch)
 Stratford Artshouse Trust

Contributions Paid 2016/17

>£1m

Warwickshire County Council
Warwickshire Police and Crime Commission

<£1m

Nuneaton & Bedworth Borough Council
Warwickshire College
Rugby Borough Council
Warwick District Council

<£500k

North Warwickshire Borough Council
Stratford-On-Avon District Council
North Warwickshire & Hinckley College
Warwick Schools
Stratford-Upon-Avon College
Oak Wood Primary and Secondary Academy
Solihull School
Avon Valley School
Stratford upon Avon School
Myton Academy
Balfour Beatty
Ashlawn Academy
Community Academies Trust Polesworth
Griffin Trust (Nich Chamb)
Coventry Diocese - Harris High
Higham Lane Academy

<£50k

Bilton High Academy
Coleshill School Academy
King Edward VI College Nuneaton
Ash Green Academy
Lawrence Sheriff School
Campion School Academy
Discovery Academy Nuneaton
Midland Academies Trust (Hartshill)
Coventry Diocese - St Michaels
Midland Academies Trust (Nuneaton)
Rugby High Academy
Aylesford School Academy
Midland Academies Trust (George Eliot)
Holy Spirit Academy Trust St Thomas More Catholic School
Castle Phoenix Trust (Kingsbury Academy)
Studley High Academy
Stratford On Avon Grammar Academy
Alcester Grammar Academy
North Leamington Academy
Matrix Academy Trust - Etone
Warwickshire Care Services Ltd
Henley High Academy
Stratford upon Avon King Edward VI Academy
Community Academies Trust Admin Centre
ATT (Queen Elizabeth Academy)
Heart of England MENCAP
Alcester High Academy
Reach2 Academy (Oakfield)
Midland Academies Trust (Admin)

Employees Contributions

Community Academies Trust - Woodloes Primary
Shipston on Stour High School Academy
Barnardo's Rugby
Central MAT (Admin Centre)
Griffin Trust (Park Lane)
Dunchurch Infant School
The Brandon Trust (North Warwicks)
Coventry Diocese - St Nicolas
NSL
Cawston Grange Primary Academy
Community Academies Trust Birchwood
The Rowan Organisation
Tanworth in Arden Academy
Stour Federation (Shipston Primary)
Reach2 (Newbold Riverside)
Holy Spirit Academy Trust St Anne's Catholic Primary School
Holy Spirit Academy Trust St Joseph's Catholic Junior School
Stratford-Upon-Avon Town Council
Polesworth Nethersole Academy
Coventry Diocese - St Oswalds
Sports and Leisure Management, Nuneaton Leisure Services
The Brandon Trust (Rugby)
Alcester St Nicholas Academy
People in Action
Bedworth, Rugby and Nuneaton Citizens Advice Bureau
National Education Trust (Keresley Newland)
Coventry Diocese - Queens Middle School
National Education Trust (Henry Hinde Junior School)
Reach2 (RaceMeadow)
Stratford & District MENCAP

Middlemarch Middle School
 Coventry Diocese - Studley St Marys
 Heartwood AT Woodside
 Heart of England Housing & Care Ltd
 Holy Spirit Academy Trust St Francis Catholic Primary School
 Barnardo's Nuneaton
 Henley Primary Academy
 Community Academies Trust Stratford Primary

<£10k

Henry Hinde Academy (Infants)
 Holy Spirit Academy Trust Our Lady of the Angels
 Community Academies Trust Budbrooke
 Coventry Diocese - St James
 Griffin Trust (Race Leys)
 Rugby Town Centre Company Ltd
 Community Academies Trust Dordon
 Holy Spirit Academy Trust St Benedicts Catholic Primary School
 Heartwood AT Warton Nethersole
 Community Academies Trust Wood End
 Barnardo's North Warwickshire
 Warwickshire Welfare Rights Service
 Mappleborough Green School
 Coleshill Town Council
 Royal Leamington Spa Town Council
 Warwick District Citizens Advice Bureau
 Coventry Diocese - Leamington Hastings C of E Academy
 Stratford-Upon-Avon Town Trust Co. Ltd
 Stour Federation (Acorns)
 Erudition (Queen Elizabeth)
 Tudor Grange Academy Trust (Haselor)
 Wolverton Junior & Infant School
 Warwick Association for the Blind

Rugby Free Secondary School
 Heartwood AT Newton Regis
 Dunnington C of E Junior & Infant School
 Moreton Morrell Church of England School
 The Priors Free School Academy
 Heartwood AT Austrey
 Temple Grafton School
 Midland Academies Trust (Studio College)
 Westfield Community Development Association
 North Warwickshire Citizens Advice Bureau
 Studley Parish Council
 Southam Town Council
 Shipston Town Council
 Atherstone Town Council
 Alcester Town Council
 Barnardo's Kenilworth
 Long Lawford Parish Council
 ABM Catering North Leam School
 Bidford-On-Avon Parish Council
 Whitnash Town Council
 Wellesbourne Parish Council
 Warwickshire Day Care Centres
 Alliance in Partnership Oakfield Academy
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 Rugby Free Primary School
 Stratford-Upon-Avon Council for Voluntary Service
 Bishops Itchington Parish Council
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 Long Itchington Parish Council
 Napton Parish Council
 Class Catering (The Willows)
 Wolvey Parish Council
 Ettington Parish Council
 Curdworth Parish Council
 Lawrence Cleaning
 Superclean Services
 Alliance in Partnership Mappleborough
 Class Catering (SoA Primary Sch)

Receipt of contributions

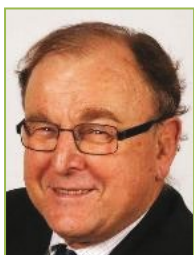
| 2016/2017 | |
|---------------------------------|-------------|
| on or before 19th of each month | 89% |
| After | 11% |
| Total | 100% |

Pension Fund Investment Sub-Committee

The Role of the Sub-Committee

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

Membership of the Pension Fund Investment Sub-Committee



**Councillor
Bob Stevens**
(Conservative)
Chairman



**Councillor
Bill Gifford**
(Liberal Democrat)
Vice Chairman



**Councillor
John Horner**
(Conservative)
Joined May 2017



**Councillor
Wallace Redford**
(Conservative)
Joined May 2017



**Councillor
Alan Webb**
(Labour)



**Councillor
John Appleton**
(Conservative)
Retired May 2017



**Councillor
Brian Moss**
(Labour)
Retired May 2017

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 Finance

Andrew Lovegrove FCA MBA, Strategic Finance Manager

Mat Dawson FCCA, Treasury and Pension Fund Manager

Neil Buxton MIPP, Pensions Services Manager

Vicki Forrester CPFA, Principal Accountant

Treasury Team: Jen Turner, Aneeta Dhoot, Sukhdev Singh

Membership Team: Ian Morris, Chris Holmes, James Taylor-Hoff, Susan Chappell

Benefits Team: Lisa Eglesfield, Linda Radley, Carly Cleary, Anthony Hall, Kudzai Chengeta, Jane Murray

Firefighters Pension Scheme: Sonu Copson, Amarjit Powar

Customer Liaison External Support: Kelly Harrow, Sue Lloyd, Poonam Thompson, Sheila Coughlan

Global Custodian

Bank of New York Mellon (BNY)

Investment Advisors

Independent Advisors: Peter Jones, Karen Shackleton

Actuary: Richard Warden, Hymans Robertson

External Consultants: Paul Potter, Hymans Robertson

Investment Managers

UK Equities: Columbia Threadneedle Investments

Global Equities: MFS Investment Management

Passive Index Tracker: Legal and General Investment Management

Fund of Hedge Funds: Blackstone Group International

UK Property: Schroder Investment Management and Columbia Threadneedle Investments

Fund of Private Equity Funds: HarbourVest Partners

Absolute Return: JP Morgan Asset Management

Infrastructure: Standard Life Capital Partners and Partners Groups

The Local Government Pension Scheme

The Warwickshire Pension Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS is governed by statute, primarily the Superannuation Act 1972 and the Local Government Pension Scheme Regulations 2013 (as amended). 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 Finance on behalf of Warwickshire County Council (the scheme manager), five district councils and other scheduled and admitted public service organisations and their contractors. The administration of the fund is carried out through Warwickshire County Council's Staff and Pensions Committee, the Pension Fund Sub-Committee and the Local Pension Board. The committees are comprised of elected County Council members whilst the Board is an equal mix of representatives of employers and scheme members.

At March 2017, the total membership of the fund stood at 44,638 and the total value of net assets amounted to £1.9 billion. Of the total membership, 16,725 are active members currently contributing to the fund, 17,011 members with a preserved benefit and 10,902 retired or dependant members are in receipt of a pension.

All local government employees (except temporary and casual employees) are automatically entered into the scheme and must opt out if they do not wish to remain a member. Temporary and casual employees must make an election to join the scheme. 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 career average related pension. The scheme is a defined benefit scheme and members' benefits are determined strictly in accordance with the provisions of the Regulations and are not subject to changes affecting the fund assets. For members contributing to the scheme before 1 April 2014, protections are in place for benefits to be based on accrued scheme membership and full-time equivalent pensionable pay at retirement.



Kenilworth Castle, Kenilworth

The Scheme was contracted out of the State Second Pension. This means that the pension paid by the LGPS has passed the minimum standards set by the Government and for pre-1997 membership is at least equal to the Guaranteed Minimum Pension (GMP) otherwise provided by the State Earnings Related Pension Scheme (SERPS). Contracting out came to an end on 31 March 2016.

Below is a brief summary of the benefits of the LGPS. It is not intended to provide details of all benefits provided or the specific conditions that must be met before these benefits can be awarded.

Enquiries and further information can be obtained from the Treasury and Pensions Group.

www.warwickshire.gov.uk/pensions
pensions@warwickshire.gov.uk

The core benefits of the scheme are:

- A guaranteed annual pension based on the pay received during the year and revalued in line with earnings.
- The tax free lump sum is available by commuting part of the pension.
- Life assurance of three times the members' yearly pay from the day they join the scheme.
- Pensions for spouses, civil registered partners, qualifying cohabiting partners

and eligible children on the death of the member.

- An entitlement paid early if a member has to stop work permanently due to permanent ill health.
- Inflation proofed preserved pensions and pensions in payment.
- Pensions payable from age 55, including (with the employers consent) flexible retirement and early retirement.
- The option to contribute a reduced contribution for a reduced benefit - the 50/50 option.

NB scheme members must have a minimum of two years' membership to qualify for a pension.

Cost of membership

Employees pay on average 6.47% of pensionable pay received 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. The average employer rate at the 2016 valuation was 20%.

The next triennial valuation will be calculated as at 31 March 2019 and will set the contribution rates for the three years from 2017/18.

Investment Report for year ending 31 March 2017

Global Review

Global markets made solid gains during the year. Despite volatility prompted by concerns over China's economy and the UK's Brexit vote, global equities gained on the back of recovering oil prices and ongoing monetary stimulus. The election of Donald Trump in November sparked a rally, amid expectations of lower taxes, laxer regulation and increased spending. However, towards the end of the period, the US administration's failure to repeal Obamacare raised concerns over its ability to implement other policies; this put pressure on risk assets and the dollar.

In the US, robust employment and economic data heightened expectations for rate hikes, with one duly delivered in December and the following one in March.

In the UK, market sentiment initially shifted in line with forecasts for the Brexit vote. Although the result initially prompted a large-scale sell-off, markets quickly bounced back as fears about the global impact of Brexit eased. The actual triggering of Article 50 on 29 March – which marked the start of the leaving process – was expected and had relatively little impact on markets.

In Europe, investors were heartened in late 2016 by the European Central Bank (ECB) unleashing a further round of measures designed to stimulate the economy and drive inflation upwards. In Italy, Prime Minister Renzi resigned after his proposals were rejected in a constitutional referendum, and the government prepared to bail out one of the country's largest financial institutions, Banca Monte dei Paschi di Siena. The post-Brexit wave of political upheavals did not extend to Austria's and the Netherlands' presidential elections, as moderate candidates prevailed.

Sentiment towards the Japanese market was buoyed by Prime Minister Shinzo Abe's win in July's upper house elections. His success was seen as a vote of confidence in his economic reforms, known as Abenomics, which focus on monetary stimulus, fiscal stimulus and structural reforms, with a view to boosting economic activity and stimulating inflation. The election result fuelled expectations of further fiscal stimulus and at the start of August a new package was announced, totalling 28tn yen (\$276bn), which included measures to promote infrastructure spending and encourage domestic demand.



St. Gregory's Church, Tredington, Warwickshire

Within emerging markets, Brazil led gains as it maintained its reform agenda. The country's senate voted decisively to impeach President Dilma Rousseff on allegations of administrative misconduct. Under her successor, Michel Temer, parliament is pushing for privatisation reform in the aviation and oil industries.

Despite continued uncertainties generated by the prospect of a "soft" or "hard" Brexit, the underlying fundamentals of UK commercial property remain sound, with sustained tenant demand and restricted levels of supply across the majority of sub markets (with the possible exception of the structurally troubled high street). From a pricing perspective, following the turbulent second half of 2016, capital markets have stabilised. Many forecasters deem the sector to be fairly priced, due to factors including: an "All Property" income yield of c. 5.3%, sound underlying property fundamentals, a historically high yield gap between property and the "risk-free" rate, perceived volatility in equity markets, and a broad spectrum of investor demand, ranging from UK institutions to overseas investors.

Investment Return Compared to the Local Authority Universe 2016/17

| | 1 Year Return | 3 Year Return |
|--------------------------|---------------|---------------|
| Warwickshire's Benchmark | 3.9% | 10.3% |

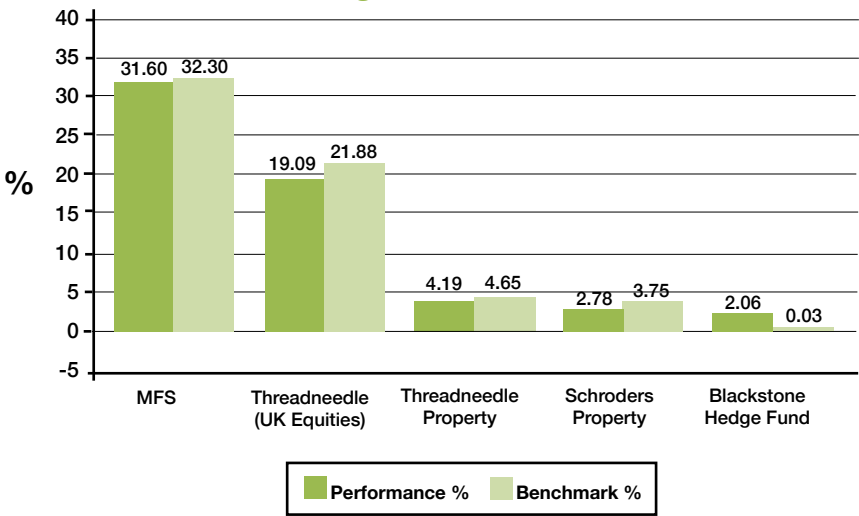
Top Ten Holdings at 31 March 2017

| | £ millions |
|----------------------------------------|------------|
| 1 Royal Dutch Shell PLC B SHS | 13.1 |
| 2 Glaxosmithkline PLC | 12.5 |
| 3 Imperial Brands PLC | 11.1 |
| 4 Prudential PLC | 10.9 |
| 5 Thermo Fisher Scientific INC | 10.8 |
| 6 Unilever PLC | 10.6 |
| 7 Bayer AG | 10.2 |
| 8 Nestle SA | 9.8 |
| 9 Honeywell International INC | 9.4 |
| 10 British American Tobacco PLC | 9.4 |

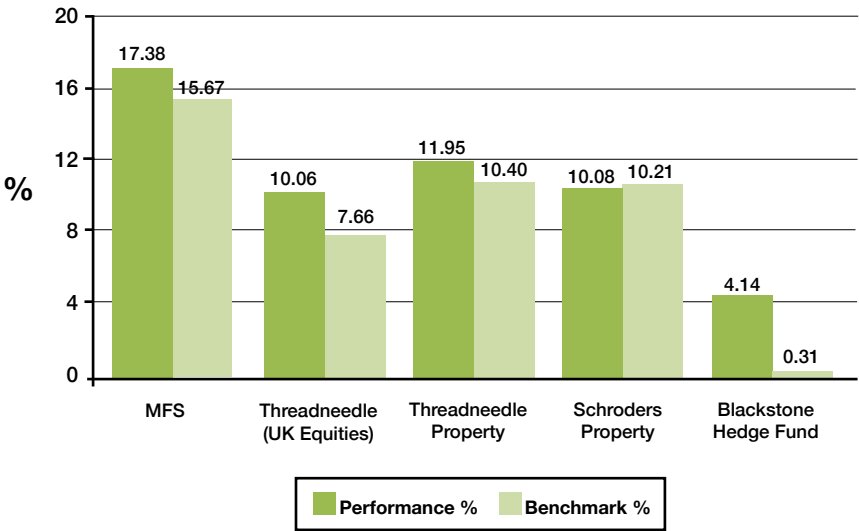
Fund Value over the last 5 Years



Fund Manager Performance for the Year Ending 31 March 2017



Fund Manager Performance for 3 Years Ending 31 March 2017



Investment Strategy Statement (March 2017)

Appendix A

Introduction and background

This is the Investment Strategy Statement ("ISS") of the Warwickshire Pension Fund ("the Fund"), which is administered by Warwickshire County Council, ("the Administering Authority"). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the Regulations").

The ISS has been prepared by the Fund's Investment Sub Committee ("the Committee") having taken advice from the Fund's investment adviser, Hymans Robertson LLP. The Committee acts on the delegated authority of the Administering Authority.

The ISS, which was approved by the Committee on 13 March 2017, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate.

The Committee seeks to invest in accordance with the ISS any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund's Funding Strategy Statement.

The suitability of particular investments and types of investments

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death for their dependants, on a defined benefits basis. The funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employers to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases.

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

The broad approach that the Fund has taken to setting an appropriate investment strategy is as follows:

- In order to generate attractive long term returns on the portfolio, a substantial proportion of the investments will be in growth assets such as equities.
- To reduce the volatility of those growth assets, and to help protect the capital value of the Fund, the remaining portfolio will be invested in risk diversifying assets that have a low correlation with equity markets.
- The Fund will maintain a sufficient level of liquidity in the investment portfolio such that it can facilitate the normal cash flow requirements of the scheme, such as paying pensions.

It is intended that the Fund's investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.

The Fund is currently carrying out an asset liability modelling exercise following on from the 2016 actuarial valuation. The Fund's liability data from the valuation has been used in the modelling, and the implications of adopting a range of alternative contribution and investment strategies are being assessed. The implications for the future evolution of the Fund will be considered under a wide range of different scenarios.

The Committee will be assessing the likelihood of achieving their long term funding target – which has been defined as achieving a fully funded position within the next 19 years. They will also be considering the level of downside risk associated with different strategies by identifying the low funding levels which might emerge in the event of adverse experience.

A summary of the expected returns and volatility for each asset class included in the modelling is included in Appendix 1.

This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

In addition, the Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund's level of funding and liability profile
- The level of expected risk
- Outlook for asset returns

The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation. The Committee has set ranges around the strategic asset allocation for the traditional asset classes (equities and bonds) and then rebalances the portfolio if any individual asset class moves outside its range.

Investment of money in a wide variety of investments

Asset classes

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, and property either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

The Fund's current investment strategy is set out below. The table also includes the control ranges agreed for rebalancing purposes and therefore the maximum percentage of total Fund assets that it will invest in these asset classes. In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007".

| Asset Class | Strategic Allocation (%) | Asset Allocation Range (%) |
|---------------------------|--------------------------|----------------------------|
| UK Equities | 23.0 | +/-2.5 |
| Overseas Equities | 26.5 | +/-2.5 |
| Fundamental Global Equity | 5.0 | +/-2.5 |
| Private Equity | 4.0 | n/a |
| Property | 10.0 | n/a |
| Infrastructure | 4.0 | n/a |
| Hedge Funds | 5.0 | n/a |
| Total Growth | 77.5 | |
| UK Corporate Bonds | 10.0 | +/-1.5 |
| UK Government Bonds | 2.5 | +/-0.5 |
| UK Index-Linked Bonds | 5.0 | +/-0.5 |
| Absolute Return Bonds | 5.0 | n/a |
| Total Bonds | 22.5 | |
| Total | 100.0 | |

As at 31 March 2016, the expected long term return from the target asset allocation was approximately 4.8% p.a. excluding any benefit from active management.

Restrictions on investment

The Regulations have removed the previous restrictions that applied under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The Committee's approach to setting its investment strategy and assessing the suitability of different types of investment takes account of the various risks involved and a rebalancing policy is applied to maintain the asset split close to the agreed asset allocation target. Therefore it is not felt necessary to set additional restrictions on investments.

Managers

The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

The individual investment manager mandates in which the Fund assets are currently invested are as follows:-

| Investment Manager | Asset Class | Investment style |
|--------------------|---------------------------|--------------------------|
| Legal and General | Equities/Bonds | Passive |
| Legal and General | Fundamental Global Equity | Passive |
| Threadneedle | UK Equities | Active |
| MFS | Global Equities | Active |
| Schroder | UK Property | Fund of Funds |
| Threadneedle | UK Property | Balanced Fund |
| Blackstone | Hedge Funds | Fund of Funds |
| JP Morgan | Bonds | Absolute Return |
| Harbourvest | Private Equity | Ongoing fund commitments |
| Standard Life | Infrastructure | Direct fund |
| Partners Group | Infrastructure | Ongoing fund commitments |

The approach to risk, including the ways in which risks are to be measured and managed

The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken. One of the Committee's overarching beliefs is to only take as much investment risk as is necessary.

The principal risks affecting the Fund are set out below. We also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

Funding risks

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics – The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk. This analysis is being revisited as part of the 2016 valuation process. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk – The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Environmental, social and governance ("ESG") – The risk that ESG related factors reduce the Fund's ability to generate the long-term returns.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Committee measure and manage asset risks as follows.

The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has put in place rebalancing arrangements to ensure the Fund's actual allocation does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, as well as property, the Committee has recognised the need for access to liquidity in the short term.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Committee also assess the Fund's currency risk during their risk analysis. Details of the Fund's approach to managing ESG risks is set out later in this document.

The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing

more than one manager and having a large proportion of the Scheme's assets managed on a passive basis. The Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.
- Stock-lending – The possibility of default and loss of economic rights to Fund assets.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

A separate schedule of risks that the Fund monitors is set out in the Fund's Funding Strategy Statement.

The approach to pooling investments, including the use of collective investment vehicles and shared services

The Fund is a participating scheme in the Border to Coast Pensions Partnership (BCPP). The proposed structure and basis on which the BCPP pool will operate was set out in the July 2016 submission to Government.

Assets to be invested in the Pool

The Fund's intention is to invest its assets through the BCPP pool as and when suitable investment solutions become available. An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government. The key criteria for assessment of Pool solutions will be as follows:

1. That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund.
2. That there is financial benefit to the Fund in investing in the solution offered by the Pool.

At the time of preparing this statement, the detailed parameters and objectives of the BCPP fund range are still being finalised.

The Fund is intending to retain the following assets outside of the BCPP pool:

- Passive investments with Legal and General are currently held through life policies and these will remain assets of the Fund. However, the Fund benefits from joint procurement arrangements by BCPP for these services. Future monitoring of the manager and any retendering exercises will be managed by BCPP.
- The Fund has investments in a number of closed end funds as part of its private markets programme. These funds invest in underlying private equity and infrastructure investments. Each of the individual funds has a fixed life with all assets being returned to investors within a specified period. There is no liquid secondary market for these types of investment – and there is a risk that sales would only be possible at material discounts to net asset value. Therefore, the Committee believes that it is in the best interests of the Fund to retain these investments. New allocations to these asset classes will be made through BCPP once suitable funds have been established.

Any assets not invested in the BCPP pool will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money. The next such review will take place no later than 2020.

Structure and governance of the BCPP Pool

The July 2016 submission to Government of the BCPP Pool provided a statement addressing the structure and governance of the Pool, the mechanisms by which the Fund can hold the Pool to account and the services that will be shared or jointly procured. Government approved this approach on 12 December 2016. The Fund has been working with the BCPP to progress arrangements on this basis.

These arrangements include establishing a Financial Conduct Authority regulated company to manage the assets of BCPP Funds. Based on legal advice describing the options on holding shares in this company, BCPP Limited, the Fund will hold all voting and non-voting shares rather than the Council. This is because the purpose of the company is to meet the needs of the BCPP Funds in complying with the regulations on pooling, rather than for a Council specific purpose.

As the Pool develops and the structure and governance of the Pool are established, the Fund will include this information in future iterations of the ISS.

How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

It is recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. The Committee consider the Fund's approach to responsible investment in two key areas:

- Sustainable investment / ESG factors – considering the financial impact of environmental, social and governance (ESG) factors on its investments.
- Stewardship and governance – acting as responsible and active investors/ owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

The Committee takes ESG matters seriously and regularly reviews its policies in this area and its investment managers' approach to ESG.

The Fund believes in collective engagement and is a member of the Local Authority Pension Fund Forum (LAPFF), through which it collectively exercises a voice across a range of corporate governance issues.

At the present time the Committee does not take into account non-financial factors when selecting, retaining, or realising its investments. The Committee understand the Fund is not able to exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

To date, the Fund's approach to Social investments has largely been to delegate this to their underlying investment managers as part of their overall ESG duties. The Fund's managers report on this matter as part of the Fund's annual ESG review.

The Fund does not hold any assets which it deems to be social investments.

The exercise of rights (including voting rights) attaching to investments

Voting rights

A specialist advisory firm has been appointed to assist the Fund with its approach to voting. The Committee have approved their own policy with the objective of preserving and enhancing long term shareholder value and actively vote on the Fund's holdings through a voting platform.

The service provided by the advisory firm, and the Fund's voting policies, are reviewed on a regular basis.

Stewardship

The Committee is a signatory to the Stewardship Code as published by the Financial Reporting Council. The Committee also expects both the BCPP Pool and any directly appointed fund managers to comply with the Stewardship Code and this is monitored on an annual basis. A copy of the Fund's statement of compliance with the Stewardship code can be found in Appendix 3. At the FRC's most recent review, the fund was rated as a tier 1 signatory.

Expected returns and volatilities

Appendix 1

The table below shows the absolute expected returns (20 year geometric averages), net of fees, and the absolute volatilities (first year's standard deviations) used in the 2016/17 asset liability study.

| Asset Class | Expected return % p.a. | Volatility |
|----------------------|---------------------------|------------|
| UK Equities | 5.9 | 16 |
| Overseas Equities | 5.6 | 19 |
| Private Equity | 7.0 | 29 |
| UK Property | 3.7 | 14 |
| Corporate Bonds | 2.7 | 11 |
| Fixed Interest Gilts | 2.0 | 9 |
| Index Linked Gilts | 1.2 | 7 |

Statement of compliance with Stewardship code

Appendix 2

| Principle 1 | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities. | <p>The fund has a long-standing commitment to responsible share ownership. Stewardship is an integral part of share ownership and therefore of the investment code, and requires the same commitment from fund managers.</p> <p>The practical application of the fund's policy is achieved through a combination of activities including, but not limited to: directly voting our shares, dialogue and liaison with fund managers on key issues and through our membership of the Local Authority Pension Fund Forum (LAPFF). In addition to this Stewardship Code Statement, the fund maintains a Statement of Investment Principles (SIP) which explains investment beliefs in more detail.</p> <p>The fund has a responsibility to its membership to regularly engage with fund managers on their stewardship and it is expected to form part of their presentation(s) to the fund sub-committee.</p> <p>Warwickshire Pension Fund believe that well managed companies provide long term value creation to the fund and that the funds members will be beneficiaries of these companies as strong investment returns improve the funds overall funding level which acts favourably in terms of employer contribution rates.</p> |
| Principle 2 | |
| Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed. | <p>The fund encourages fund managers to have effective policies addressing potential conflicts of interest. In respect of conflicts of interest within the fund, Investment Sub-Committee members are required to make declarations of interest prior to each quarterly meeting.</p> <p>External managers are assessed on potential conflicts of interests and their written policies at the evaluation and appointment stage. Subsequent monitoring takes place to by the fund investment consultant and independent advisor protect the funds interests.</p> |
| Principle 3 | |
| Institutional investors should monitor their investee companies. | <p>Day-to-day responsibility for managing our equity holdings is delegated to our appointed fund managers. The fund expects them to monitor companies, intervene where necessary, and report back regularly on activity undertaken. In addition, the fund actively votes all its equity holdings directly and liaises with the fund managers as necessary.</p> <p>The fund has regular meetings with managers and will assess their effectiveness in their monitoring in investee companies as part of formal portfolio reviews either amongst fund officers or the investment sub-committee.</p> |

Principle 4

Institutional investors should establish clear guidelines on where and how they will escalate their stewardship activities.

Responsibility for day-to-day interaction with companies is delegated to the fund's fund managers, including the escalation of engagement when necessary. We expect fund managers to disclose their policies and procedures for escalation in their own Stewardship Code statement. However the fund could escalate through LAPFF by supporting a shareholder resolution.

The fund's investment managers can escalate through engagement with the company management team, collaboration with other institutional shareholders, filing shareholder resolutions or ultimately selling the holding of company shares. Ultimately the fund manager will seek to add value to their clients through improved company share performance following such escalation.

Principle 5

Institutional investors should be willing to act collectively with other investors where appropriate.

The fund seeks to work collaboratively with like-minded institutional shareholders in order to maximise the influence that it can have on individual companies and would engage it was felt that the fund and the wider Local Government Pension Scheme would benefit. This is achieved in a variety of ways including through our membership of the LAPFF and ad-hoc initiatives proposed by our fund managers or other advisors.

The funds contact for any such issues is:

Mathew Dawson

Treasury and Pension Fund Manager

Treasury and Pensions

Resources Directorate

Tel: 01926 412227

Email: mathewdawson@warwickshire.gov.uk

Principle 6

Institutional investors should have a clear policy on voting and disclosure of voting activity.

The fund directly exercises all votes attached to its global equity holdings. The voting policy is a custom policy based on global and local market best practice principles.

All voting decisions are made by Fund officers using a variety of inputs including, but not limited to, specialist proxy research.

The funds proxy voting system logs all fund voting and uses the funds voting policy to indicate a suggested voting intention that best represents the investment sub-committee's approved policy. A detailed report is also available written by the funds proxy research.

The policy is reviewed at least annually by officers in order to take account of regulatory developments. In the event of any changes to the policy, a revised policy would be presented to the investment sub-committee for discussion and approval.

Fund voting records can be found at:

<http://www.warwickshire.gov.uk/pensionstatement>

The fund does take part in stock lending through its global custodian (Bank of New York Mellon). Stock is not routinely recalled in the event of a company meeting.

Within segregated mandates, the fund has absolute discretion over whether stock lending is permitted. The Authority permits stock lending in their active mandates. The manager of pooled funds may undertake a certain amount of stock lending on behalf of unitholders in the fund. If a pooled fund engages in this activity, the extent to which it does so is disclosed by the manager. The fund has no direct control over stock lending in pooled funds.

Principle 7

Institutional investors should report periodically on their stewardship and voting activities.

The fund reports annually on stewardship activity undertaken during the year in the report and accounts and a presentation is given to members who have the opportunity to ask questions about the fund's stewardship activities.

In the event of significant engagements through any given year the voting activity would be recorded in the fund's annual report and available with voting records on the fund's website for the benefit of the funds membership.

External active managers do not vote on behalf of the fund, however fund officers engage with the governance teams at the fund manager for discussions and would be required to submit their voting if requested.

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

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Warwickshire Pension Fund (“the Fund”), which is administered by Warwickshire County Council, (“the Administering Authority”).

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and investment adviser. It is effective from 31 March 2017

The FSS is reviewed in detail at least every three years as part of the triennial valuation process. The next full review is due to be completed as part of the valuation process at 31 March 2019. A revised statement will also be issued in the event of significant or material change arising.

If you have any queries please contact Neil Buxton in the first instance at neilbuxton@warwickshire.gov.uk.

1.2 What is the Warwickshire County Council Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the Fund, in effect the LGPS for the Warwickshire area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;

- invests the contributions appropriately, with the aim that the Fund’s assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees’ benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees’ contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers’ contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles / Investment Strategy Statement (see Section 4)

1.4 How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In **Section 2** there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In **Section 3** we outline how the Fund calculates the contributions payable by different employers in different situations.

In **Section 4** we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

- A. the regulatory background, including how and when the FSS is reviewed,
- B. who is responsible for what,

- C. what issues the Fund needs to monitor, and how it manages its risks,
- D. some more details about the actuarial calculations required,
- E. the assumptions which the Fund actuary currently makes about the future,
- F. a glossary explaining the technical terms occasionally used here.

2. Basic Funding issues

More detailed and extensive descriptions are given in Appendix D.

2.1 How does the actuary measure the required contribution rate?

1. Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
3. Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

- a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "Primary rate", and is expressed as a percentage of members' pensionable pay; plus
- b) an adjustment for the difference between the Primary rate above, and

the actual contribution the employer needs to pay, referred to as the "Secondary rate". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become

separate new employers in the Fund. As academies are defined in the LGPS Regulations as “Scheduled Bodies”, the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies’ membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as ‘admission bodies’. These employers are generally those with a “community of interest” with another scheme employer – **community admission bodies** (“CAB”) or those providing a service on behalf of a scheme employer – **transferee admission bodies** (“TAB”). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund’s admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term ‘admission bodies’; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

2.4 How does the measured contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners’ life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund’s view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

Costs of ill-health early retirements are covered in 3.7 and 3.8.

2.5 How is a deficit (or surplus) calculated?

An employer’s “funding level” is defined as the ratio of:

- the market value of the employer’s share of assets (see Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer’s employees and ex-employees (the “liabilities”). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer’s deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of

assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education;
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must

each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;

- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Fund will make a risk based judgement of the employer. This judgement will have regard to the type of employer, its membership profile and funding position, any guarantors or other security provision, material changes anticipated, etc. This helps the Fund to establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where the Administering Authority has reasonable confidence

that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix. A.

3. Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund

wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;

- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

| Type of employer | Scheduled Bodies | | | Community Admission Bodies and Designating Employers | | Transferee Admission Bodies |
|----------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|-----------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Sub-type | Local Authorities and Police | Colleges and other FE establishments | Academies | Open to new entrants | Closed to new entrants | (all) |
| Funding Target Basis used | Ongoing, assumes long-term Fund participation (see Appendix E) | | | Ongoing, but may move to “gilts basis” -see Note (a) | | Ongoing, assumes fixed contract term in the Fund (see Appendix E) |
| Primary rate approach | (see Appendix D – D.2) | | | | | |
| Stabilised contribution rate? | Yes - see Note (b) | No | No | No | No | No |
| Maximum time horizon – Note (c) | 19 years | 19 years | 19 years | 19 years | Future Working Lifetime, subject to 19 years maximum | Outstanding contract term |
| Secondary rate – Note (d)) | Monetary | | | | | |
| Treatment of surplus | Covered by stabilisation arrangement | Preferred approach: contributions kept at Primary rate. Reductions may be permitted by the Admin. Authority | | | | Reduce contributions by spreading the surplus over the remaining contract term |
| Probability of achieving target – Note (e) | 66% | 75% | 66% | 75% | 75% | 66% |
| Phasing of contribution changes | Covered by stabilisation arrangemen | None | 3 years | 3 years | None | None |
| Review of rates – Note (f) | Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations. | | | | | Particularly reviewed in last 3 years of contract |
| New employer | n/a | n/a | Note (g) | Note (h) | | Notes (h) & (i) |
| Cessation of participation: cessation debt payable | Cessation is assumed not to occur, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j). | | | Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j). | | Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising. |

Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on

the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring), or changes in the security of the employer.

On the basis of extensive modelling carried out for the 2016 valuation exercise (see Section 4), the stabilised details are as follows:

| Type of employer | "Standard" Council | "Mature" Council |
|-------------------|-------------------------|------------------------|
| Max cont increase | +0.75% of pay per annum | +2.0% of pay per annum |
| Max cont decrease | -0.75% of pay per annum | -1.0% of pay per annum |

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

The Administering Authority may review an employer's eligibility for stabilisation at any time in the event of significant changes in the employer's membership (due for example to redundancies or outsourcing) or if there is a significant change in the Administering Authority's assessment of an employer's security.

Stabilisation rules and eligibility may be reviewed at any time in the event of changes to scheme benefits. Changes in scheme benefits may arise because of changes in regulations or other events that have a material impact (such as the change in 2011 from RPI to CPI for increases to pensions in payment).

The stabilisation mechanism limits increases and reductions in contribution

rates for public sector bodies. Therefore any emerging surplus will not reduce their contributions outside the pre-determined range.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

Note (d) (Secondary rate)

The Secondary contribution for each employer covering the three year period until the next valuation will be collected as a monetary amount.

Note (e) (Probability of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

The Administering Authority may review an employer's probability at any time in the event of significant changes in the Administering Authority's assessment of an employer's security.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee

Note (g) (New Academy employers)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

- i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;
- ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
- iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to

conversion;

- iv. The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion;
- v. As an alternative to (iv), the academy will have the option to elect to pay contributions over the period to 31 March 2020 in line with the contribution rates detailed in the table below:

| Year | Contribution rate (% of pay) |
|---------|------------------------------|
| 2017/18 | 22.2% |
| 2018/19 | 22.9% |
| 2019/20 | 23.7% |

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (iii), (iv) and (v) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member

contributions to the Fund; and/or

- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also Note (i) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor. Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j). Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and does not pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the

discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);

- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

- Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilt's cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.
- Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being

carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in Appendix E;

- (c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary

characteristics. This will always be in line with its broader funding strategy. With the advice of the Actuary the Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool. Transferee Admission Bodies are usually also ineligible for pooling.

Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Employers who are permitted to enter (or remain in) a pool at the 2016 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and

- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (NB the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014).

Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

With the agreement of the Administering Authority the payment can be spread as follows:

| | |
|------------------------------------------------------|-----------------------|
| Major Employing bodies | - up to 5 years |
| Community Admission Bodies and Designating Employers | - payable immediately |
| Academies | - payable immediately |
| Transferee Admission Bodies | - payable immediately |

3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see 3.8 below).

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund may monitor each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer may be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

3.8 External ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

- a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;
- b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.

In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.10 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4. Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (being replaced by an Investment Strategy Statement under new LGPS Regulations), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa. Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see Appendix E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;

Affordability – how much can employers afford;

Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and

Stability – employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g.

equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, from time to time.

5. Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 (“Section 13”), the Government Actuary’s Department must, following each triennial actuarial valuation, report to the Department of Communities & Local Government (DCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional DCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

- (a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either
- (b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or
- (c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

- i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,
- ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, DCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

- 1. the implied deficit recovery period; and
- 2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

- 1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
- 2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
- 3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
- 4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

DCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

Appendix A - Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS 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 framework to maintain **as nearly constant employer contribution rates as possible**; and
- to take a **prudent longer-term view** of funding those liabilities.

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was issued to all participating employers in December 2016 for comment;
- b) Comments were requested in time for the March 2017 meeting of the Pension Fund Investment Sub-Committee;
- c) Following the end of the consultation period the FSS was updated where required and then published.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at www.warwickshire.gov.uk/pensions;
- A draft copy sent by e-mail to each participating employer in the Fund;
- A copy sent to the Local Pension Board;
- A full copy included in the annual report and accounts of the Fund;

Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles/Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at **www.warwickshire.gov.uk**

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
- prepare and maintain a FSS and a SIP/ISS, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and

- 13. monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

B2 The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- have a policy and 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 its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;

- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of employers' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

- investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS;;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP/ISS;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
- the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

| Risk | Summary of Control Mechanisms |
|----------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term. | <p>Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p> |
| Inappropriate long-term investment strategy. | <p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.</p> <p>Chosen option considered to provide the best balance.</p> |

| Risk | Summary of Control Mechanisms |
|-----------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities. | <p>Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context.</p> <p>Inter-valuation monitoring, as above.</p> <p>Some investment in bonds helps to mitigate this risk.</p> |
| Active investment manager under-performance relative to benchmark. | <p>Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.</p> |
| Pay and price inflation significantly more than anticipated. | <p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in bonds also helps to mitigate this risk.</p> <p>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p> |
| Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies. | <p>An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.</p> |
| Orphaned employers give rise to added costs for the Fund. | <p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).</p> |

C3 Demographic risks

| Risk | Summary of Control Mechanisms |
|------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Pensioners living longer, thus increasing cost to Fund. | <p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation</p> |
| Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees. | Continue to monitor at each valuation, express contributions as monetary amounts rather than % of pay and consider alternative investment strategies. |
| Deteriorating patterns of early retirements | <p>Employers are charged the extra cost of non ill-health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored, and insurance is an option.</p> |
| Reductions in payroll causing insufficient deficit recovery payments | <p>In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).</p> <p>For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3).</p> |

C4 Regulatory risks

| Risk | Summary of Control Mechanisms |
|---------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform. | <p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The results of the most recent reforms were built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.</p> |
| Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis (see Section 5). | Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis. |
| Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies. | <p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.</p> |

C5 Governance risks

| Risk | Summary of Control Mechanisms |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants. | <p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations</p> <p>Deficit contributions are expressed as monetary amounts.</p> |
| Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way. | <p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p> |
| Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body. | <p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.</p> |

| Risk | Summary of Control Mechanisms |
|-------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| An employer ceasing to exist with insufficient funding or adequacy of a bond. | <p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3).</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p> <p>Requiring new Community Admission Bodies to have a guarantor.</p> <p>Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).</p> |

Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D:

1. The funding target is based on a set of assumptions about the future, eg investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation of participation;
2. The time horizon required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;
3. The required probability of achieving the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

- a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus

- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' future service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,
2. within the determined time horizon (see note 3.3 Note (c) for further details),
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of

outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

For the funding target, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
2. within the determined time horizon (see 3.3 Note (c) for further details)
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment

strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of

liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as “analysis of surplus”.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

1. the actual timing of employer contributions within any financial year;
2. the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

E2 What basis is used by the Fund?

The Fund’s standard funding basis is described as the “ongoing basis”, which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund’s investments. This “discount rate” assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds (“gilts”). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2013 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2020. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by
2. 0.5% above the retail prices index (RPI) per annum p.a. thereafter.

This is a change from the previous valuation, which assumed a flat assumption of RPI plus 1.0% per annum. The change has led to a reduction in the funding target (all other things being equal).

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, a reduction of 1.0% per annum has been applied. This is a larger reduction than at 2013, which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements to that made in 2013.

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members’ benefits.

e) General

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer’s circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Actuarial assumptions/basis

The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **the funding target**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.

Administering Authority

The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".

Admission Bodies

Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).

Covenant

The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.

Designating Employer

Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.

Discount rate

The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a funding target which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the **Primary and Secondary rates**.

Employer

An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and funding target values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.

Funding target

The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.

Gilt

A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.

Guarantee / guarantor

A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.

Letting employer

An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.

LGPS

The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.

Maturity

A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

Members

The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Primary contribution rate

The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.

Profile

The profile of an employer's membership or liability reflects various measurements of that employer's members, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its maturity also.

Rates and Adjustments Certificate

A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.

Scheduled Bodies

Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Secondary contribution rate

The difference between the employer's actual and Primary contribution rates. In broad terms, this relates to the shortfall of its asset share to its funding target. See Appendix D for further details.

Stabilisation

Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.

Valuation

An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

Warwickshire County Council Pension Fund (“the Fund”)

Actuarial Statement for 2016/17

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority’s Funding Strategy Statement (FSS), dated March 2017. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund using a prudent long term view. This will ensure that sufficient funds are available to meet all members’/dependants’ benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

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. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 19 years if

the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still around a 66% chance that the Fund will return to full funding over 19 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund’s assets, which at 31 March 2016 were valued at £2,023 million, were sufficient to meet 82% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £358 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers’ contributions for the period 1 April 2017 to 31 March 2020 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 used are described in the 2016 valuation report.

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 2016 valuation were as follows:

| Financial assumptions | 31 March 2016 |
|-----------------------------|---------------|
| Discount rate | 3.8% |
| Salary increase assumption | 2.8% |
| Benefit increase assumption | 2.1% |

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

| | Males | Females |
|--------------------|------------|------------|
| Current Pensioners | 22.5 years | 24.7 years |
| Future Pensioners* | 24.3 years | 26.7 years |

* Aged 45 at the 2016 Valuation.

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities. The effect of this has been broadly offset by strong asset returns. Both events have roughly cancelled each other out in terms of the impact on the funding position as at 31 March 2017.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.



Richard Warden FFA

For and on behalf of Hymans Robertson LLP
4 May 2017

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 most recent evaluation was completed in June 2017, copies of the Sub-Committee meeting agenda and minutes are available at:

www.warwickshire.gov.uk/pensions

Governance Compliance Statement

Appendix A

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 Sub-Committee (PFISC) who 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. The Local Pension Board ensures employers and scheme members have equal and fair representation. | Comply |
| That where a secondary committee or panel has been established, the structure ensures effective communication across both levels | Minutes of the PFISC and Local Pension Board meetings are freely available. | 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 PFISC consists of County Councillors only. | Explain |

| Principle | Warwickshire's Approach | Compliance |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| Representation | | |
| That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: <ul style="list-style-type: none"> employing authorities (including non-scheme employers, e.g., admitted bodies); | There are three employer positions on the Local Pension Board representing the administering authority, major precepting employers and a member representing remaining admitted and scheduled bodies. | Comply |
| <ul style="list-style-type: none"> scheme members (including deferred and pensioner scheme members); | The Local Pension Board has two members from trade unions who must demonstrate their commitment to each type of scheme member. | Comply |
| <ul style="list-style-type: none"> independent professional observers; and | The PFISC employs an independent consultant who is an experienced ex chief executive of an investment house. The investment consultant is also present at all PFISC meetings. | Comply |
| <ul style="list-style-type: none"> expert advisors (on an ad hoc basis). | Expert advisors attend the Local Pension 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. The Local Pension Board members are duty bound to have the skills to sit on the board and are given training and support. | 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. | PFISC and Local Pension Board members are given initial and ongoing training to support them in their role. | Comply |
| 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. The Local Pension Board has its own voting system and must be independent from the PFISC. | 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. The Chair of the Local Pension Board receives an allowance and expenses but the remainder of the Board will not receive expenses. | 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 PFISC. | Comply |
| Meetings (Frequency/Quorum) | | |
| That an administering authority's main committee or committees meet at least quarterly. | Warwickshire is fully compliant with this principle by holding quarterly and special appointment meetings. | 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. | The Local Pension Board meets at least twice yearly. | Comply |
| That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented. | The Pension Fund holds an annual meeting in November each year to which all key stakeholders are invited. | 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 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 investment issues to the PFISC and benefit issues to both the Local Pension Board and Staff and Pensions Committee. 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 Pension Fund Investment Sub-committee Meetings in 2016/17

| | June 2016 | Sept 2016 | Dec 2016 | Jan 2017 | Mar 2017 |
|----------------|-----------------------|-----------|----------|----------|----------|
| Bob Stevens | | | | | |
| Bill Gifford | | | | | |
| John Appleton | | | | | |
| Alan Webb | | | | | |
| Brian Moss | Provided a substitute | | | | |
| Attended | | | | | |
| Did not attend | | | | | |

Accounts for the year ending 31 March 2017

This section explains our responsibilities, in line with the Accounts and Audit Regulations 2015, for our financial affairs and how we ensure we carry out these responsibilities properly.

Responsibilities of the Pension Fund

We must do the following:

- Make sure that one of our officers is responsible for managing our financial affairs. In the Pension Fund, Warwickshire County Council's Head of Finance is responsible for doing this.
- Manage our affairs to use our resources efficiently and effectively and to protect our assets.
- Comply with IFRS financial reporting framework.
- Approve the statement of accounts.

Responsibilities of the Head of Finance

As the Head of Finance, I am responsible for preparing our statement of accounts. These accounts must present a true and fair view of our financial position, including our income and spending for the year.

In preparing the Pension Fund accounts, I have:

- Selected suitable accounting policies and applied them consistently
- Made reasonable and prudent judgements and estimates
- Followed the Chartered Institute of Public Finance and Accountancy's/ LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

I have also:

- Kept proper accounting records which are up to date
- Taken steps to prevent and detect fraud, including preparing an audit risk management strategy.

A handwritten signature in black ink, appearing to read 'J. Betts'.

John Betts
Head of Finance

21 September 2017

I confirm that the accounts were considered and approved at a meeting of the Council on 21 September 2017.



Councillor Clive Rickhards
Chair of the Council

21 September 2017

Warwickshire Pension Fund Account

| 2015/2016 £m | | Notes | 2016/2017 £m |
|------------------|-----------------------------------------------------------------------------------------|-------|------------------|
| | Dealings with members, employers and others directly involved in the fund | | |
| (68.9) | Contributions | 7 | (71.8) |
| (6.7) | Transfers in from other schemes | 8 | (7.4) |
| (75.6) | | | (79.2) |
| 67.9 | Benefits payable | 9 | 72.2 |
| 5.3 | Payments to and on account of leavers | 10 | 5.1 |
| 73.2 | | | 77.3 |
| (2.4) | Net (additions)/withdrawals from dealing with members | | (1.9) |
| 8.2 | Management expenses | 11 | 9.1 |
| 5.8 | Net (additions)/withdrawals inc fund management expenses | | 7.2 |
| | Returns on investments | | |
| (22.1) | Investment income | 13 | (26.8) |
| 0.9 | Taxes on income | | 0.1 |
| (167.0) | Profit and losses on disposal of investments | 23 | (34.2) |
| 155.4 | Changes in the market value of investments | 23 | (265.0) |
| (32.8) | Net return on investments | | (325.9) |
| (27.0) | Net (increase)/decrease in the net assets available for benefits during the year | | (318.7) |
| (1,638.1) | Opening net assets of the scheme | | (1,665.1) |
| (1,665.1) | Closing net assets of the scheme | | (1,983.8) |

Net Assets Statement

| 2015/2016 £m | | Notes | 2016/2017 £m |
|-----------------|----------------------------------------------------------------------------|----------|-----------------|
| 1645.2 | Investment assets | 15/16/17 | 1,948.0 |
| 13.5 | Cash deposits | 15/16/17 | 30.8 |
| 1,658.7 | Total net investments | | 1,978.8 |
| 10.0 | Current assets | 29 | 8.7 |
| -3.6 | Current liabilities | 30 | -3.7 |
| 1,665.1 | Net assets of the fund available to fund benefits at the period end | | 1,983.8 |

Notes to the Warwickshire Pension Fund

Accounts for the year ended 31 March 2017

Note 1: Description of fund

The Warwickshire Pension Fund ('the fund') is part of the Local Government Pension Scheme and is administered by Warwickshire County Council. The county council is the reporting entity for this pension fund.

The following description of the fund is a summary only. For more detail, reference should be made to the Warwickshire Pension Fund Annual Report 2016/17 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and The Local Government Pension Scheme (LGPS) Regulations.

a) General

The scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

It is a contributory defined benefit pension

scheme administered by Warwickshire County Council to provide pensions and other benefits for pensionable employees of Warwickshire County Council, the district and borough councils in the county of Warwickshire and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The fund is overseen by the Warwickshire Pension Fund Investment Sub-committee, which is a committee of Warwickshire County Council and is made up of five County Councillors. Two independent specialists provide advice and guidance to the sub-committee.

The Public Service Pensions Act 2013 included a requirement to establish a local Pension Board, with responsibility to assist the administering authority:

- To secure compliance with; the LGPS regulations; other legislation relating to the governance and administration of the LGPS, and; the requirements imposed by the Pension Regulator in relation to the LGPS and
- Perform an oversight role to ensure the effective and efficient governance and administration of the LGPS.

A local Pension Board has been in place since February 2015.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Warwickshire Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
- Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 160 employer organisations within Warwickshire Pension Fund including the county council itself, as detailed below.

| Warwickshire Pension Fund | 31 March 2016 | 31 March 2017 |
|-----------------------------------------|---------------|---------------|
| Number of employers with active members | 160 | 160 |
| Number of employees in scheme | | |
| County Council | 9,023 | 9,106 |
| Other employers | 7,479 | 7,619 |
| Total | 16,502 | 16,725 |
| Number of pensioners | | |
| County Council | 6,747 | 6,195 |
| Other employers | 5,143 | 4,707 |
| Total | 11,890 | 10,902 |
| Deferred pensioners | | |
| County Council | 10,106 | 10,441 |
| Other employers | 6,278 | 6,570 |
| Total | 16,384 | 17,011 |
| Total | 44,776 | 44,638 |

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with The LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2017. Contributions are also made by employers' which are set based on triennial actuarial funding valuations. The last valuation was at 31 March 2016 and a revised schedule of employer contribution rates became effective for the three years from 1 April 2017.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised in the following table.

| | Service pre 1 April 2008 | Service post 31 March 2008 |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Pension | Each year worked is worth $1/80 \times$ final pensionable salary | Each year worked is worth $1/60 \times$ final pensionable salary |
| Lump Sum | Automatic lump sum of $3 \times$ pension In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up. | No automatic lump sum Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up. |

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of $1/49$ th. Accrued pension is uprated annually in line with the Consumer Prices Index. The changes also brought in a 50/50 option allowing members the opportunity to contribute 50% for 50% of the benefit entitlement.

Contributions to the LGPS prior to 1 April 2014 were assessed on full-time equivalent pay and excluded non-contractual elements of pay such as overtime and bonus. However, contributions since 1 April 2014 are assessed on all pensionable pay received including non-contractual elements. In addition, the contribution bandings were extended with many of the higher paid seeing an increase in contributions.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

Note 2: Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2016/17 financial year and its position at year-end as at 31 March 2017. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. They have been prepared on a going concern basis in accordance with IAS1.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. This is addressed by the actuary's triennial valuation.

Note 3: Summary of significant accounting policies

a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the period to which they relate.

Employer deficit, augmentation and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with The Local Government Pension Scheme Regulations (see notes 8 and 10). This is normally when the member liability is accepted or discharged.

c) Investment income

i) Interest Income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is reflected within investment assets in the Net Assets Statement.

iii) Distributions from managed funds

Distributions from managed funds are recognised at the date of issue. Any amount not received by the end of the reporting period is reflected within investment assets in the Net Assets Statement.

iv) Profit and losses on disposal of investments

Profit and losses on the disposal of investments are recognised as income and comprise all realised profits/losses during the year.

v) Movement in the market value of investments

Changes in the market value of investments are recognised as income and comprise all unrealised profits/losses during the year.

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. And amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

e) Taxation

The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

f) Management expenses

The Code does not require a breakdown of pension fund administration expenses. However, in the interests of greater transparency, the council discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team and associated accounting, management, accommodation and other overheads are apportioned and charged as expenses to the fund.

Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. All costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Investment management expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. Where these are deducted at source (as opposed to being charged via an invoice) the fee is identified and a journal posted to record the investment management fee and reduce the investment income.

g) Investment assets

Investment assets are included in the Net Assets Statement on a fair value basis as at the reporting date. An investment asset is recognised in the Net Assets Statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the Fund Account.

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 on the final day of the accounting period.

ii) 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:

- 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 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 to 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 International Private Equity and Venture Capital Valuation Guidelines 2012.

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; 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.

h) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

i) Cash and cash equivalents

Cash comprises cash in hand and on demand deposits and includes amounts held by the fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

j) Investment Liabilities

The fund recognises investment liabilities at fair value as at the reporting date. An investment liability is recognised on the date the fund becomes party to the liability and are summarised in Note 13. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

k) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards.

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 28).

l) Additional voluntary contributions

Warwickshire Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The fund has appointed Equitable Life and Standard Life as its AVC providers. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and movements in the year.

AVCs are not included in the accounts in accordance with section 4(1)(b) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 31).

Note 4: Critical judgements in applying accounting policies

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using the *International Private Equity and Venture Capital Valuation Guidelines 2012*.

The value of unquoted private equities as at 31 March 2017 was £84.9m (31 March 2016: £68.3m). This includes investments in infrastructure.

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 27. This estimate is subject to significant variances based on changes to the underlying assumptions.

Note 5: Assumptions made about the future and other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts

reported for assets and liabilities at the Balance Sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual

outcomes could differ from the assumptions and estimates.

The items in the Net Assets Statement at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

| Uncertainties | | Effect if actual results differ from assumptions |
|----------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Actuarial present value of promised retirement benefits | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied. | <p>The effects on the net pension liability of changes in individual assumptions can be measured. For instance:</p> <ul style="list-style-type: none"> - a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £288m - a 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £63m, and - a one-year increase in assumed life expectancy would increase the liability by approximately 3-5%. |
| Lump Sum | Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines 2012. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. | The total private equity investments in the financial statements (including infrastructure) are £84.9m. There is a risk that this investment may be under or overstated in the accounts. The custodian reports a tolerance of +/- 2% around the net asset values on which the hedge fund of funds valuation is based. This equates to a tolerance of +/- £1.7m. |
| Hedge fund of funds | The fund of funds is valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the fund of funds' directors or independent administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. | The total hedge fund of funds value in the financial statements is £84.3m. There is a risk that this investment may be under or overstated in the accounts. The custodian reports a tolerance of +/- 2% around the net asset values on which the hedge fund of funds valuation is based. This equates to a tolerance of +/- £1.7m. |

Note 6: Events after the reporting date

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

- a) Those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period), and
- b) Those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

There were no adjusting or non-adjusting events.

Note 7: Contributions receivable

By category

| 2015/2016 £m | | 2016/2017 £m |
|----------------------------------|---------------------------------------|-----------------|
| 16.4 | Employees' contributions | 16.6 |
| Employer's contributions: | | |
| 42.0 | Normal contributions | 43.8 |
| 10.5 | Deficit Recovery contributions | 11.4 |
| 52.5 | Total employer's contributions | 55.2 |
| 68.9 | | 71.8 |

By authority

| 2015/2016 £m | | 2016/2017 £m |
|-----------------|-------------------------------|-----------------|
| 34.0 | Administering authority | 37.1 |
| 30.8 | Scheduled bodies | 33.4 |
| 4.0 | Admitted bodies | 1.2 |
| 0.1 | Bodies no longer contributing | 0.1 |
| 68.9 | | 71.8 |

Note 8: Transfers in from other pension funds

| 2015/2016 £m | | 2016/2017 £m |
|-----------------|----------------------|-----------------|
| 0.7 | Group transfers | 0.7 |
| 6.0 | Individual transfers | 6.7 |
| 6.7 | | 7.4 |

Note 9: Benefits payable

By category

| 2015/2016 £m | | 2016/2017 £m |
|-----------------|----------------------------------------------|-----------------|
| 55.5 | Pensions | 57.1 |
| 10.6 | Commutation and lump sum retirement benefits | 13.7 |
| 1.8 | Lump sum death benefits | 1.4 |
| 67.9 | | 72.2 |

By authority

| 2015/2016 £m | | 2016/2017 £m |
|-----------------|-------------------------------|-----------------|
| 37.7 | Administering authority | 40.1 |
| 26.5 | Scheduled bodies | 28.1 |
| 2.9 | Admitted bodies | 3.2 |
| 0.8 | Bodies no longer contributing | 0.8 |
| 67.9 | | 72.2 |

Note 10: Payments to and on account of leavers

| 2015/2016 £m | | 2016/2017 £m |
|-----------------|----------------------|-----------------|
| 0.1 | Refunds | 0.3 |
| 1.0 | Group transfers | 0.0 |
| 4.2 | Individual transfers | 4.8 |
| 5.3 | | 5.1 |

Note 11: Management expenses

| 2015/2016 (Restated) £m | | 2016/2017 £m |
|-------------------------------|--------------------------------|-----------------|
| 1.2 | Administration costs | 1.4 |
| 6.7 | Investment management expenses | 7.4 |
| 0.3 | Oversight and governance costs | 0.3 |
| 8.2 | | 9.1 |

This analysis of the costs of managing the Warwickshire Pension Fund during the period has been prepared in accordance with CIPFA guidance.

Indirect costs are incurred through the bid-offer spread on investment sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sale of investments (Note 16 and Note 25).

Note 12: Investment management expenses

| 2015/2016 £'000 | | 2016/2017 £'000 |
|--------------------|--------------------------|--------------------|
| 6,028.3 | Management fees | 6,600.9 |
| 196.3 | Performance related fees | 310.2 |
| 92.0 | Custody fees | 90.8 |
| 345.4 | Transaction costs | 397.7 |
| 6,661.9 | | 7,399.6 |

Note 13: Investment income

| 2015/2016 (Restated) £m | | 2016/2017 £m |
|-------------------------------|---------------------------|-----------------|
| 26.6 | Index linked bonds | 0.0 |
| 14,770.0 | Equity dividends | 16,642.7 |
| 7,224.7 | Managed funds: | 9,418.5 |
| 3,234.8 | Property | 3,726.63 |
| 175.8 | Infrastructure | 1,205.88 |
| 881.1 | Hedge Funds | 903.66 |
| 2,374.0 | Alternative | 2,790.62 |
| 559.1 | Private Equity | 791.67 |
| 54.9 | Interest on cash deposits | 720.7 |
| 23.0 | Stock lending | 47.0 |
| 22,099.2 | | 26,828.9 |

The value of the restatement is £26,600 and has been included to assist clarity and adherence to the Code.

Note 14: Other fund account disclosures: external audit costs

The external audit fee for 2016/17 was £24,000. The fee for 2015/16, including fee variation, was £25,000.

Note 15: Investments

| 2015/2016 £m | | 2016/2017 £m |
|-------------------------------------|-------------------------------------------------------|-----------------|
| Investment Assets | | |
| 84.3 | Index linked bonds | 0.0 |
| 544.8 | Equities | 683.0 |
| 1,013.2 | Managed funds: | 1,307.2 |
| 48.2 | Private Equity | 66.2 |
| 186.3 | Pooled Property | 192.5 |
| 679.8 | Pooled Investments, Unit Trusts & Other Managed Funds | 945.6 |
| 19.9 | Infrastructure | 18.7 |
| 79.0 | Hedge Funds | 84.3 |
| 13.5 | Cash deposits | 30.8 |
| 15.5 | Investment current assets | 2.6 |
| 1,671.3 | Total Investment Assets | 2,023.6 |
| Investment Liabilities | | |
| (12.6) | Investment current liabilities | (44.8) |
| Total Investment Liabilities | | |
| 1,658.7 | Net Investment Assets | 1,978.8 |

The investment current liability is due to cash in transit between two of the fund's investment managers which took place over the year end date.

This transaction was part of a re-balancing exercise to maintain target asset allocation.

Note 16: Reconciliation of movements in investments

| | Market value 1 April 2016 £ m | Purchases during the year £ m | Sales during the year £ m | Change in market value during the year £ m | Market value 31 March 2017 £ m |
|----------------------------------------------------------|-------------------------------------|-------------------------------------|---------------------------------|--------------------------------------------------|--------------------------------------|
| Investment Assets | | | | | |
| Index linked bonds | 84.3 | 0.0 | -79.8 | -4.4 | 0.0 |
| Equities | 544.8 | 99.0 | -86.2 | 125.4 | 683.0 |
| Managed funds: | 1,013.2 | 92.4 | -55.2 | 256.7 | 1307.2 |
| Private Equity | 48.2 | 12.9 | -7.2 | 12.2 | 66.2 |
| Pooled Property | 186.3 | 12.5 | -9.9 | 3.5 | 192.5 |
| Pooled Investments, Unit Trusts & Other Managed Funds | 679.8 | 51.7 | -19.6 | 233.7 | 945.6 |
| Infrastructure | 19.9 | 15.2 | -18.5 | 2.0 | 18.7 |
| Hedge Funds | 79.0 | 0.0 | 0.0 | 5.3 | 84.3 |
| Other Investment Balances | | | | | |
| Cash deposits | 13.5 | 107.9 | -91.2 | 0.6 | 30.8 |
| Net investment current assets | 2.9 | 0.4 | -45.7 | 0.2 | -42.2 |
| Net Investment Assets | 1,658.7 | 299.8 | -358.1 | 378.5 | 1,978.8 |

| | Market value 1 April 2015 £ m | Purchases during the year £ m | Sales during the year £ m | Change in market value during the year £ m | Increase in debtors or (creditors) £ m | Market value 31 March 2016 £ m |
|----------------------------------------------------------|-------------------------------------|-------------------------------------|---------------------------------|--------------------------------------------------|----------------------------------------------|--------------------------------------|
| Investment Assets | | | | | | |
| Index linked bonds | 7.7 | 114.2 | (40.4) | 2.8 | 0.0 | 84.3 |
| Equities | 530.5 | 84.8 | (69.5) | (1.1) | 0.0 | 544.8 |
| Managed funds: | 1,066.7 | 494.8 | (557.9) | 9.6 | 0.0 | 1,013.2 |
| Private Equity | 31.1 | 14.8 | (6.2) | 8.5 | 0.0 | 48.2 |
| Pooled Property | 165.0 | 11.7 | (7.7) | 17.4 | 0.0 | 186.3 |
| Pooled Investments, Unit Trusts & Other Managed Funds | 790.9 | 447.5 | (542.9) | (15.8) | 0.0 | 679.8 |
| Infrastructure | 0.0 | 20.8 | (1.1) | 0.3 | 0.0 | 19.9 |
| Hedge Funds | 79.7 | 0.0 | 0.0 | (0.8) | 0.0 | 79.0 |
| Other Investment Balances | | | | | | |
| Cash deposits | 24.1 | 77.8 | (86.5) | 0.1 | (2.0) | 13.5 |
| Net investment current assets | 2.3 | 0.3 | (1.7) | 0.0 | 2.0 | 2.9 |
| Net Investment Assets | 1,631.3 | 771.8 | (756.0) | 21.2 | 0.0 | 1,658.7 |

Note 17: Analysis of investments

| 31 March 2016 £m | | 31 March 2017 £m |
|---------------------------|-------------------------------------------------------|---------------------|
| Index linked bonds | | |
| 84.3 | UK | 0.0 |
| 0.0 | Overseas | 0.0 |
| 84.3 | | 0.0 |
| Equities | | |
| 261.0 | UK (Quoted) | 309.7 |
| 283.8 | Overseas (Quoted) | 373.3 |
| 544.8 | | 683.0 |
| Managed funds | | |
| 883.9 | UK: | 1,146.5 |
| 184.8 | Pooled Property | 191.4 |
| 679.8 | Pooled Investments, Unit Trusts & Other Managed Funds | 945.6 |
| 19.3 | Infrastructure | 9.6 |
| 129.3 | Overseas: | 160.7 |
| 79.0 | Hedge Funds | 84.3 |
| 48.2 | Private Equity | 66.2 |
| 1.5 | Pooled Property | 1.1 |
| 0.7 | Infrastructure | 9.1 |
| 1,013.2 | | 1,307.2 |
| Cash deposits | | |
| 10.2 | UK Sterling | 25.6 |
| 3.3 | Foreign currency | 5.2 |
| 13.5 | | 30.8 |
| 2.9 | Net investment current assets | (42.2) |
| 1,658.7 | Net Investment Assets | 1,978.8 |

Note 18: Investments analysed by fund manager

| Market value 31 March 2016 | | | Market value 31 March 2017 | |
|-------------------------------|---------------|---------------------------------------------------------------------------|-------------------------------|---------------|
| £ m | % | | | |
| 264.6 | 16.0% | Columbia Threadneedle Investments (UK Equities) | 306.8 | 15.5% |
| 294.9 | 17.8% | MFS Investment Management (Global Equities) | 388.1 | 19.6% |
| 404.5 | 24.4% | Legal and General Investment Management (Index Tracker - Global Equities) | 496.4 | 25.1% |
| 283.2 | 17.1% | Legal and General Investment Management (Index Tracker - Fixed Income) | 325.9 | 16.5% |
| 100.1 | 6.0% | Columbia Threadneedle Investments (Property) | 104.3 | 5.3% |
| 88.1 | 5.3% | Schroder Investment Management (Property) | 90.6 | 4.6% |
| 79.0 | 4.8% | Blackstone Group International (Hedge Funds) | 84.3 | 4.3% |
| 48.3 | 2.9% | HarbourVest (Private Equity) | 66.2 | 3.3% |
| 74.0 | 4.5% | JP Morgan (Strategic Bond) | 75.9 | 3.8% |
| 19.3 | 1.2% | Standard Life Capital (Infrastructure) | 9.6 | 0.5% |
| 0.7 | 0.0% | Partners Group (Infrastructure) | 9.1 | 0.5% |
| 2.0 | 0.1% | BNY Mellon (Global Custodian) | 21.6 | 1.1% |
| 1,658.7 | 100.0% | | 1,978.8 | 100.0% |

Note 19: Investments representing more than 5% net assets of the scheme

| Security | Market value 31 March 2017 | % of total fund as at 31 March 2017 |
|-------------------------------------|-------------------------------|----------------------------------------|
| £ m | | |
| L&G Investment Grade Corporate Bond | 183.1 | 9.23% |
| L&G UK Equity Index | 169.2 | 8.53% |
| L&G Europe (Exc UK) Equity Index | 141.6 | 7.14% |
| L&G Fundamental Indexation | 104.5 | 5.27% |
| Columbia ThreadneedleTPN Property A | 104.3 | 5.26% |
| L&G Index linked Bonds | 100.5 | 5.07% |

| Security | Market value 31 March 2016 | % of total fund as at 31 March 2016 |
|-------------------------------------------|-------------------------------|----------------------------------------|
| £ m | | |
| L&G Grade Corporate Bond All Stocks Index | 171.2 | 10.3% |
| L&G UK Equity Index | 132.4 | 8.0% |
| Columbia ThreadneedleTPN Property A | 100.1 | 6.0% |
| L&G Europe (Exc UK) Equity Index Fund | 100.1 | 6.0% |
| L&G All Stocks Index Linked Gilts | 84.3 | 5.1% |

Note 20: Stock lending

The fund's Statement of Investment Principles sets the parameters for the fund's stock-lending programme. At the year-end, the value of stock on loan was £18.2m (31 March 2016: £13.1m). The investments continue to be recognised in the fund's financial statements.

Counterparty risk is managed through holding collateral at the fund's custodian bank. At the year-end the fund held collateral (via the custodian) at fair value of £19.3m (31 March 2016: £13.9m). Collateral is obtained at 102% for sterling denominated equities and 105% for all other currency denominations and consists of government debt.

Stock-lending commissions are remitted to the fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stock pass to the borrower.

There are no liabilities associated with the loaned assets.

Note 21: Property holdings

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

Note 22: Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and Net Assets Statement heading. No financial assets were reclassified during the accounting period.

| Fair value through profit and loss | Loans and receivables | Financial liabilities | Fair value through profit and loss | Loans and receivables | Financial liabilities |
|------------------------------------|-----------------------|-----------------------|------------------------------------|-----------------------|-----------------------|
| 31 March 2016 | | | 31 March 2017 | | |
| £ m | £ m | £ m | £ m | £ m | £ m |
| Investment Assets | | | | | |
| 84.3 | | | 0.0 | | |
| 544.8 | | | 683.0 | | |
| 1,013.2 | | | 1,307.2 | | |
| 48.2 | | | 66.2 | | |
| 186.3 | | | 192.5 | | |
| 679.8 | | | 945.6 | | |
| 19.9 | | | 18.7 | | |
| 79.0 | | | 84.3 | | |
| | 13.5 | | | 30.8 | |
| | 15.5 | | | 2.6 | |
| | 9.0 | | | 7.9 | |
| | 1.0 | | | 0.9 | |
| 1,642.3 | 39.0 | 0.0 | 1,990.2 | 42.1 | 0.0 |
| Liabilities | | | | | |
| | | (12.6) | | | (44.8) |
| | | (3.6) | | | (3.7) |
| 0.0 | 0.0 | (16.2) | 0.0 | 0.0 | (48.5) |
| 1,642.3 | 39.0 | (16.2) | 1,990.2 | 42.1 | (48.5) |

Note 23: Net gains and losses on financial instruments

| 31 March 2016 £m | | 31 March 2017 £m |
|---------------------|------------------------------------|---------------------|
| | Financial Assets | |
| 167.0 | Fair value through profit and loss | 299.2 |
| 0.0 | Loans and receivables | 0.0 |
| | Financial liabilities | |
| (155.4) | Fair value through profit and loss | 0.0 |
| 0.0 | Loans and receivables | 0.0 |
| 11.6 | Total | 299.2 |

The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

Note 24: Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange

Level 2

Financial instruments at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value, these inputs are observable. Products classified as level 2 include unquoted bonds and overseas unit trusts and property funds.

Level 3

Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Warwickshire Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are undertaken quarterly and an adjustment is made to roll forward the latest available valuation to 31 March as appropriate.

The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

| Description of asset | Basis of valuation | Observable and unobservable inputs | Key sensitivities affecting the valuations provided |
|----------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Market quoted investments Level 1 | Published bid market price ruling on the final day of the accounting period. | Not required | Not required |
| Pooled investments – overseas unit trusts & property funds Level 2 | Closing bid price where bid and offer prices are published. Closing single price where single price is published. | NAV-based pricing set on a forward pricing basis | Not required |
| Hedge funds Level 3 | Closing bid price where bid and offer prices are published. Closing single price where single price is published. | NAV-based pricing set on a forward pricing basis | Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts. |
| Private equity Level 3 | Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines 2012. | NAV-based pricing set on a forward pricing basis | Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts. |
| Infrastructure Level 3 | Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines 2012. | NAV-based pricing set on a forward pricing basis | Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts. |

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

| | Quoted market price | Using observable inputs | With significant unobservable inputs | |
|-------------------------------------------------------------|------------------------|-------------------------------|--------------------------------------------|---------|
| Valuation at 31 March 2017 | Level 1 | Level 2 | Level 3 | Total |
| | £ m | £ m | £ m | £ m |
| Financial assets | | | | |
| Financial assets at fair value through profit and loss | 786.1 | 1,034.9 | 169.2 | 1,990.2 |
| Financial liabilities | | | | |
| Financial liabilities at fair value through profit and loss | 0.0 | 0.0 | 0.0 | 0.0 |
| Net financial assets | 786.1 | 1,034.9 | 169.2 | 1,990.2 |

| | Quoted market price | Using observable inputs | With significant unobservable inputs | |
|-------------------------------------------------------------|------------------------|-------------------------------|--------------------------------------------|---------|
| Valuation at 31 March 2016 | Level 1 | Level 2 | Level 3 | Total |
| | £ m | £ m | £ m | £ m |
| Financial assets | | | | |
| Financial assets at fair value through profit and loss | 620.4 | 874.7 | 147.2 | 1,642.3 |
| Financial liabilities | | | | |
| Financial liabilities at fair value through profit and loss | 0.0 | 0.0 | 0.0 | 0.0 |
| Net financial assets | 620.4 | 874.7 | 147.2 | 1,642.3 |

Note 25: Reconciliation of fair value measurements within Level 3

| | Market value 1 April 2016 | Purchases during the year | Sales during the year | Change in market value during the year | Realised profit or loss (-) during the year | Market value 31 March 2017 |
|---------------------|---------------------------------|---------------------------------|-----------------------------|----------------------------------------------------|---------------------------------------------------------|-------------------------------------|
| | £ m | £ m | £ m | £ m | | |
| Fund of Hedge Funds | 78.9 | 0.0 | 0.0 | 5.4 | 0.0 | 84.3 |
| Private Equity | 48.3 | 12.9 | -7.2 | 9.3 | 2.9 | 66.2 |
| Infrastructure | 20.0 | 15.2 | -18.5 | 1.3 | 0.7 | 18.7 |
| | 147.2 | 28.1 | -25.7 | 16.0 | 3.6 | 169.2 |

Note 26: Nature and extent of risks arising from financial instruments**Risk and risk management**

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities (ie promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the pension fund committee. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The fund manages these risks in two ways:

- The exposure of the fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
- Specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital.

The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored to ensure it is within limits specified in the fund investment strategy.

Following analysis of historical data and expected investment return movement, the fund has determined that the following movements in market price risk were reasonably possible for the 2016/17 reporting period. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

| Asset Type | 2016/17 Potential market movement |
|--------------------------------------------------|-----------------------------------|
| | % |
| UK Equities | 13% |
| Overseas Equities | 12% |
| Total Bonds, Index Linked & Pooled Managed Funds | 8% |
| Cash | 0% |
| Alternatives | 10% |
| Property | 5% |

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of the assets and are based on observed historical volatility of the returns of the asset class.

Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits would have been as follows (the prior year comparator is shown below):

| Asset Type | Value as at 31 March 2017 | Potential market movement | Value on increase | Value on decrease |
|--------------------------------------------------------|---------------------------------|---------------------------------|----------------------|----------------------|
| | £ m | £ m | £ m | £ m |
| UK Equities | 881.9 | 114.6 | 996.5 | 767.2 |
| Overseas Equities | 347.8 | 41.7 | 389.5 | 306.1 |
| Total Bonds, Index Linked & Pooled Managed Funds | 325.5 | 26.0 | 351.6 | 299.5 |
| Cash | -14.0 | 0.0 | -14.0 | -14.0 |
| Alternatives | 245.1 | 24.5 | 269.6 | 220.6 |
| Property | 192.5 | 9.6 | 202.1 | 182.8 |
| Total | 1,978.8 | 216.6 | 2,195.4 | 1,762.3 |

| Asset Type | Value as at 31 March 2016 | Potential market movement | Value on increase | Value on decrease |
|--------------------------------------------------------|---------------------------------|---------------------------------|----------------------|----------------------|
| | £ m | £ m | £ m | £ m |
| UK Equities | 679.1 | 124.9 | 804.0 | 554.1 |
| Overseas Equities | 262.6 | 38.3 | 300.9 | 224.2 |
| Total Bonds, Index Linked & Pooled Managed Funds | 295.2 | 23.6 | 318.8 | 271.5 |
| Cash | 14.3 | 0.0 | 14.3 | 14.3 |
| Alternatives | 221.2 | 22.1 | 243.3 | 199.1 |
| Property | 186.3 | 10.8 | 197.2 | 175.5 |
| Total | 1,658.7 | 219.8 | 1,878.5 | 1,438.8 |

Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The fund's interest rate risk is monitored as part of asset allocation decisions. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£UK). The fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

| Currency | 2016/17 Potential market movement |
|-----------------------|-----------------------------------|
| | % |
| Czech Republic Koruna | 11% |
| Danish Krone | 11% |
| Euro | 11% |
| Japanese Yen | 18% |
| Mexican Peso | 18% |
| Swedish Krona | 11% |
| Swiss Franc | 12% |
| Thai Baht | 13% |
| US Dollar | 13% |
| Hong Kong Dollar | 13% |

A strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows. This analysis assumes that all other variables, in particular interest rates, remain constant. The prior year comparator is shown below:

| Currency | Value as at 31 March 2017 | Potential market movement | Value on increase | Value on decrease |
|-----------------------|---------------------------------|---------------------------------|----------------------|----------------------|
| | £ m | £ m | £ m | £ m |
| Czech Republic Koruna | 0.6 | 0.1 | 0.7 | 0.5 |
| Danish Krone | 3.1 | 0.3 | 3.4 | 2.8 |
| Euro | 104.0 | 11.4 | 115.5 | 92.6 |
| Japanese Yen | 4.5 | 0.8 | 5.4 | 3.7 |
| Mexican Peso | 1.3 | 0.2 | 1.5 | 1.1 |
| Swedish Krona | 8.1 | 0.9 | 9.0 | 7.2 |
| Swiss Franc | 34.6 | 4.1 | 38.7 | 30.4 |
| Thai Baht | 0.9 | 0.1 | 1.0 | 0.7 |
| US Dollar | 271.5 | 35.3 | 306.8 | 236.2 |
| Hong Kong Dollar | 0.8 | 0.1 | 0.9 | 0.7 |
| Total | 429.4 | 53.4 | 482.8 | 375.9 |

| Currency | Value as at 31 March 2016 | Potential market movement | Value on increase | Value on decrease |
|-----------------------|---------------------------------|---------------------------------|----------------------|----------------------|
| | £ m | £ m | £ m | £ m |
| Czech Republic Koruna | 0.6 | 0.1 | 0.7 | 0.6 |
| Danish Krone | 2.7 | 0.2 | 2.9 | 2.5 |
| Euro | 73.7 | 5.7 | 79.4 | 68.0 |
| Japanese Yen | 2.4 | 0.2 | 2.6 | 2.1 |
| Mexican Peso | 1.1 | 0.1 | 1.2 | 1.0 |
| Swedish Krona | 5.0 | 0.5 | 5.5 | 4.5 |
| Swiss Franc | 24.5 | 2.9 | 27.5 | 21.6 |
| Thai Baht | 0.7 | 0.1 | 0.7 | 0.6 |
| US Dollar | 205.0 | 15.3 | 220.3 | 189.7 |
| Hong Kong Dollar | 0.6 | 0.0 | 0.7 | 0.6 |
| Total | 316.4 | 25.1 | 341.5 | 291.3 |

Credit risk

Credit risk represents the risk that the counterparty to a transaction will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

In essence the fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high quality counterparties and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The Pension Fund is exposed to credit risk through the stock lending programme. This is managed by the custodian who monitors the counterparty and collateral risk. The level of collateral for stock on loan is assessed daily to ensure it takes account of market movements. To mitigate risk, stock lending is restricted to 25% of the total market value of the stock held, in accordance with investment regulations.

Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The Pension Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments, particularly cash to meet pensioner payroll and other benefit costs, and also cash to meet investment commitments.

The Pension Fund has immediate access to its cash holdings and currently enjoys a long term positive cash flow. Cash flow surpluses are invested with fund managers. The Pension Fund is authorised to borrow on a short term basis to fund cash flow deficits.

The actuary to the Pension Fund produces regular cash flow forecasts which are presented to the Investment Sub-Committee.

All financial liabilities as at 31 March 2017 are due within one year.

Note 27: Funding arrangements

In line with The Local Government Pension Scheme Regulations 2013, the fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016 and set contribution rates for the three years commencing 1 April 2017. The valuation that set contribution rates for the 2016/17 financial year took place as at 31 March 2013.

The key elements of the funding policy are:

- to ensure the long-term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment
- to ensure that employer contribution rates are as stable as possible
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 19 years and to provide stability in contribution rates by spreading any increases in rates over a period of time. Normally this is three years but in some cases an extended period can be granted. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable. When an employer's funding level falls significantly short of the 100% funding target, then a deficit recovery plan will be put in place requiring additional contributions from the employer to meet the shortfall.

At the 2013 actuarial valuation, the fund was assessed as 77% funded (82% at the March 2016 valuation). This corresponded to a deficit of £419m (2016 valuation: £358m).

Contribution increases were phased in over the three year period ending 31 March 2017. The common contribution rate (ie the rate which all employers in the fund pay) is as follows.

| Valuation Date | 31 March 2013 |
|------------------------------------------|---------------|
| Total contribution rate | % of Pay |
| Future service rate (inc expenses) | 19.5% |
| Past service adjustment (19 year spread) | 9.6% |
| Total employer contribution rate | 29.2% |

Individual employer rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2013 actuarial valuation report and the funding strategy statement on the fund's website.

The valuation of the fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions are as follows:

Financial assumptions

| Valuation Date | Nominal | Real |
|-----------------------------------|---------|------|
| | % | % |
| Post Retirement Discount Rate | 4.6% | 2.1% |
| Pre Retirement Discount Rate | 4.6% | 2.1% |
| Salary Increases | 4.3% | 1.8% |
| Price Inflation/Pension Increases | 2.5% | - |

Demographic assumptions

Assumed life expectancy from age 65 is as follows.

| Demographic assumptions | Actives & Deferreds | | Current Pensioners | |
|-----------------------------------|---------------------|--------|--------------------|--------|
| Assumed life expectancy at age 65 | Male | Female | Male | Female |
| 2013 Valuation – baseline | 20.0 | 22.6 | 20.1 | 22.3 |
| 2013 Valuation - improvements | 24.3 | 26.6 | 22.4 | 24.4 |

Commutation assumptions

It is assumed that future retirees will take 50% of the maximum additional tax-free lump sum up to HMRC limits for pre-April 2008 service and 75% of the maximum for post-April 2008 service.

50:50 Option

It is assumed that 10% of active members (uniformly distributed across the age, service and salary range) will take up the 50:50 option in the LGPS 2014 scheme.

Note 28: Actuarial present value of promised retirement benefits

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 24). The following is the full Pension Fund Accounts Reporting Requirement provided by the fund actuary.

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2016/17 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. I have been instructed by the Administering Authority to provide the necessary information for the Warwickshire Pension Fund ("the Fund").

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 the 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 Fund's funding assumptions.

Present value of promised retirement benefits

| 31 March 2016 £m | | 31 March 2017 £m |
|------------------------|------------------------------------------------------|------------------------|
| 1,236 | Active members | 1,205 |
| 384 | Deferred pensioners | 602 |
| 762 | Pensioners | 984 |
| 2,382 | Present value of promised retirement benefits | 2,791 |

The promised retirement benefits at 31 March 2017 (2016) have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016 (2013). The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. 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 and are different as at 31 March 2017 and 31 March 2016. I estimate that the impact of the change in financial assumptions to 31 March 2017 is to increase the actuarial present value by £393m. I estimate that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £33m.

Financial assumptions

| Year ended (% p.a.) | 31 March 17 | 31 March 16 |
|------------------------|-------------|-------------|
| | % | % |
| Pensions Increase rate | 2.4% | 2.2% |
| Salary Increase Rate | 3.0% | 4.2% |
| Discount Rate | 2.6% | 3.5% |

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

| | Males | Females |
|--------------------------------------------------------------------------|------------|------------|
| Current pensioners | 22.5 years | 24.7 years |
| Future pensioners (assumed to be aged 45 at the latest formal valuation) | 24.3 years | 26.7 years |

Please note that the longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

Commutation assumptions

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 75% of the maximum tax-free cash for post-April 2008 service.

Sensitivity analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

| Sensitivity to the assumptions for the year ended 31 March 2017 | Approximate % increase to liabilities | Approximate monetary amount (£m) |
|-----------------------------------------------------------------|---------------------------------------|----------------------------------|
| 0.5% p.a. increase in the Pension Increase Rate | 8% | 220 |
| 0.5% p.a. increase in the Salary Increase Rate | 2% | 63 |
| 0.5% p.a. decrease in the Real Discount Rate | 10% | 288 |

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2017 for accounting purposes'. 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

4 May 2017

For and on behalf of Hymans Robertson LLP

Note 29: Current assets

| 31 March 2016 £m | | 31 March 2017 £m |
|---------------------|------------------------------|---------------------|
| | Debtors: | |
| 1.2 | Contributions due: Employees | 1.3 |
| 3.1 | Contributions due: Employers | 3.2 |
| 4.0 | Invoiced debtors | 2.7 |
| 0.7 | Sundry debtors | 0.6 |
| 1.0 | Cash balances | 0.9 |
| 10.0 | Total | 8.7 |

Note 30: Current liabilities

| 31 March 2016 £m | | 31 March 2017 £m |
|---------------------|---------------------------------|---------------------|
| | Liabilities: | |
| 1.3 | Owed to administering authority | 0.9 |
| 1.6 | Sundry Creditors | 2.0 |
| 0.7 | Benefits Payable | 0.8 |
| 3.6 | Total | 3.7 |

Note 31: Additional Voluntary Contributions

| 31 March 2016 £m | | 31 March 2017 £m |
|---------------------|----------------|---------------------|
| 2.7 | Standard Life | 2.6 |
| 0.3 | Equitable Life | 0.3 |
| 3.0 | Total | 2.9 |

AVC contributions of £0.3m were paid directly to Standard Life and £3000 was paid directly to Equitable Life during the year (2015/16: £0.3m to Standard Life and £3000 to Equitable Life).

Note 32: Related Party Transactions

Warwickshire County Council

The Warwickshire Pension Fund is administered by Warwickshire County Council. Consequently there is a strong relationship between the council and the pension fund.

During the reporting period, the council incurred costs of £766,000 (2015/16: £777,000) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses. The council is also the single largest employer of members of the pension fund. Employee and employer contributions from the council amounted to £37.1m in 2016/17 (2015/16: £34.0 m).

Governance

There is one member of the pension fund investment sub-committee who is in receipt of pension benefits from the Warwickshire Pension Fund

Each member of the pension fund investment sub-committee is required to declare their interests at each meeting.

There are four members of the local pension board who are active members of the Warwickshire Pension Fund and one member who is eligible for a refund.

Key management personnel

Several employees of Warwickshire County Council hold key positions in the financial management of the Warwickshire Pension Fund, alongside responsibilities for Warwickshire County Council directly. These employees and their financial relationship with the fund (expressed as cash-equivalent transfer values, as an appropriate approximation for an IAS19 exercise) are set out below.

| | 2016/17 | 2015/16 |
|-----------------------------------|---------|---------|
| | £ | £ |
| Head of Finance | 705,730 | 645,558 |
| Strategic Finance Manager | 354,720 | 316,240 |
| Pensions Manager | 0 | 422,402 |
| Treasury and Pension Fund Manager | 173,926 | 153,395 |
| Principal Accountant | 42,342 | 34,261 |

Note 33: Authorisation for issue

These accounts have taken into account all known events up to 21 September 2017. On that date the accounts were authorised for issue by the Head of Finance.



John Betts

Head of Finance

Glossary

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.

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 different *asset classes*.

Benchmark

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

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.

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*.

Diversification

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

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.

IAS19

An accounting standard which requires organisation's 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 organisation's balance sheet.

Private equity

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

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.

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.

Transaction costs

Those costs associated with trading on a portfolio, notably *stamp duty* and *commissions*.

Communications

We communicate with our scheme members and employers in various ways:

- Periodic newsletters are produced for scheme members, pensioners and preserved beneficiaries. These are either sent to their home address or are made available online and via employer intranets.
- All new employees have the opportunity to opt out of the pension scheme by completing an online form.
- A brief guide is available online for all new employees.
- Comprehensive guides are available online for all members.
- The Fund's website is available allowing employers and members to access key information and to stay up to date with changes to the scheme. Updates are made available on employer intranets.
- Factsheets are produced on a variety of circumstances such as, divorce/dissolution, dependant benefits, TUPE etc. These are available online.
- Online newsletters are issued periodically to our employers.
- Campaigns notifying members of specific scheme benefits; for example nominated cohabiting partners and expressions of wish (death grants) are issued on employer intranets.
- An annual benefit statement is issued to the home address of all current active and preserved members.
- All our benefit statements, newsletters and factsheets are produced in partnership with several neighbouring pension funds including Staffordshire, Shropshire, Cheshire West, Worcestershire, Cambridgeshire and Northamptonshire (LGSS), Oxfordshire, Bedfordshire and Surrey.
- An annual meeting is held for all pension fund employers to attend.
- Pension administration staff are available to present to employers and members. We hold pension surgeries providing members with the opportunity to discuss their benefits in confidence.
- An annual training forum is held for all scheme employees.
- Staff are available to discuss general enquiries from 8am to 5:30pm at our office either by telephone or to visit. In exceptional circumstances we are available for home visits.
- Quarterly bulletins on the investment performance of the fund are distributed to all members of the Pension Fund Sub-Committee.
- An annual report is produced.
- The report is produced on our website and hard copies are available on request.

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Glossary

An A to Z of Investment terms used

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.

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**.

Benchmark

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

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 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.

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*.

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*, the UK's main exchange for trading in shares. Updated daily. The FTSE 100 Index (or "Footsie") covers only the largest 100 companies.

Fund of hedge funds

See *hedge funds*.

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.

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.

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.

Passive Management

A management strategy that seeks to match the return and risk characteristics of a market segment or index, by mirroring its composition.

Private equity

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

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*.

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.

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.

Strategic Asset Allocation

Strategic asset allocation is a portfolio strategy that involves setting target allocations for various asset classes, then periodically rebalancing the portfolio to maintain these original allocations.

Transaction costs

Those costs associated with trading on a portfolio, notably stamp duty and commissions.

Transition

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

Value Manager

The strategy of selecting stocks that trade for less than their intrinsic values. Value investors actively seek stocks of companies that they believe the market has undervalued.



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