



Warwickshire Pension Fund

Annual Report & Financial Statements

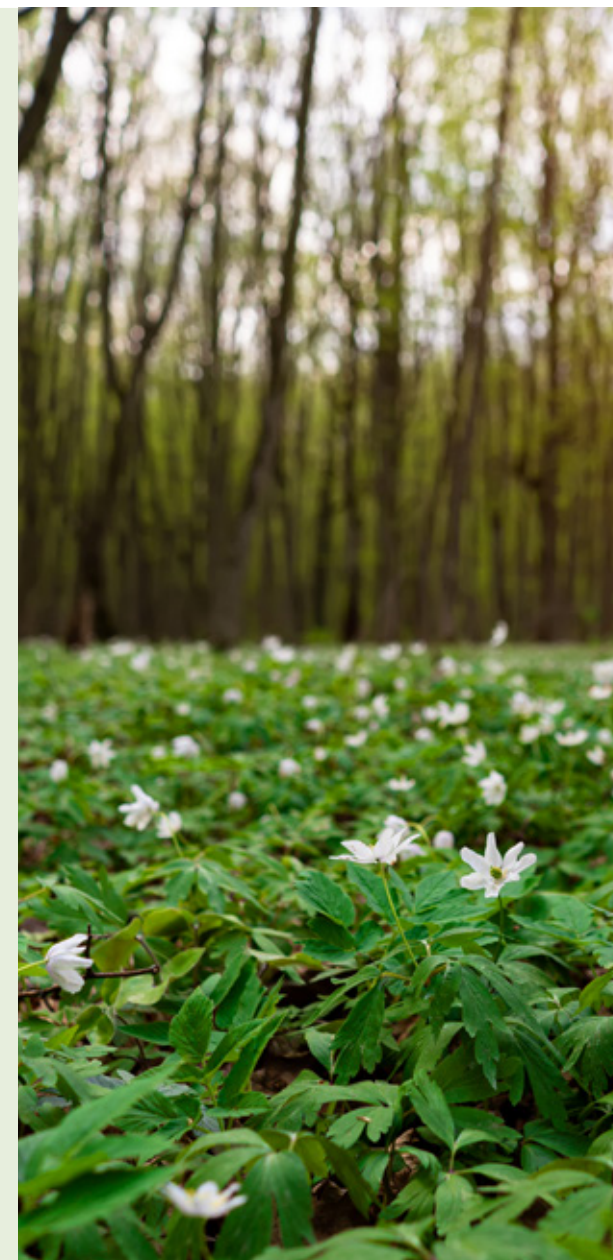
2019-20

WARWICKSHIRE
pension fund



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Chairman's Statement



It is with sadness that we report the death of Councillor Bob Stevens last July. Cllr. Stevens had been Chair of the Investment Committee for four years. His charm and humour will be missed by his peers.

2020/21 was expected to be dominated by 2019 valuation activity, the pooling of more funds into the Border to Coast Pension Partnership, and the uncertainty driven by Brexit and wider global economic tension. These were the key issues for most of the year but were then overtaken by the global pandemic in the last quarter.

The 2019 Valuation was successfully completed and revised strategies for funding and investment were approved in March 2020 and these are included in this Annual Report. The valuation of assets as a proportion of long-term liabilities improved significantly driven by strong investment returns, and the investment strategy has been updated with the direction of travel being to reduce exposure to more volatile growth assets and increase exposure to income generating assets.

Pooling has progressed further with more funds being transferred to the Border

to Coast Pension Partnership, which won the Local Authority Pension Fund Awards "Pool of the Year" prize. We have moved a significant proportion of our assets into the pool, with further transfers still to come.

Brexit and global trade disputes have both caused financial uncertainty however, the Fund takes a long-term view and has been able to weather the volatility that these issues have presented.

The last quarter of the year was dominated by the global impact of the Coronavirus which appeared in December and had spread world-wide by the end of the year, causing unprecedented health, social, and economic impacts.

The volatility in financial markets has impacted on the fund significantly in the short term, however, the extent of the long-term impact is unknown. In the short term the priority for the fund has been to manage cashflow, making sure that pensions are paid when they are due, and that planned investments can be placed when they are called.

The 2019 valuation considered scenarios involving significant changes in asset values however the specific impact of Covid-19 occurred too late to be captured directly. Ultimately Covid-19 may have

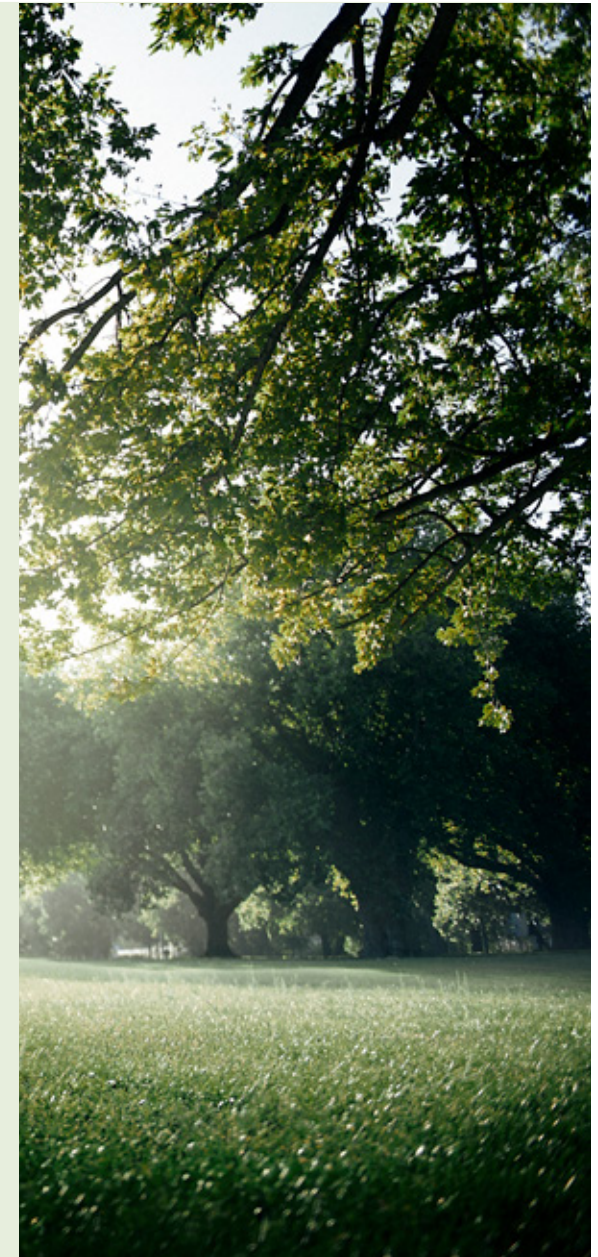
an impact on the long-term funding level but this will be captured in the next valuation and the impact will be managed over the long-term time horizon on which the pension fund operates.

Looking to the future, the Fund has created a climate change strategy, which forms a part of the overall Responsible Investment policy which you can read within this Annual Report. Climate change is an area of increasing interest to the Fund, and we will be seeking to understand better the impact of the Fund on the environment, the Fund's exposure to risks driven by environmental change, and we will also be looking at the positive opportunities in this area.

I would like to say a big thank you to the staff who work for the Fund who deliver the administration and investment functions. A significant amount of hard work has gone into delivering the 2019 valuation, the setting up of new funds with the Border to Coast Pension Partnership, maintaining adequate cashflow and most importantly continuing to make payments to pensioners in the current crisis.

Cllr John Horner

Chairman of the Pension Fund
Investment Sub Committee



Introduction from Strategic Director for Resources



I would like to echo the Chair's thanks to staff for their hard work throughout a challenging year, both the triennial valuation and towards the end of the year in

keeping the pension fund operations going during the Covid-19 lockdown. It is a testament to our staff that we have maintained seamless delivery of the critical operations of the fund during that period.

I mentioned last year that the volume of activity in the fund has increased and this trend continues. In order to respond to the additional demand, the capacity of the Pension Fund teams has been increased and the organisation of the teams and roles within them have been changed to enable the increasing demands to be met. Most of these changes were implemented during 2019/20 and will benefit the Fund in future years.

During the last year as well as delivering the 2019 valuation and the developments in pooling our assets, a review was undertaken looking at the

overall governance of the fund. This review was completed with oversight and support from the Local Pension Board. The Local Pension Board includes representatives of employing organisations and representatives of fund members and exists to assist the Fund in ensuring it is governing and administering the fund appropriately. A number of positive actions were identified and delivered through the year which provide additional assurance about the overall governance of the fund.

Investment returns have been very positive over the last 3 years, as reflected by the 2019 valuation result. However, Covid-19 has had a significant impact on asset values and there is uncertainty about the medium-term impacts of the crisis on the fund.

The funding level (meaning the value of the Fund's total assets as a proportion of the value of the Fund's total liabilities) was assessed as being 92% at the time of the 2019 valuation, having increased from 82% at the 2016 valuation. Covid has had a subsequent impact, the funding level reducing to 83% at the end of the 2019/20 financial year and

recovering to 86% by August. Although there has been significant volatility the Fund takes a long-term view and has strategies in place to manage the meeting of liabilities over the long term.

Looking forwards we will be seeking to make more use of systems and automation to keep our membership data accurate and up to date. Data quality is critical for a pension fund and will continue to be an area of focus for us. We will continue to invest in the Border to Coast Pension Partnership, and will be looking to see strong benefits being realised from our investment in pooling.

Thank you for reading this year's Annual Report.

Rob Powell
Strategic Director for Resources



1. Pensions Administration Performance Indicators

Indicator	Target days	%
Letter detailing transfer in quote	10 days	90.98%
Letter detailing transfer out quote	5 days	77.14%
Process refund and issue payment voucher	5 days	90.91%
Letter notifying estimate of retirement benefit	10 days	84.19%
Letter notifying actual retirement benefit	5 days	79.06%
Letter notifying amount of dependant benefits	5 days	46.09%
Calculate and notify deferred benefits	10 days	88.44%

2. Pensions Administration Full Time Equivalent Staff

Pensions Admin total	15.7
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	10.7

* FTE staff time spent

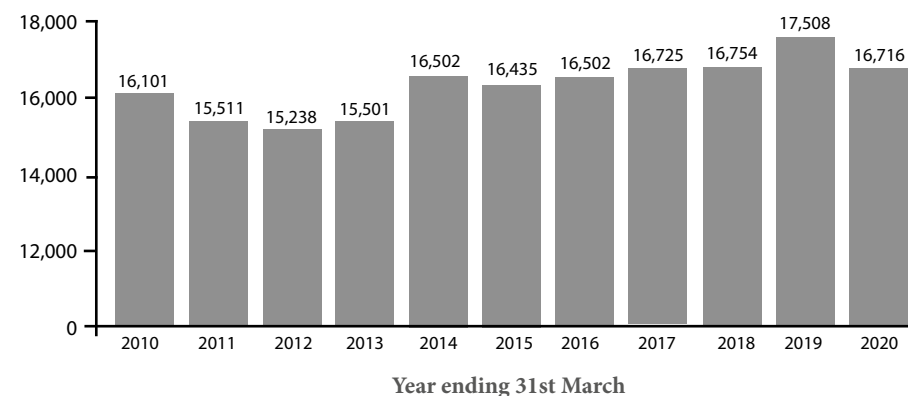
There are **2863** new starters and **4446** changes to details processed

A total of **1012** quotations to pension benefits

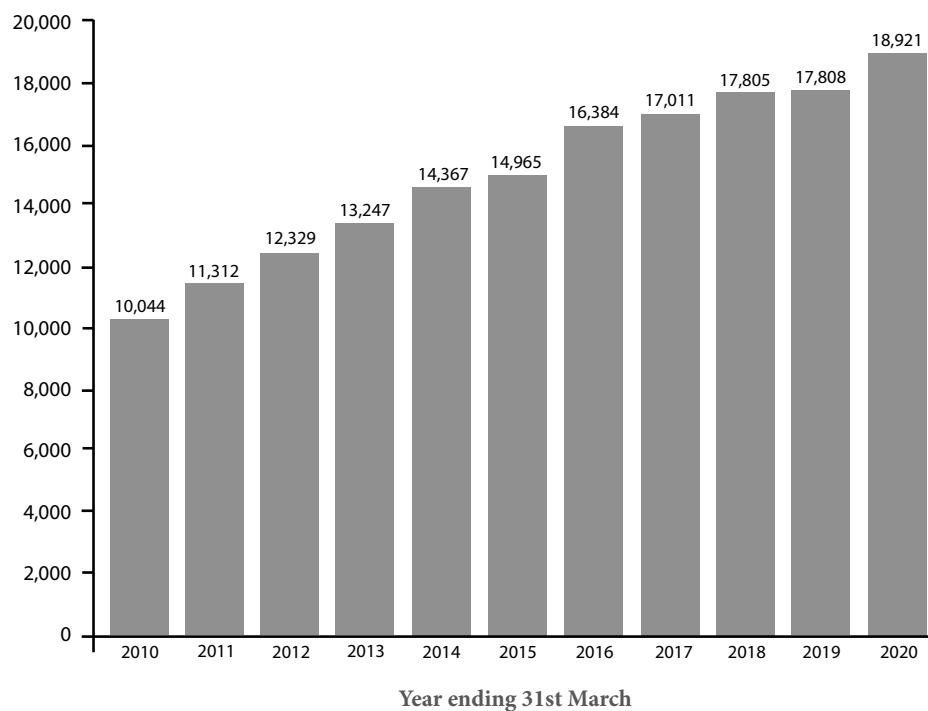
The total number of actual events (retirements, transfer, refunds, deaths) **3105**

The volume of the activity within the Fund has been increasing and this trend is set to continue. The number of employers has significantly increased primarily due to the emergence of Academies since 2010, the new CARE scheme in 2014 which has added complexity and increasing enquiries from the membership, and the additional work required for the 2019 Actuarial Valuation. Throughout 2019, the Administration Service has maintained focus on delivering a service which prioritises cases with financial payments, and has invested in the skills and capacity of the team in response to the ongoing additional demand in the years to come. From April 2020, the service has also adopted industry standard performance indicators, which it is confident in achieving.

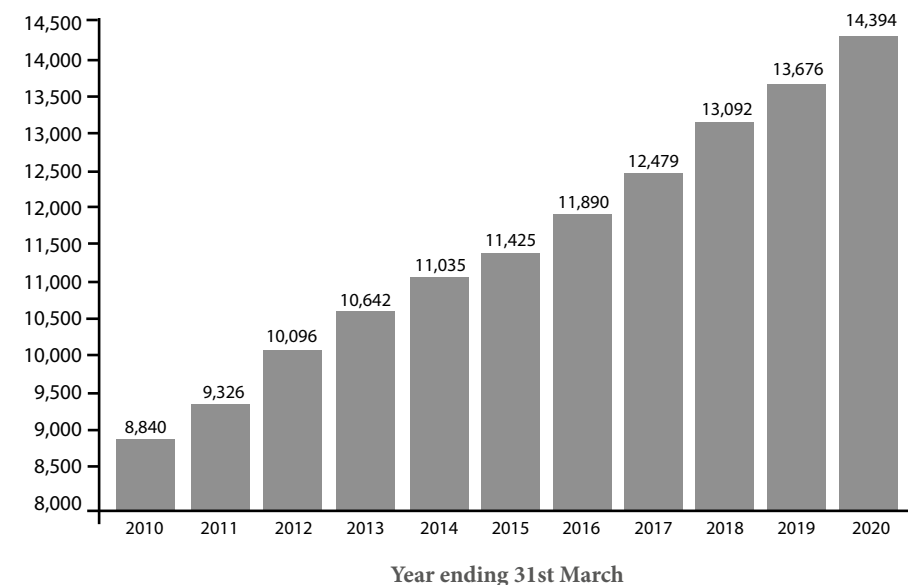
No. of Active Members



No. of Preserved Members

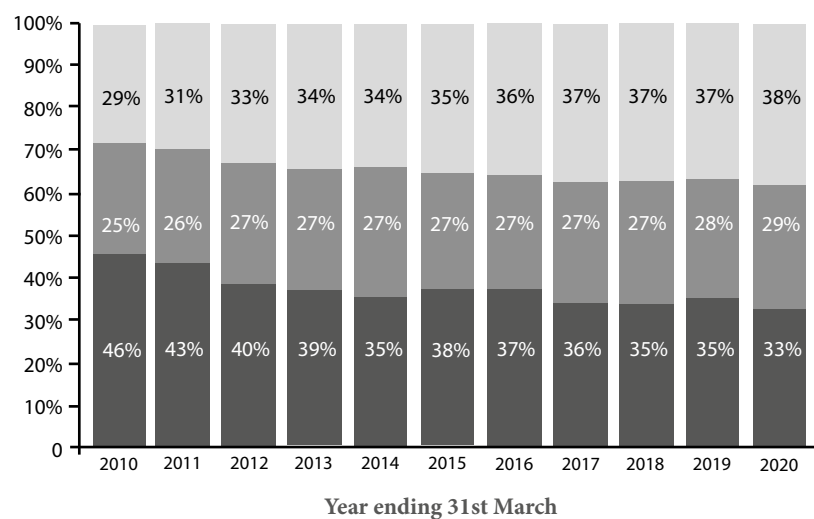


No. of Pensioners*

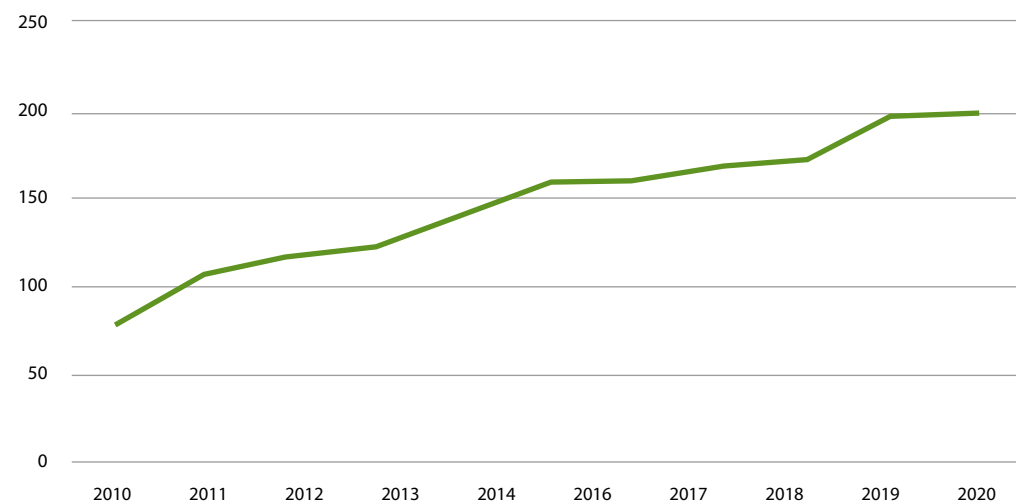


* These figures include dependants

Scheme Membership profile over the last 5 years



Change in Number of Active Employers



Contributions Paid 2019/20

>£1m

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

<£500k

Unity MAT (Brooke)
Oak Wood Primary and Secondary Academy
Unity MAT (Woodlands)
Warwick Schools
North Leamington Academy
Ashlawn Academy
South Warks AT Welcome Hills
Stratford upon Avon School
Myton Academy
Kenilworth Academy
Stowe Valley MAT (Southam Col)
The Griffin Trust (Nicholas Chamberlain)
Holy Family Catholic MAC - St. Benedict's High (Alcester)
Higham Lane Academy
Community Academies Trust The Polesworth Sch
Coleshill School Academy
Campion School Academy
Stowe Valley MAT (Bilton)
Coventry Diocese (Harris High)
BFMAT (King Ed VI College Nun)
Discovery Academy Nuneaton (Macintyre)

Coventry Diocese (St Michaels)
Aylesford Academy
Balfour Beatty (new)
Studley High Academy
Midland Academies Trust (Hartshill)
Ash Green Academy
Stratford On Avon Grammar Academy
Lawrence Sheriff School
Alcester Grammar Academy
Castle Phoenix Trust (Kingsbury Academy)
Midland Academies Trust (George Eliot)
Rugby Free Secondary School
SLM (Warwick District)
Arden MAT (Henley High Academy)
Rugby High Academy
Quest Academy (Macintyre)
Holy Spirit Academy Trust St Joseph's Catholic Junior School
Henley High Academy
ATT (Queen Elizabeth Academy)
Inspire Education Trust (Stockingford Primary)
Community Academies Trust Admin Centre

< £100k

Central MAT (Admin Centre)
Midland Academies Trust (Nuneaton)
The Griffin Trust (Park Lane)
Holy Spirit Academy Trust St Joseph's Catholic Junior School
BDAT (Coleshill Primary)
Stratford upon Avon King Edward VI Academy
Alcester High Academy
Stowe Valley MAT (Kineton High)
Stour Federation (Shipston Primary)
Cawston Grange Primary Academy
Matrix Academy Trust

Employers' Contributions

Coventry Diocese (St Nicolas)
Reach2 Academy (Oakfield)
BDMAT - Polesworth Nethersole Academy
Dunchurch Infant School
Tanworth in Arden Academy
The Brandon Trust (North Warwicks)
Alcester St Nicholas Academy
Heart of England MENCAP
Community Academies Trust Woodloes Primary Sch
Community Academies Trust Birchwood Primary Sch
Rugby Free Primary School
Coventry Diocese (Queens Middle School)
Stowe Valley MAT (Rokeby)
Reach2 (Newbold Riverside)

< £50k

Middlemarch Middle School
Everyone Active (SLM)
Stowe Valley MAT (Bishops Itchington)
Futures Trust (Keresley Newland)
Reach2 (RaceMeadow)
Stratford-Upon-Avon Town Council
Henry Hinde Academy (Infants)
Coventry Diocese (St James)
BDMAT - Warton Nethersole
Midland Academies Trust (Admin)
Coventry Diocese (St Oswalds)
South Warks AT Arden Fields
Stowe Valley MAT (Southam Primary)
Community Academies Trust Stratford Primary Sch
People in Action
BDMAT - Woodside
Holy Spirit Academy Trust St Anne's Catholic Primary School

Transforming Lives Education Trust (Henry Hinde Junior Sch)
 The Brandon Trust (Rugby)
 The Griffin Trust (Race Leys)
 Coventry Diocese (Studley St Marys)
 Community Academies Trust Budbrooke Primary Sch
 Stowe Valley MAT (Central)
 Holy Spirit Academy Trust St Francis Catholic Primary School
 Holy Family Catholic MAC - St. Gregory's Primary (Stratford)
 Holy Spirit Academy Trust St Benedicts Catholic Primary Sch
 Heart of England Housing & Care Ltd
 Community Academies Trust Dordon Community Primary Sch
 Stratford-Upon-Avon Town Trust Co. Ltd
 Stowe Valley MAT (Temple Herdwyke)
 St Gabriels C of E Academy
 Coleshill Town Council
 Henley Primary Academy
 Coventry Diocese (Long Itchington)
 Coventry Diocese (Southam St James)
 Community Academies Trust Wood End Primary School
 Community Academies Trust Heathcote
 Mappleborough Green School
 Coventry Diocese (All Saints Leek Wooton) MAT
 Coventry Diocese (Burton Green) MAT
 Royal Leamington Spa Town Council
 Barnardo's Children & Family Centre
 Moreton Morrell Church of England School
 Stowe Valley MAT (Stockton Primary)
 BDMAT - Newton Regis
 Arden Forest MAT (Coughton)
 Holy Family Catholic MAC - Our Lady's Primary (Alcester)

Stour Federation (Acorns)
 Holy Family Catholic MAC - St. Mary's Primary (Henley)
 Dunnington C of E Junior & Infant School
 Chartwells (Compass Group) re catering for Coventry Diocese
 Arden Forest MAT (Temple Grafton)
 Barnardo's Rugby
 The Priors Free School Academy
 Coventry Diocese (Leamington Hastings C of E Academy)
 BDMAT - Austrey
 Vinshire Plumbing and Heating Ltd
 Wolverton Junior & Infant School
 Atherstone Town Council
 Southam Town Council
 Shipston Town Council

< £10k

Coventry Diocese (Salford Priors)
 Studley Parish Council
 Long Lawford Parish Council
 Alcester Town Council
 Tudor Grange Academy Trust (Haselor)
 Rugby Town Centre Company
 Reach2 (Lower Farm Academy)
 Alliance in Partnership (Myton)
 Bidford-On-Avon Parish Council
 Tudor Grange Academy Trust (Meon Vale)
 Long Itchington Parish Council
 Whitnash Town Council
 Wellesbourne Parish Council
 Alliance in Partnership (St Edwards RC)
 Barnardo's Nuneaton
 Warwick Association for the Blind
 Superclean (RBC Benn Hall)

ABM (King Edward)
 Bishops Itchington Parish Council
 ABM (North Leamington)
 Churchill Cleaning Services (Shipston)
 Barnardo's North Warwickshire
 Churchill Cleaning Services (Lawrence Sheriff)
 Tanworth in Arden Parish Council
 Wolston Parish Council
 Kingsbury Parish Council
 Harbury Parish Council
 Mancetter Parish Council
 Tenon FM
 Alliance in Partnership (Henley Primary Academy)
 Class Catering (St Mary Immaculate)
 Ryton on Dunsmore Parish Council
 Napton Parish Council
 Cubbington Parish Council
 Ettington Parish Council
 Curdworth Parish Council
 The Parenting Project
 Lawrence Cleaning
 Burton Dassett Parish Council
 Class Catering (Thomas Jolyffe)
 ABM (St Paul's)
 Class Catering (The Willows))
 Barnardo's Warwick
 Burton Green Parish Council
 Clifton upon Dunsmore Parish Council
 Avon Dassett Parish Council
 Class Catering (SoA Primary Sch)
 Baileys Catering Ltd
 Superclean Service Wothorpe Ltd
 Fenny Compton Parish Council

Contributions Paid 2019/20

>£1m

Warwickshire County Council
Warwickshire Police and Crime Commission

<£1m

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

<£500k

North Warwickshire Borough Council
North Warwickshire & Hinckley College
Educaterers Ltd
Warwick Schools
Oak Wood Primary and Secondary Academy
Unity MAT (Brooke)
Unity Mat (Woodlands)
Ashlawn Academy
Stratford upon Avon School
Myton Academy
North Leamington Academy
Griffin Trust (Nicholas Chamberlain)
Avon Valley School
Higham Lane Academy
Kenilworth Academy
South Works AT Welcome Hills
Community Academies Trust The Polesworth Sch
Coleshill School Academy
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Coventry Diocese - Harris High
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< £50k

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Studley High Academy
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Lawrence Sheriff School
Central MAT (Admin Centre)
Alcester Grammar Academy
Stratford On Avon Grammar Academy
Quest Academy (MacIntyre)
Midland Academies Trust (George Eliot)
Balfour Beatty (new)
Castle Phoenix Trust (Kingsbury Academy)
Community Academies Trust Admin Centre
Rugby High Academy
Arden MAT (Henley High Academy)
Holy Spirit Academy Trust St Joseph's Catholic Junior School
ATT (Queen Elizabeth Academy)
Midland Academies Trust (Nuneaton)
The Griffin Trust (Park Lane)
Stratford upon Avon King Edward VI Academy
Rugby Free Secondary School
Holy Spirit Academy Trust St Thomas More Catholic School
Shipston on Stour High School Academy
Inspire Education Trust (Stockingford Primary)
Alcester High Academy
SLM (Warwick District)
Stour Federation (Shipston Primary)
Cawston Grange Primary Academy
Matrix Academy Trust
Tanworth in Arden Academy
BDMAT - Coleshill Primary

Employees' Contributions

Reach2 Academy (Oakfield)
Coventry Diocese (St Nicolas)
Dunchurch Infant School
Alcester St Nicholas Academy
Midland Academies Trust (Admin)
Community Academies Trust Woodloes Primary Sch
BDMAT - Polesworth Nethersole Academy
Community Academies Trust Birchwood Primary Sch
Stowe Valley MAT (Kineton High)
Coventry Diocese (Queens Middle School)
Reach2 (Newbold Riverside)
Heart of England MENCAP
Rugby Free Primary School
Futures Trust (Keresley Newland)
The Brandon Trust (North Warwicks)
Middlemarch Middle School
NSL
Stratford-Upon-Avon Town Council
Reach2 (RaceMeadow)
Stowe Valley MAT (Rokeby)
Henry Hinde Academy (Infants)
People in Action
Coventry Diocese (St James)
BDMAT - Warton Nethersole
Coventry Diocese (St Oswalds)
Community Academies Trust Stratford Primary Sch
Stowe Valley MAT (Bishops Itchington)
Transforming Lives Education Trust (Henry Hinde Junior School)
Holy Spirit Academy Trust St Anne's Catholic Primary School
BDMAT - Woodside
The Griffin Trust (Race Leys)
Coventry Diocese (Studley St Marys)

<£10k

Stowe Valley MAT (Southam Primary)
Everyone Active (SLM)
Community Academies Trust Buddbrooke Primary Sch
Community Academies Trust Dordon Community Primary Sch
Holy Spirit Academy Trust St Benedicts Catholic Primary School
South Warks AT Arden Fields
The Brandon Trust (Rugby)
Holy Spirit Academy Trust St Francis Catholic Primary School
Coleshill Town Council
Henley Primary Academy
Holy Family Catholic MAC - St. Gregory's Primary (Stratford)
Stratford-Upon-Avon Town Trust Co. Ltd
Coventry Diocese (Long Itchington)
Community Academies Trust Wood End Primary Sch
Coventry Diocese (Southam St James)
Mappleborough Green School
Community Academy Trust Heathcote
Stowe Valley MAT (Temple Herdewyke)
Royal Leamington Spa Town Council
St Gabriels C of E Academy
Coventry Diocese (Burton Green) MAT
Coventry Diocese (All Saints Leek Wooton) MAT
Moreton Morrell Church of England School
Heart of England Housing & Care Ltd
Arden Forest MAT (Coughton)
BDMAT - Newton Regis
Curdworth Primary (ATLP)
Stour Federation (Acorns)
The Priors Free School Academy
Stowe Valley MAT (Stockton Primary)
Dunnington C of E Junior & Infant School
Barnardo's Rugby

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Holy Family Catholic MAC - St. Mary's Primary (Henley)
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Arden Forest MAT (Temple Grafton)
Coventry Diocese (Leamington Hastings C of E Academy)
BDMAT - Austrey
Atherstone Town Council
Wolverton Junior & Infant School
Southam Town Council
Shipston Town Council
Stowe Valley MAT (Central)
Coventry Diocese (Salford Priors)
Studley Parish Council
Long Lawford Parish Council
Alcester Town Council
Barnardo's Children & Family Centre
Alliance in Partnership (Myton)
Tudor Grange Academy Trust (Haselor)
Reach2 (Lower Farm Academy)
Vinshire Plumbing and Heating Ltd
Bidford-On-Avon Parish Council
Whitnash Town Council
Wellesbourne Parish Council
Long Itchington Parish Council
Tudor Grange Academy Trust (Meon Vale)
Westfield Community Development Association
Rugby Town Centre Company Ltd
ABM (North Leamington)
Alliance in Partnership (St Edwards RC)
Warwick Association for the Blind
Superclean (RBC Benn Hall)
Barnardo's Nuneaton
Barnardo's North Warwickshire
ABM (King Edward)

Bishops Itchington Parish Council
Alliance in Partnership (Henley Primary Academy)
Churchill Cleaning Services (Shipston)
Churchill Cleaning Services (Lawrence Sheriff)
Tanworth in Arden Parish Council
Wolston Parish Council
Kingsbury Parish Council
Harbury Parish Council
Mancetter Parish Council
Class Catering (St Mary Immaculate)
Ryton on Dunsmore Parish Council
Napton Parish Council
Ettington Parish Council
Curdworth Parish Council
The Parenting Project
Lawrence Cleaning
Class Catering (Thomas Jolyffe)
Cubbington Parish Council
Burton Dassett Parish Council
Class Catering (The Willows)
ABM (St Paul's)
Barnardo's Warwick
Burton Green Parish Council
Avon Dassett Parish Council
Clifton upon Dunsmore Parish Council
Class Catering (SoA Primary Sch)
Baileys Catering Ltd
Fenny Compton Parish Council
Superclean Service Wothorpe Lt

Receipt of contributions

2019/2020

on or before 19th of each month	91%
After	9%
Total	100%

Current Committee and Board Membership

The Role of the Pensions and Investment 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.

Councillor Bob Stevens
Chairman

Councillor Bill Gifford
Vice Chairman

Councillor John Horner

Councillor Wallace Redford

Councillor Alan Webb

Councillor Richard Chattaway
Replaced Cllr Webb in September 19

Councillor Neil Dirveiks
Replaced Cllr Chattaway due to sickness

The Role of the Local Pensions Board

The Local Pension Board assists the fund in ensuring sound governance arrangements are in place, providing oversight and scrutiny to the fund's activities and policies, and assisting the fund in ensuring compliance with relevant regulations and codes of practice.

Keith Bray
Chairman

Vacancy
Member Representative

Alan Kidner
Member Representative

David Parsons
Member Representative

Cllr Parminder Birdi
Employer Representative

David Buckland
Employer Representative

Keith Francis
Employer Representative

The Role of the Staff and Pensions Committee

The Staff and Pensions Committee has overall responsibility for functions relating to local government pensions and it established the Pension Fund Investments Sub Committee to oversee pension fund investments and the management of the fund.

Councillor Kam Kaur
Chairman

Councillor Neil Dirveiks

Councillor Bill Gifford

Councillor John Horner

Councillor Bhagwant Singh Pandher

Councillor Bob Stevens

Staff, Advisors and Investment Managers

The management and administration of the Pension Fund is delegated to the Strategic Director for Resources.

The Pension and Investment Team within the Resources Group has responsibility for day-to-day management.

Management and Administration

Rob Powell Strategic Director for Resources

Andrew Felton Assistant Director (Finance)

Chris Norton Strategy and Commissioning Manager (Treasury, Pension, Audit, Risk & Insurance)

Liz Firmstone Service Manager (Transformation)

Neil Buxton Technical Specialist - Pensions

Andrew Marson Interim Pensions Administration Manager

Michael Nicolaou Interim Treasury and Pension Fund Manager

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

Passive Index Tracker: Legal and General Investment Management

Border to Coast Pension Partnership (BCPP): UK Equities, Global Equities, Private Equity, Infrastructure and Investment Grade Credit

UK Property: Schroder Investment Management and Columbia Threadneedle Investments

Private Debt: Partners Group and Alcentra

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 Director for Resources 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 with an independent chair.

At March 2020, the total membership of the fund stood at 50,031 (including 1711 dependants) and the total value of net assets amounted to £2 billion. Of the total membership, 16,716 are active members currently contributing to the fund, 14,394 are members with a preserved benefit and 18,921 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.

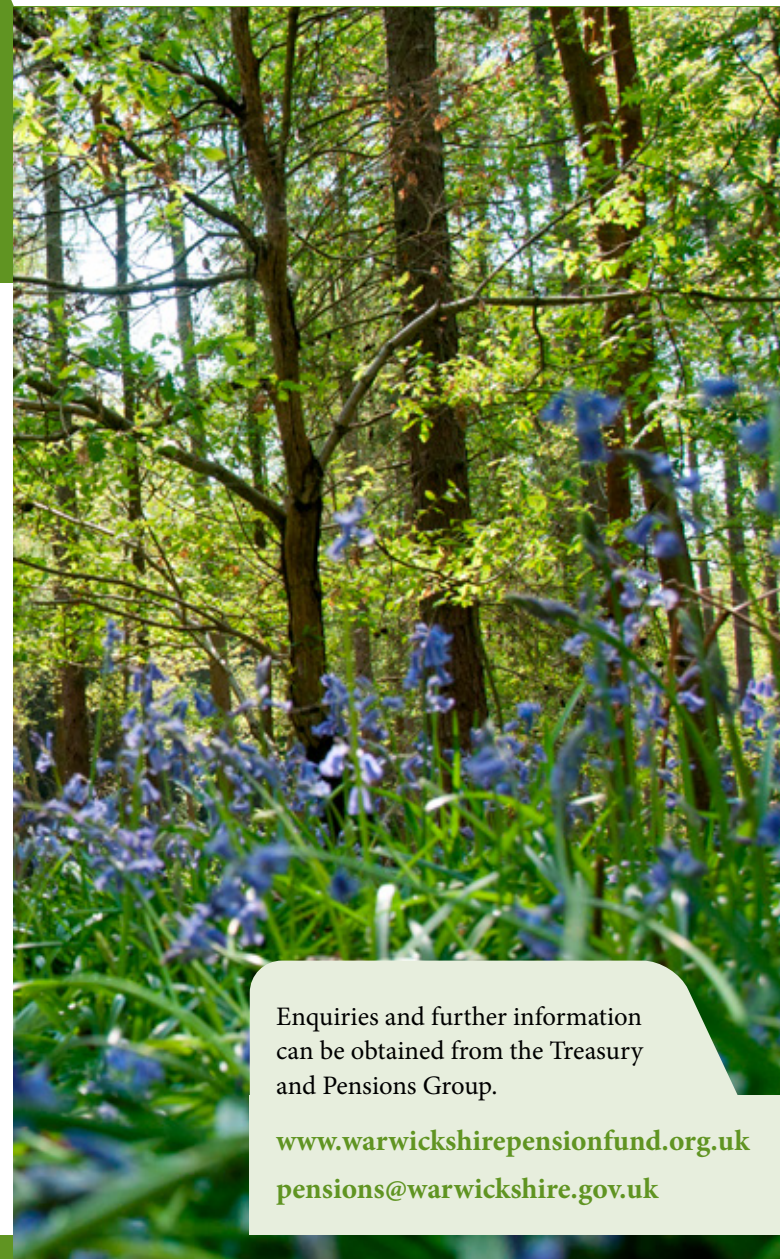
Benefits of the Pension Fund

Members of the LGPS belong to a scheme which provides high quality pension benefits based on career average related earnings. 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.

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.warwickshirepensionfund.org.uk
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.
- A tax free lump sum is available by commuting part of the pension.
- Life assurance of three times the member's 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 employer's 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 approximately 6.1% of pensionable pay received (up from 6% at the 2016 valuation).

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 2019 valuation is 20.1% (up from 20% at the 2016 valuation).

The next triennial valuation will be calculated as at 31 March 2022 and will set the contribution rates for the three years from 2023 / 2024.

Investment Report for year ending 31 March 2020

Global equities endured a volatile 12 months and all of the major markets delivered negative returns. Markets were initially swayed by the ongoing US-China trade negotiations before both sides agreed to a new phase-one deal in December, which buoyed the outlook for global economic growth. Key central banks adopted a broadly dovish approach throughout the review period, with rate cuts in the US, China, the UK and elsewhere. The mood swiftly turned negative early in 2020 as coronavirus swept across much of the world. Amid concerns about the pandemic's impact on the global economy, investors fled to safe-haven assets, buying core sovereign bonds and shunning equities. Meanwhile, governments and central banks announced significant monetary and fiscal policies to soften the blow.

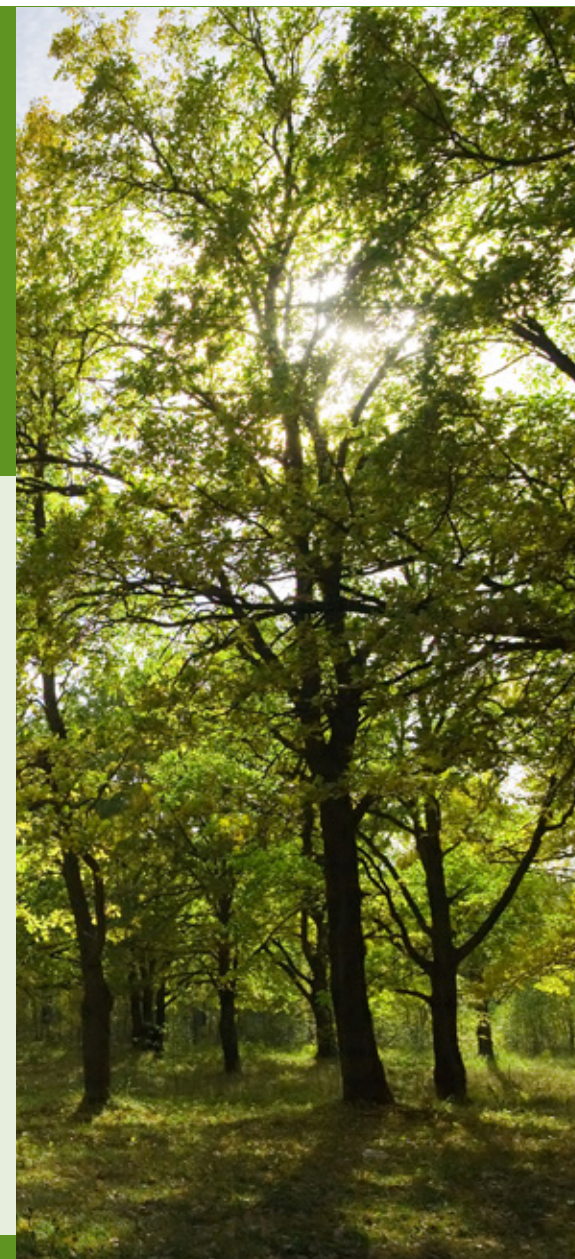
In the UK, Brexit-related uncertainty was the key theme, contributing both to the economy's 0.2% contraction in the second quarter of 2019 and to volatility throughout much of 2019. However, Brexit worries receded in the final months of 2019 as the new UK prime minister's withdrawal agreement and his subsequent general-election victory brought some clarity. His Brexit deal then passed through Parliament in late December and the UK formally left the EU in January 2020. The UK market, however, was one of the worst hit regions in March 2020, as the epicentre of the COVID-19 pandemic reached Europe. In response, policy rates were cut and the government unveiled a £350bn

stimulus plan; sterling weakened to its lowest level against the dollar since 1985.

The S&P 500 index outperformed most other equity markets but closed the review period down 7.0%. The Federal Reserve's (Fed's) dovish policy shift and hopes for a resolution of the trade war with China supported the market's initial rise, but stocks slumped during the first quarter of 2020 as the worsening coronavirus outbreak threatened to derail global economic growth. On the political front, the Democrats' impeachment of President Trump had little impact on markets and, as was generally expected, he remained in office. In

response to the coronavirus pandemic, the Fed cut interest rates to near zero and pledged to provide unlimited monetary stimulus by purchasing bonds. A \$2tn fiscal stimulus package was signed into law.

In the euro area, the review period started on an upbeat note, buoyed by some encouraging economic data and corporate results. Later in the year, however, signs of an economic slowdown multiplied. Third-quarter GDP growth was subdued for the eurozone, and Germany's economy only narrowly avoided recession. The European Central Bank (ECB) announced stimulus measures to spur growth, including lowering interest



rates further into negative territory, restarting its bond-purchase programme, and outlining more generous terms for long-term cheap financing for banks. Eurozone inflation later strengthened, a sign that the region's economy may have started to stabilise after a downturn. Early in 2020, European markets were hit, however, as coronavirus started to spread. Italy and Spain were notable laggards as the pandemic intensified in both countries. In response, the ECB expanded its bond-purchase programme even further. Overall, European equities tumbled 12.7% over the review period as measured by the MSCI Europe index.

Emerging-market (EM) equities had a challenging year, declining 12.7% as trade wars and China's slowing economy held back sentiment. While markets were supported by the Fed's dovish stance on monetary policy and selective stimulus by Chinese policymakers, US-China trade tensions worried markets. The outbreak of coronavirus towards the end of the period also caused EM equities to fall, while central-bank easing across the region attempted to cushion the blow. China outpaced the benchmark, with the MSCI China index returning -6.2% over the year. Sentiment in the country was supported by further stimulus measures from the People's Bank of China, which included cutting

a key lending rate (RRR). In Brazil, the government's high-profile pension-reform plan obtained final approval from the legislature's lower house as well as the Senate, which sparked a local-market rally.

Japan's Topix index recorded a 9.5% fall over the 12-month period. Sentiment was impacted by both the US-China trade negotiations and the US-Japan trade deal, which was agreed in September and eliminated or lowered tariffs on products. The economy was also buffeted by the consumption-tax hike and the disruption caused by Typhoon Hagibis. While Japan's manufacturing sentiment remained weak, the mood was lifted by the government's additional fiscal support. As coronavirus spread into Japan, the government's stimulus commitment strengthened, with Prime Minister Shinzo Abe vowing to take whatever policy measures were needed to soften the impact on the economy. Less positively, in a high-profile blow, the summer Olympics to be held in Tokyo were rescheduled for 2021.

While the 12 months under review constituted a volatile period for global equities, it was a good period for core sovereign debt. This was driven by a flight to safe-haven assets amid the

protracted US-China trade dispute, the accompanying deterioration in the global economy, and the rapid spread of coronavirus, while central banks cut rates to their lower policy bounds.

Despite the accommodative monetary policy backdrop, riskier debt fared poorly over the year. Corporate-bond spreads – the yield premium offered by these bonds over their 'risk-free' government equivalents – tightened over 2019, but finished the review period wider, owing to the pressure on credit markets amid the sharp sell-off in 2020. Spreads in US high yield bonds widened especially sharply, given the market's high energy exposure.

While EM bonds performed strongly for most of the year, the strong dollar and weak commodity prices in the firstquarter of 2020 led these bonds to fall over the review period. The asset class was supported by the Fed's increasingly dovish policy stance, as this undermined the case for further US dollar strength.

In January, concerns about the economic repercussions from coronavirus also encouraged wider central-bank dovishness, providing further support to EM bonds. Political risk was also a focus, with elections taking place in Turkey,

South Africa and Argentina. Initial trade tensions eased as Mexico escaped the tariffs proposed by President Trump, and the US and China signed an initial trade agreement in January 2020.

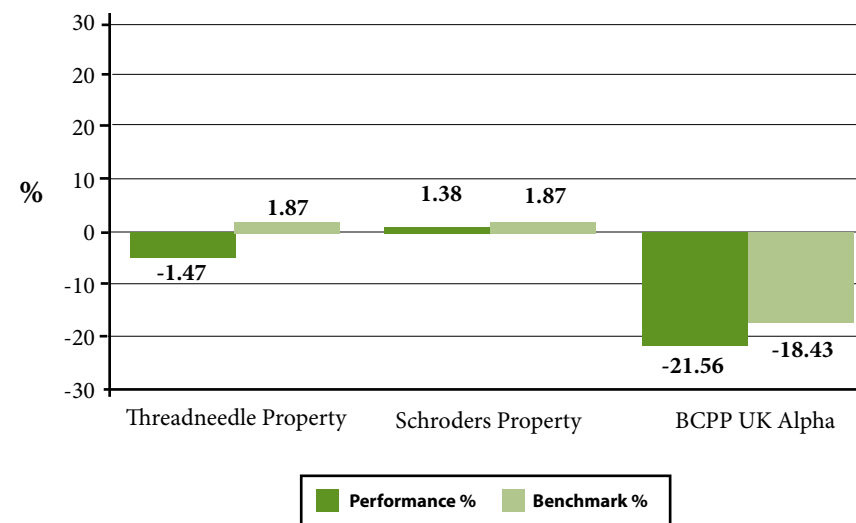
Top Ten Holdings at 31 March 2020

Security Description	£ millions
1 BCPP Global Equity Fund	292.2
2 BCPP UK Equity Fund	199.0
3 FTSE RAFI AW 3000	183.4
4 Border To Coast Sterling Grade Credit	173.1
5 LGIM European Equity	130.2
6 JPM Strategic Bond Fund	122.8
7 LGIM Index Linked Gilt Fund	121.8
8 ThreadNeedle Property Fund	114.2
9 LGIM UK Equity	107.2
10 LGIM Corporate Bond Fund	57.1

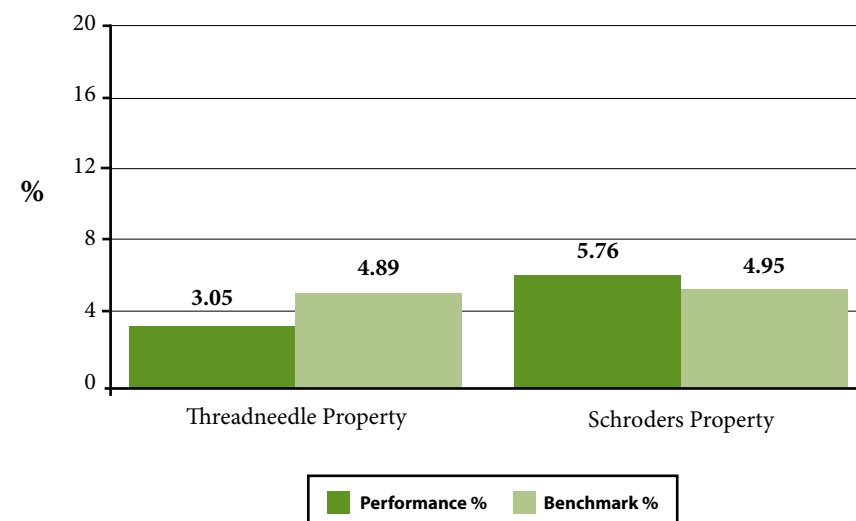
Total Fund Value Since September 2016



Fund Manager Performance for the Year Ending 31 March 2020



Fund Manager Performance for 3 Years Ending 31 March 2020



Investment Strategy Statement

- March 2020

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 12 March 2020, 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 immediately required to make payments from the Fund. The ISS should be read in conjunction with the Fund’s Funding Strategy Statement, Responsible Investment and Climate Risk policies.

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 proportion of the investments will be in growth assets such as equities.
- To help diversify equity risk and



assist with cash flow, a proportion of the investments will also be in income assets structured to deliver both capital growth and a regular income stream.

- To reduce the volatility of the Fund, and to help protect its capital value, the remaining portfolio will be invested in risk diversifying assets that have a low correlation with equity markets and the other underlying growth 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.

In 2019, the Fund carried out an asset liability modelling exercise in conjunction with the 2019 actuarial valuation. The Fund's liability data from the valuation was used in the modelling, and the implications of adopting a range of alternative contribution and investment strategies were assessed. The implications for the future evolution of the Fund was considered under a wide range of different scenarios.

The Committee assessed the likelihood of achieving their long term funding target – which was defined at that time as achieving a fully funded position within the next

19 years. They also considered 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).

It is anticipated that a further review of the investment strategy will be carried out during 2022/23 in conjunction with the then proximate actuarial valuation.

In addition, the Committee monitors the 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, loans, property, infrastructure and cash 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 addition, the Committee have agreed a new Target Asset Allocation, reflecting the likely 'direction of travel' between now and the next actuarial valuation.

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	Current Strategic Allocation (%)	Asset Allocation Range (%)	Target Allocation (%)
UK equities	17.0	+/-2.5	13.0
Overseas equities	27.5	+/-2.5	21.5
Fundamental global equity	10.0	+/-2.5	10.0
Private equity	4.0	n/a	4.0
Total Growth	58.5		48.5
Property	10.0	n/a	12.5
Infrastructure	4.0	n/a	7.0
Private debt	5.0	n/a	7.0
Absolute Return Bonds / Multi Asset Credit	7.5	n/a	10.0
Total Income	26.5		36.5
UK corporate bonds	10.0	+/-1.5	10.0
UK index linked bonds	5.0	+/-0.5	5.0
Total Protection	15.0		15.0
Total	100.0		100.0

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
Border to Coast Pensions Partnership (BCPP)	UK Equities, Global Equities	Active
BCPP Alternatives	Private Equity, Private Debt, Infrastructure	Fund of Funds
Schroders	UK Property	Fund of Funds
Threadneedle	UK Property	Balanced Fund
Alcentra	Private Debt	Direct Fund
Partners Group	Private Debt	Direct Fund
JP Morgan	Bonds	Absolute Return
Harbourvest	Private Equity	Fund of Funds
Standard Life	Infrastructure	Direct Fund
Partners Group	Infrastructure	Fund of Funds/Direct Fund

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 to achieve its objectives.

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. 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 and other income assets, 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 has attempted to reduce this risk by appointing more than one manager and having a 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.

BCPP launched their first sub-funds in 2018 and there is a timetable in place covering the proposed fund launches over the next 2-3 years. The Fund has invested assets in the UK Equity Alpha fund, the Global Equity Alpha fund and the alternative sub-funds (private equity, infrastructure and private debt) and has also committed to investing in the Investment Grade Credit Fund expected to launch in Q1 2020.

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 fee savings through joint fee negotiations with other partner funds within 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, private debt 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. However, new allocations to these asset classes have been and will continue to be made through BCPP.

The assets above which are 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 2023.

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.

A Financial Conduct Authority (FCA)

regulated company has been established to manage the assets of BCPP Funds. The Board of Directors for the new company has been appointed and a senior management team put in place. Based on legal advice describing the options on holding shares in this company, BCPP Limited, the Fund holds 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.

Oversight of the company is carried out by a Joint Governance Committee comprising representatives of each of the participating pension funds.

As the Pool develops, the Fund will include further information in future iterations of the ISS.

ESG Policy: How social, environmental or corporate governance ("ESG") considerations are taken into account in the selection, non-selection, retention and realisation of investments

It is recognised that ESG factors, including climate change, are financially material to the Fund's investments at all stages of decision-making as they have the potential to significantly affect 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, including climate change, 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.

The Fund has developed a separate more in-depth Responsible Investment Policy and Climate Risk Policy. These policies can both be found on the Fund's website. They outline how the Fund implements, monitors and discloses its approach to ESG-related risks.

Investments made via BCPP are subject to its responsible investment policies that can be found here: https://www.bordertocoast.org.uk/?dml_download_category=download-responsible-investment-policy

The Committee has reviewed BCPP's responsible investment policies and is satisfied they are consistent with the Fund's own policies. The Fund will regularly monitor BCPP's responsible investment policies and actively engage with the pool to facilitate change as required.

Historically 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 reported on this matter as part of the Fund's annual ESG review. The Fund does not currently hold any assets which it deems to be social investments.

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

Voting rights

The Committee have approved its own voting policy with the objective of preserving and enhancing long term shareholder value.

Historically the Fund actively voted on the Fund's segregated equity holdings through a voting platform. The Funds segregated equities have now been transitioned into BCPP equity pooled funds. As a result, BCPP vote on behalf of the Fund in line with the BCPP voting and engagement policy. The BCPP voting and engagement policy has been reviewed by the Committee.

The funds past voting record can be found here: <http://www.warwickshire.gov.uk/pensionstatement>

The voting record of assets invested via BCPP can be found on its website here: <https://www.bordertocoast.org.uk/sustainability/>

Both the Fund and BCPP'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 (FRC). The Committee also expects both the BCPP and any directly appointed fund managers to comply with the Stewardship Code and this is monitored on an annual basis.

At the FRC's most recent review, the Fund and BCPP are rated as a tier 1 signatories to the code. A copy of the Fund's statement of compliance with the Stewardship code can be found in Appendix 2.

Appendices

Appendix 1 – Expected returns

Appendix 2 – Statement of compliance with Stewardship code

Appendix 3 – Investment Guiding Principles

Appendix 1

Expected returns and volatilities

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 2019 investment strategy review and asset liability modelling.

Asset Class	Expected return % p.a.	Volatility
UK Equities	5.9	17
Overseas Equities	6.0	18
Private Equity	7.0	28
UK Property	4.5	14
Corporate Bonds	1.9	10
Fixed Interest Gilts	1.2	10
Index Linked Gilts	0.5	7

Appendix 2

Statement of compliance with Stewardship code

BCPP has become the manager for an increasing proportion of the Fund's investments and as a result has taken on responsibility for engagement with and monitoring of those investments and the underlying managers. All the active equity holdings of the Fund are now managed via BCPP.

BCPP have developed their own statement and appointed their own Head of Responsible Investing and Voting. BCPP's compliance statement can be found at:

<https://www.bordertocoast.org.uk/sustainability/>

The Fund's compliance statement is given below.

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. The Fund views effective stewardship as an integral part of share ownership and therefore of the investment code, and requires the same commitment from its fund managers and the Border to Coast Pensions Partnership ("BCPP").</p> <p>The practical application of the Fund's policy is achieved through a combination of activities including, but not limited to: dialogue and liaison with fund managers and BCPP on key issues and through membership of the Local Authority Pension Fund Forum (LAPFF).</p> <p>In addition to this Stewardship Code Statement, the Fund maintains an Investment Strategy Statement (ISS) and Responsible Investment and Climate Risk policy which explains the Committee's investment beliefs in more detail. These are made available on a public facing website.</p> <p>The Fund has a responsibility to its membership to regularly engage with fund managers including the BCPP 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 Fund's stakeholders will be beneficiaries, as strong investment returns improve the Fund's 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.

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.

External managers are assessed on potential conflicts of interests and their written policies at the evaluation and appointment stage. BCPP will be responsible for monitoring and appointing Investment Managers in the future and the Committee will periodically review BCPP's selection process and conflict management policies.

Subsequent monitoring is undertaken by the Fund's investment consultant, independent advisor and BCPP where appropriate to protect the Fund's interests.

Principle 3

Institutional investors should monitor their investee companies.

Day-to-day responsibility for managing the Fund's equity holdings is delegated to Legal and General and BCPP.

The Committee consider its Investment Managers to be best placed to engage with investee company management. This is due to the Fund being constrained in what decisions are available to it within pooled funds, as well as the resources and existing relationships with investee companies that are available to the Fund's Investment Managers.

The Fund expects Legal and General and BCPP to incorporate responsible investment and stewardship issues into their regular reporting. This will include information on voting and engagement, as well as any actions they are taking in assessing and managing Environmental Social and Governance-related ("ESG") risks in relation to their mandates.

The Fund expects its managers to intervene where necessary, and report back regularly on activity undertaken.

The Fund has regular meetings with its managers and BCPP 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.

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 and BCPP, including the escalation of engagement when necessary. The Fund expects 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 if 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 Fund's contact for any such issues is:

Pensions and Investment Manager

Finance Service

Resources Directorate

Tel: 01926 412227

Email: wpfinvestments@warwickshire.gov.uk

Principle 6

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

The Fund's Investment Managers will be expected to act as responsible and active owners through considered voting of shares, and engagement with company management when required. Engagement by its Investment Managers with investee companies on ESG issues to positively influence company behaviour and enhance shareholder value is strongly encouraged.

The Fund no longer directly holds any equity assets. Since transitioning its segregated equity portfolios into BCPP the Fund's equity assets are entirely held within pooled funds.

All voting activity is therefore delegated to its managers and BCPP.

However, the fund has reviewed its managers' voting policies and is satisfied they are consistent with the Fund's own views. The Fund will regularly monitor its managers voting policies and actively engage with them and BCPP to facilitate change as required.

Historic Fund voting records can be found at:

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

The BCPP voting records can be found at: <https://www.bordertocoast.org.uk/sustainability/>

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.

BCPP 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 of the Fund's managers will be made available with voting records published on the Fund's website for the benefit of the Fund's membership.

Appendix 3

Investment Guiding Principles

The Fund adopts the following principles when considering investments and investment strategy.

1. The Pension Fund is a long term vehicle which must be sustainable in generating investment returns to pay pensions for scheme members.
2. It is appropriate to take a long term view when setting the investment strategy though the impact of short term volatility is also considered.
3. Strategic asset allocation is the most important component of decision making as it is here that the optimum risk and return profile is designed and monitored.
4. The Fund's high level investment strategy and asset allocation should be set by using asset liability modelling in conjunction with each actuarial valuation.
5. Appropriate diversification reduces the overall level of dependence on any particular market or asset class and helps manage volatility, particularly in respect of equity markets.
6. Effective governance not only ensures appropriate levels of control over the fund but can add value through correct resourcing and improved decision making.
7. Responsible ownership of companies benefits long term asset owners.
8. A balance of passive and active equity investment will, over the course of a market cycle provide the best mix of performance, diversification and cost.
9. Foreign currency exposure is part of managing a global portfolio of investments. There is no strategic hedging of currency exposure from volatile asset classes such as equities as the fund believes this to be of limited benefit to long term investment returns.
10. Investors are rewarded for illiquidity in private markets. Future liquidity needs must be assessed at each review of asset allocation combined with cash flow projections from the fund actuary.
11. There is a long term risk premium to be earned for investing in equities, credit and property relative to gilts.
12. Fees and costs incurred within investment manager mandates are important though the focus is on achieving the best returns net of fees.
13. The performance of any active managers should be assessed over suitably long periods.
14. Staff and members of the Pension Fund Investment Sub Committee must have the correct level of skills and investment knowledge to understand the level of risk in the investment portfolio.
15. External advice from independent advisors and an investment consultant helps planning, risk management and decision making.
16. Pooling presents an opportunity to access best in class investments at a lower cost. Such opportunities should always be assessed alongside the strategic asset allocation of the fund for suitability.
17. The fund will work closely with BCPP who will be engaging with companies on the Fund's behalf on ESG issues and exercise its voting rights at company meetings.

ESG Investment Beliefs

18. As the Fund invests for the long-term, environmental, social and governance ("ESG") factors are expected to have a bearing on the Fund's expected levels of risk and return. The Fund's Investment Managers are therefore expected to embed ESG factors into their investment process and decision making.
19. The Committee should focus on meeting its financial obligations to pay benefits to members.

20. Long-term sustainable investment returns are an important consideration, even to the extent that the sustainability of returns extends beyond the expected investment horizon of the Committee.
21. The Committee believes there will be opportunities for investments which support and benefit from the transition to a low carbon economy, and will seek out these opportunities for the Fund.
22. The Committee believe that, in relation to ESG risks, ongoing engagement with investee companies is preferable to divestment. This engagement will be carried out by our managers or alongside other investors (e.g. LAPFF).
23. Where, over a considered period, however, there is no evidence of a company making visible progress towards carbon reduction, the Committee believe that divestment should be actively considered.
24. The Fund's Investment Managers' approach to RI, including the integration of ESG into investment decision making and the use of engagement, must be assessed and monitored. This includes ongoing monitoring of the BCPP.
25. Responsible ownership of companies benefits long term asset owners. Asset owners, fund managers, and companies with a clear responsible investment policy are expected to outperform companies without a responsible investment policy, over the longer term.
26. The Fund's Investment Managers should act as responsible and active owners through considered voting of shares, and engagement with company management when required. Engagement by its Investment Managers with investee companies on ESG issues to positively influence company behaviour and enhance shareholder value is strongly encouraged.
27. Passive and active managers should actively engage with companies and comply with the Financial Reporting Council's Stewardship Code.
28. Climate change, and the expected transition to a low carbon economy, is a long term financial risk to Fund outcomes and is considered to be part of our fiduciary duty.

Responsible Investment and Climate Risk Policy - March 2019

1. Responsible Investment Policy

Objectives

The Pension Fund Investment Sub Committee recognises that the primary goal of the Warwickshire Pension Fund (the “Fund”) is to be a long-term investor that aims to deliver a sustainable pension fund to its members. This goal should ensure that it is affordable and delivers financially to meet the objectives of the Fund employers.

The Committee recognises that responsible investment and Environmental, Social and Governance considerations (“ESG”) pose a financially material risk as well as an opportunity to the Fund. These considerations are relevant when it comes to the manner in which the assets are invested and in exercising of stewardship responsibilities.

As part of the 2019 investment strategy review, the Committee agreed a set of responsible investment principles which have been added to the Committee’s broader investment principles in the Fund’s ISS. These

principles strengthen the Committee’s position in regard to ESG factors and provide a framework for their engagement with their Fund managers and for investment decision making (these principles are detailed in full in the appendix).

The Committee considers the Fund’s approach to responsible investment in two key areas:

- 1. Sustainable investment / ESG factors** – considering the financial impact of environmental, social and governance factors on its investments.
- 2. Effective Stewardship** – acting as responsible and active investors/ owners, through considered voting of shares governed by a voting policy, and engaging with investee company management as part of the investment process.

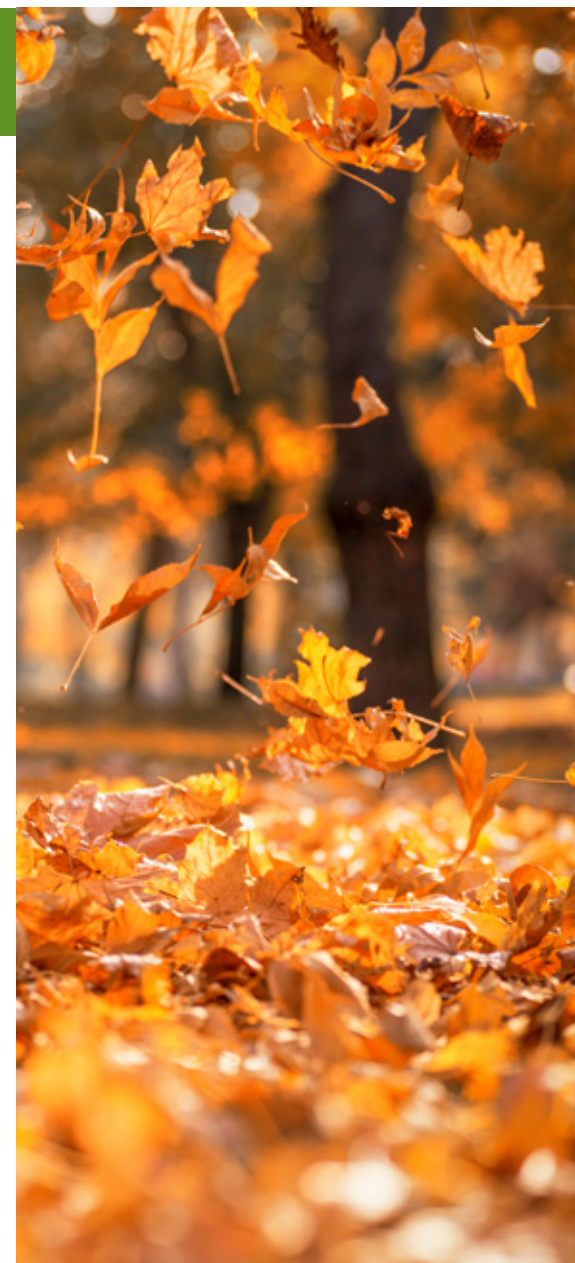
The Committee expects the Fund’s Investment Managers including the Border to Coast Pensions Partnership (“BCPP”) to embed ESG factors into their investment process and decision making, with a focus on long-term sustainable returns.

The Committee has reviewed BCPP’s responsible investment policies in relation to its own views and has satisfied itself that the principles underlying both are similar. The Committee will regularly monitor BCPP’s responsible investment policies and actively engage with the pool to facilitate change as required.

Integration

The Committee recognises that RI considerations can be integrated into all stages of the investment decision-making process and have the potential to significantly affect long term investment performance and the ability to achieve long-term sustainable returns.

The Fund’s Investment Managers will be expected to act as responsible and active owners through considered voting of shares, and engagement with company management when required. Engagement by its Investment Managers with investee companies on ESG issues to positively influence company behaviour and enhance shareholder value are strongly encouraged.



The Committee will consider opportunities arising from a greater understanding of RI factors when setting its investment structure. However, these opportunities will be assessed with regard to the risk/return requirements of the Fund.

The Fund will incorporate RI and ESG considerations into its selection process for new Investment Managers. Potential managers' approach to responsible investment and the extent to which they incorporate ESG issues into their investment process will be a factor in the Committee's decision making.

The Committee will undertake regular formal training sessions that will include focused responsible investment training. This training will be sought from the Committee's investment advisors, Investment Managers, the Border to Coast Pension Partnership, external specialists and/or other engaged pension funds to provide exposure to a range of opinions and approaches to effective governance.

The Committee recognises that climate change represents a risk which warrants more detailed scrutiny given the wide range of impacts on financial, economic and demographic outcomes and thus has drafted a separate Climate Risk policy.

Engagement

The Committee recognises that it can influence the behaviour and practices of

their Investment Managers with regard to stewardship through engagement, even where assets are invested through pooled funds such as those offered by Border to Coast Pensions Partnership. The Committee believe that all engagements should have a clearly defined objective.

The Fund aims to achieve engagement through regular meetings with Investment Managers, with managers expected to address RI matters as part of these meetings. Managers will be challenged on their approach where this is not aligned to the Fund's RI and Climate Risk policies.

The Committee believes that successful engagement is preferable to divestment. The Committee is supportive of collaboration to achieve better engagement, as evidenced by the Fund's membership to LAPFE, through which it collectively exercises a voice across a range of corporate governance issues. Where, over a considered period, there is no evidence of a company responding to engagement, divestment may be considered.

The Committee considers its Investment Managers to be best placed to engage with investee company management. This is due to the Fund being constrained in what decisions are available to them within pooled funds, as well as the resources and existing relationships with investee companies that are available to the Fund's Investment Managers.

However, the Committee acknowledges that

it can work with other LGPS Funds within Border to Coast to enhance the level of engagement both with external managers and the underlying companies in which it invests.

The Committee expects passive and active managers to actively engage with companies and be signatories to the Financial Regulatory Council's UK Stewardship Code.

The Committee believes that its Investment Managers should be able to demonstrate the reasoning behind any engagement activity, the objectives of the engagement activity, the approach taken to achieve the objectives, the timeframe over which the engagement is expected to take place and the consequences should engagement be unsuccessful.

Monitoring

The Fund expects its Investment Managers to incorporate RI issues into their regular reporting. This will include information on voting and engagement, as well as any actions they are taking in assessing and managing ESG-related risks in relation to their mandates.

The Fund expects Investment Managers to provide it with regular statements on their corporate governance and voting policy.

The Fund will continue to monitor its Investment Managers, including BCPP, commitments and policies in this area to ensure that their investment process aligns

with the Funds RI and Climate Risk policies.

The Fund's Investment Managers are expected to report on the objectives of engagement activities, along with the consequent success or failure of any actions taken on, at least, an annual basis.

The Fund expects its investment consultant to provide input and analysis to assist the Trustees in assessing their managers' performance on engagement activities.

The Committee will monitor the Investment Managers compliance with the UK Stewardship Code.

Disclosure

The Fund will report on its Stewardship and Governance activities, including voting and engagement undertaken on behalf of the Fund.

Both this policy and the Fund's Climate Risk Policy will be reviewed and updated regularly.

The Fund is committed to being transparent and accountable in terms of its responsible investment performance. As such the Fund will publish its RI and Climate Risk Policies online.

2. Climate Risk Policy

The Committee considers that climate change represents a materially financial risk to the Fund with the potential to disrupt economic, financial and social systems. However, the potential impact on the Fund is unknown given policy uncertainty and the unknown physical feedbacks from environmental systems.

Risks to the Fund arising from climate change include, but are not limited to:

- Economic risks: risks that the assumptions made in valuing the liabilities are inappropriate;
- Demographic risks: risks that demographic experience is different to that assumed as a consequence of climate related impacts;
- Asset risks: risks that the performance of the Fund's assets is lower than assumed due to investments being affected by physical impacts from climate change or the transition to a lower carbon economy.

This policy sets out the Committee's approach to addressing climate related risks within the Fund.

Climate change and the expected transition to a low carbon economy is a long term financial risk to Fund outcomes and is considered to be part of the Committee's fiduciary duty.

The Committee will assess its portfolios on climate change risk where it is practical to do so and incorporate this into its investment decision making process. The Committee will monitor and review its fund managers in relation to their climate change approach and policies.

The Committee will participate in collective initiatives collaborating with other investors including other pools and groups such as LAPFF on climate risk related issues.

The Committee recognises that all companies have some level of exposure to climate-related risks, particularly transition risks, but that price, policy uncertainty and investment timeframes are determinants of risk exposure.

Where, over a considered period, there is no evidence of a company making visible progress towards carbon reduction or to address climate associated risks, divestment may be considered.

Implementation

The Committee will actively support engagement activity that seeks to achieve:

- Increased disclosure of information on the climate related risks that could affect the value of an investment;
- Transparency of an investments' carbon exposure and how such companies are adjusting for the transition to a low carbon economy.

Monitoring/Reporting

The Committee recognises that the monitoring and assessment of exposure to climate-related risks is developing and the metrics and tools available to the Committee may evolve.

The Committee will monitor changes in market practice to ensure that they are aware of changing best practice.

The Committee will commence monitoring the exposure to climate related risks within its portfolio. This could include measuring exposure to carbon reserves; overall carbon intensity, and alignment with future climate scenarios.

The Committee will consider climate-related risks when agreeing employer funding strategies at each formal actuarial valuation. Climate change has the potential to affect long term funding outcomes due to its impact on economic variables, such as inflation, and on longevity. These risks can be built into the asset liability modelling that underpins the funding strategies.

Transparency

The Committee will publish details of its activity in relation to climate-related risks in accordance with its Responsible Investment Policy.

Appendix

ESG Investment Principles

- As the Fund invests for the long-term, environmental, social and governance (“ESG”) factors are expected to have a bearing on the Fund’s expected levels of risk and return. The Fund’s Investment Managers are therefore expected to embed ESG factors into their investment process and decision making.
- The Committee should focus on meeting its financial obligations to pay benefits to members.
- Long-term sustainable investment returns are an important consideration, even to the extent that the sustainability of returns extends beyond the expected investment horizon of the Committee.
- The Committee believes there will be opportunities for investments which support and benefit from the transition to a low carbon economy, and will seek out these opportunities for the Fund.
- The Committee believes that, in relation to ESG risks, ongoing engagement with investee companies is preferable to divestment. This engagement via our managers or alongside other investors (e.g. LAPFF).
- Where, over a considered period, however, there is no evidence of a company making visible progress towards carbon reduction, the Committee believes that divestment should be actively considered.
- The Fund’s Investment Managers’ approach to RI, including the integration of ESG into investment decision making and the use of engagement, must be assessed and monitored. This includes ongoing monitoring of the BCPP.
- Responsible ownership benefits long term asset owners. Asset owners, fund managers, and companies with clear responsible investment policies are expected to outperform those without responsible investment policies over the longer term.
- The Fund’s Investment Managers should act as responsible and active owners through considered voting of shares, and engagement with company management when required. Engagement by its Investment Managers with investee companies on ESG issues to positively influence company behaviour and enhance shareholder value is strongly encouraged.
- Passive and active managers should actively engage with companies and comply with the Financial Reporting Council’s Stewardship Code.
- Climate change and the expected transition to a low carbon economy are a long term financial risk to Fund outcomes and are considered to be part of our fiduciary duty.

Funding Strategy Statement

- March 2020

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 March 2020.

1.2 What is the Warwickshire 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 manages 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 too, 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 on 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, in what circumstances you might need to pay more and what happens if you cease to be an employer in the Fund. 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.

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

2. Basic Funding Issues

(More detailed and extensive descriptions are given in Appendix D).

2.1 How does the actuary calculate the required contribution rate?

In essence this is a three-step process:

1. Calculate the funding target for that employer, i.e. the estimated 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 likelihood of achieving that funding target over that time horizon, allowing for 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 an allowance for 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 is in respect of benefits already accrued at the valuation date. 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 Ministry of Housing, Communities & Local Government (MHCLG) 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 calculated 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). 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 the period over which the funding target is achieved. 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 **likelihood 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 then the required likelihood 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 funding level 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 funding level and deficit/surplus 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, funding levels and deficits 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; and
- 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 at a reasonable cost.

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 likelihood 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 time horizon relative to other employers, and/or a higher likelihood of achieving the target may be required.

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

2.7 What approach has the Fund taken to dealing with uncertainty arising from the McCloud court case and its potential impact on the LGPS benefit structure?

The LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2014 in the case of the LGPS) were unlawful on the grounds of age discrimination. At the time of writing, the Ministry of Housing, Communities and Local Government (MHCLG) has not provided any details of changes as a result of the case. However it is expected that benefits changes will be required and they will likely increase the value of liabilities. At present, the scale and nature of any increase in liabilities are unknown, which limits the ability of the Fund to make an accurate allowance.

The LGPS Scheme Advisory Board (SAB) issued advice to LGPS funds in May 2019. As there was no finalised outcome of the McCloud case by 31 August 2019, the Fund Actuary

has acted in line with SAB's advice and valued all member benefits in line with the current LGPS Regulations.

The Fund, in line with the advice in the SAB's note, has considered how to allow for this risk in the setting of employer contribution rates. The Fund has increased the prudence in employer funding plans by increasing the likelihood of success for all employers.

Once the outcome of the McCloud case is known, the Fund may revisit the contribution rates set to ensure they remain appropriate.

The Fund has also considered the McCloud judgement in its approach to cessation valuations. Please see note (j) to table 3.3 for further information.

2.8 When will the next actuarial valuation be?

On 8 May 2019 MHCLG issued a consultation seeking views on (among other things) proposals to amend the LGPS valuation cycle in England and Wales from a three year (triennial) valuation cycle to a four year (quadrennial) valuation cycle.

On 7 October 2019 MHCLG confirmed the next LGPS valuation cycle in England and Wales will be 31 March 2022, regardless of the ongoing consultation. The Fund therefore instructed the Fund Actuary to certify contribution rates for employers for the period 1 April 2020 to 31 March 2023 as part of the 2019 valuation of the Fund.

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.

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 likelihood is required to reach that funding target? This will always be less than 100% as we cannot be certain of the future. Higher likelihood "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 reserves the right to 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 likelihood 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 result in a lower level of future investment returns on the employer's asset share. 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 participation basis, assumes long-term Fund participation (see Appendix E)			Ongoing participation basis, but may move to “gilts exit basis” - see Note (a)		Contractor exit basis, 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	Monetary	% of payroll	Monetary	Monetary	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)	70%	80%	70%	80%	80%	70%
Phasing of contribution changes	Covered by stabilisation arrangemen	None	None	None	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. Exit debt/credit 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. Exit debt/surplus calculated on the contractor exit basis. Letting employer will be liable for future deficits and contributions arising. See Note (j) for further details.

* Where the Administering Authority recognises a fixed contribution rate agreement between a letting authority and a contractor, the certified employer contribution rate will be derived in line with the methodology specified in the risk sharing agreement. Additionally, in these cases, upon cessation the contractor's assets and liabilities will transfer back to the letting employer with no crystallisation of any deficit or surplus. Further detail on fixed contribution rate agreements is set out in note (i).

Note (a) (Gilts exit 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. based on the return from long-term 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 2019 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 next formal valuation. 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.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2020 for the 2019 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 except for Academy Schools where it will be set as a percentage of pay.

Note (e) (Likelihood 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 likelihood. A higher required likelihood 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 likelihoods are set for different employers depending on their nature and circumstances: in broad terms, a higher likelihood 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 likelihood 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 conversions)

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, for the purpose of setting contribution rates, 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 assets allocated to the academy will be limited if necessary so that its initial funding level is subject to a maximum of 100%. 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 calculated contribution rate will be based on the time horizon and likelihood of achieving funding target outlined for Academies in the table in Section 3.3 above;
- v. As an alternative to (iv), the academy will have the option to elect to pay contributions over the period to 31 March 2023 in line with the contribution rates detailed in the table below:

Year	Contribution rate (% of pay)
2020/21	23.2
2021/22	23.2
2022/23	23.2

- vi. It is possible for an academy to leave one MAT and join another. If this occurs, all active, deferred and pensioner members of the academy transfer to the new MAT.

The Fund's policies on academies are subject to change in the light of any amendments to MHCLG and/or DfE guidance (or removal of the formal guarantee currently provided to academies by the DfE). 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 greater than expected rise in liabilities;
- 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.

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 (or entitled to any surplus) 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 throughout its participation in the Fund and on cessation does not pay any deficit or receive an exit credit. In other words, the pension risks “pass through” to the letting employer.

The Administering Authority’s default approach is that a new TAB will participate in the Fund via a fixed contribution rate arrangement with the letting employer. The certified employer contribution rate will be set equal to the fixed contribution rate agreed between the letting authority and the contractor. The fixed rate that will be paid is at the discretion of the letting authority and contractor subject to a minimum of the letting authority’s primary rate on the contract start date. Upon cessation the contractor’s assets and liabilities will transfer back to the letting authority with no crystallisation of any deficit or surplus.

In order to avoid the Administering Authority becoming involved in any disputes relating to risk sharing and to protect the other participating employers, the Fund will not be party to any risk sharing agreement between any letting employer and a contractor. Accordingly

any such arrangements will not be detailed in the admission agreement and the admission body will be required to follow the principles of the agreement as if no such risk sharing was in place. It is at the sole discretion of the Administering Authority as to whether any risk sharing agreement is recognised in the certified employer contribution rate. If the risk arrangement is not recognised, then the letting employer and the contractor will need to put in place separate steps to allow the risk sharing to be implemented (e.g. via the contract payments). Accordingly the contractor will be required to pay the certified employer contribution rate to the Fund and any other contributions required e.g. early retirement strain costs, regardless of the risk sharing arrangement in place.

Any risk sharing 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, following the LGPS (Amendment) Regulations 2018 which came into effect on 14th May 2018, this will normally result in an exit credit payment to the Admission Body. If a risk-sharing agreement has been put in place (please see note (i) above) no cessation debt or exit credit may be payable, depending on the terms of the agreement.

As discussed in Section 2.7, the LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2014) are confirmed, the Fund's policy is that the actuary will apply a 1% loading to the ceasing employer's post 2014 benefit accrual value, as an estimate of the possible impact of resulting benefit changes.

The Fund Actuary charges a fee for carrying out an employer's cessation valuation, and there will be other Fund administration expenses associated with the cessation, both of which the Fund will recharge to the employer. For the purposes of the cessation valuation, this fee will be treated as an expense incurred by the employer and will be deducted from the employer's cessation surplus or added to the employer's cessation deficit, as appropriate. This process improves administrative efficiency as it reduces the number of transactions required to be made between the employer and the Fund following an employer's cessation.

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:

- (a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit/surplus will normally be calculated using a "gilts exit basis", which is more prudent than the ongoing participation 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.
- (b) 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 participation basis or contractor exit 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 or surplus. 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 may 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 on the gilts exit basis, and would carry out the cessation valuation on the ongoing participation basis. Secondary contributions would be derived from this cessation debt. This approach would be monitored as part of each formal valuation and secondary contributions would be reassessed as required. The Admission Body may terminate the agreement only via payment of the outstanding debt assessed on the gilts exit basis. Furthermore, the Fund reserves the right to revert to the "gilts exit basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Admission 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.

The intention of the pool is to minimise contribution rate volatility which would otherwise occur when members join, leave, take early retirement, receive pay rises markedly different from expectations, etc. Such events can cause large changes in contribution rates for very small employers in particular, unless these are smoothed out for instance by pooling across a number of employers.

On the other hand it should be noted that the employers in the pool will still have their own individual funding positions tracked by the Actuary, so that some employers will be much better funded, and others much more poorly funded, than the pool average. This therefore means that if any given employer was funding on a stand-alone basis, as opposed to being in the pool, then its contribution rate could be much higher or lower than the pool contribution rate.

It should also be noted that, if an employer is considering ceasing from the Fund, its required contributions would be based on its own funding position (rather than the pool average), and the cessation terms would also apply: this would mean potentially very different (and in particular possibly much higher) contributions would be required from the employer in that situation.

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 2019 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
Colleges and other FE establishments	- payable immediately
Academies	- payable immediately
Transferee Admission Bodies	- payable immediately

3.7 Ill health early retirement costs

If a member retires early due to ill-health, an additional funding strain will usually arise, which can be very large. Such strain costs are the responsibility of the member's employer to pay.

To mitigate this risk, individual employers may elect to use 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 or receive an exit credit 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 and a cessation deficit 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 Investment Strategy Statement, 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 actuary's assumptions for future investment returns (described further in Appendix E) are based on the current benchmark investment strategy of the Fund. The future investment return assumptions underlying each of the Fund's three funding bases include a margin for prudence, and are therefore 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).

In the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility in asset values. However, the actuary takes a long term view when assessing employer contribution rates and the contribution rate setting methodology takes into account this potential variability.

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

4.4 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, quarterly. It reports this to the regular Pensions Committee meetings, and also to employers through newsletters and the Annual General Meeting.

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 Ministry of Housing, Communities & Local Government (MHCLG) 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 MHCLG 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, MHCLG 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.

MHCLG 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 Ministry of Housing, Communities and Local Government (MHCLG) 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 January / February 2020 for comment;

- b) Comments were requested within 14 days;

- c) Following the end of the consultation period the FSS was updated where required and then published, in March 2020.

A3 How is the FSS published?

The FSS is made available through the following routes:

Published on the website, at www.warwickshirepensionfund.org.uk ;

A 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 (which may move to every four years in future – see Section 2.8). This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation.

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 Investment Sub 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 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.warwickshirepensionfund.org.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:-

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Investment Strategy Statement (ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
11. prepare and maintain a FSS and an ISS, after consultation;
12. 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 ISS as necessary and appropriate.

B2 The Individual Employer should:-

1. deduct contributions from employees' pay correctly;
2. pay all contributions, including their own as determined by the actuary, promptly

by the due date;

3. have a policy and exercise discretions within the regulatory framework;
4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
5. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.
6. In accordance with the Fund's Administration Strategy, scheme employers should pay due costs / charges imposed by the fund.

B3 The Fund Actuary should:-

1. 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;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
3. 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);
4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

1. investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS;

2. Investment Managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the ISS;
3. 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;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. 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;
6. MHCLG (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 and contribution rates over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.

Risk	Summary of Control Mechanisms
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. 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.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies.	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.
Orphaned employers give rise to added costs for the Fund.	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).
Effect of possible asset underperformance as a result of climate change.	The Fund actively considers this risk when allocating assets and appointing Fund Managers.

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, consider seeking 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 Administering Authority is monitoring the progress on the McCloud court case and will consider an interim valuation or other appropriate action once more information is known.</p> <p>The government's long term preferred solution to GMP indexation and equalisation - conversion of GMPs to scheme benefits - was built into the 2019 valuation.</p>
Time, cost and/or reputational risks associated with any MHCLG 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>
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>

Risk	Summary of Control Mechanisms
	<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>
An employer ceasing to exist resulting in an exit credit being payable.	<p>The Administering Authority regularly monitors admission bodies coming up to cessation</p> <p>The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required.</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.

As discussed in Section 2, the actuary calculates the required contribution rate for each employer using a three-step process:

1. Calculate the funding target for that employer, i.e. the estimated 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 likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See the table in 3.3 Note (e) for more details.

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 assets, liabilities and membership. The whole Fund position, including that used in reporting to MHCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. MHCLG 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 likelihood, 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 (the "Economic Scenario Service") 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. Further information about this model is included in Appendix E. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) is equal to the required likelihood.

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 Fund aims for the employer to have assets sufficient to meet 100% of its accrued liabilities at the end of its funding time horizon based on the employer's funding target assumptions (see Appendix E).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total contribution rate 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. at the end of the determined time horizon (see 3.3 Note (c) for further details)
3. with a sufficiently high likelihood, 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 (the "Economic Scenario Service") 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. Further information about this model is included in Appendix E. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target at the end of the time horizon is equal to the required likelihood.

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 at the end of the time horizon;
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 likelihood of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not operate separate bank accounts or investment mandates for each employer. Therefore it cannot account for each employer's assets separately. Instead, the Fund Actuary must apportion the assets of the whole Fund between the individual employers. There are broadly two ways to do this:

1. A technique known as "analysis of surplus" in which the Fund actuary estimates the surplus/deficit of an employer at the current valuation date by analysing movements in the surplus/deficit from the previous actuarial valuation date. The estimated surplus/deficit is compared to the employer's liability value to calculate the employer's asset value. The actuary will quantify the impact of investment, membership and other experience to analyse the movement in the surplus/deficit. This technique makes a number of simplifying assumptions due to the unavailability of certain items of information. This leads to a balancing, or miscellaneous, item in the analysis of surplus, which is split between employers in proportion to their asset shares.
2. A 'cashflow approach' in which an employer's assets are tracked over time allowing for cashflows paid in (contributions, transfers in etc.), cashflows paid out (benefit payments, transfers out etc.) and investment returns on the employer's assets.

Until 31 March [2016] the Administering Authority used the 'analysis of surplus' approach to apportion the Fund's assets between individual employers.

Since then, the Fund has adopted a cashflow approach for tracking individual employer assets.

The Fund Actuary uses the Hymans Robertson's proprietary "HEAT" system to track employer assets on a monthly basis. Starting with each employer's assets from the previous month end, cashflows paid in/out and investment returns achieved on the Fund's assets over the course of the month are added to calculate an asset value at the month end.

The Fund is satisfied that this new approach provides the most accurate asset allocations between employers that is reasonably possible at present.

D6 How does the Fund adjust employer asset shares when an individual member moves from one employer in the Fund to another?

Under the cashflow approach for tracking employer asset shares, the Fund has allowed for any individual members transferring from one employer in the Fund to another, via the transfer of a sum from the ceding employer's asset share to the receiving employer's asset share. This sum is equal to the member's Cash Equivalent Transfer Value (CETV) as advised by the Fund's administrators.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions used to calculate employer contribution rates?

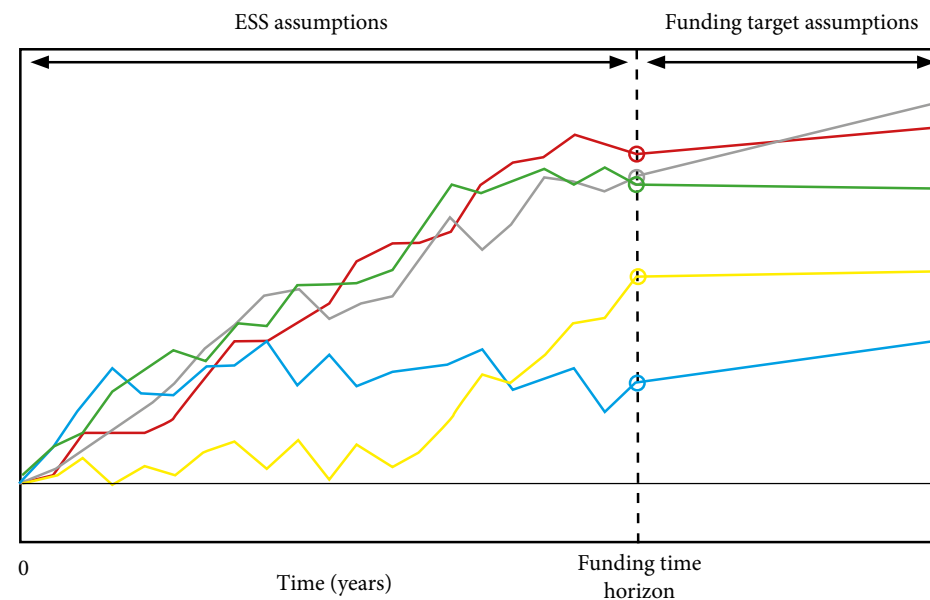
These are expectations of future experience used to place a value on future benefit payments (“the liabilities”) and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). 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 funding target and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The actuary’s approach to calculating employer contribution rates involves the projection of each employer’s future benefit payments, contributions and investment returns into the future under 5,000 possible economic scenarios. Future inflation (and therefore benefit payments) and investment returns for each asset class (and therefore employer asset values) are variables in the projections. By projecting the evolution of an employer’s assets and benefit payments 5,000 times, a contribution rate can be set that results in a sufficient number of these future projections (determined by the employer’s required likelihood) being successful at the end of the employer’s time horizon. In this context, a successful contribution rate is one which results in the employer having met its funding target at the end of the time horizon.

Setting employer contribution rates therefore requires two types of assumptions to be made about the future:

1. Assumptions to project the employer’s assets, benefits and cashflows to the end of the funding time horizon. For this purpose the actuary uses Hymans Robertson’s proprietary stochastic economic model - the Economic Scenario Service (“ESS”).
2. Assumptions to assess whether, for a given projection, the funding target is satisfied at the end of the time horizon. For this purpose, the Fund has three different funding bases.



Details on the ESS assumptions and funding target assumptions are included below (in E2 and E3 respectively).

E2 What assumptions are used in the ESS?

The actuary uses Hymans Robertson’s ESS model to project a range of possible outcomes for the future behaviour of asset returns and economic variables. With this type of modelling, there is no single figure for an assumption about future inflation or investment returns. Instead, there is a range of what future inflation or returns will be which leads to likelihoods of the assumption being higher or lower than a certain value.

The ESS is a complex model to reflect the interactions and correlations between different asset classes and wider economic variables. The table below shows the calibration of the model as at 31 March 2019. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the simulated yields at that time horizon.

		Annualised total returns									
		Cash	Index Linked Gifts (medium)	Fixed Interest Gifts (medium)	UK Equity	Overseas Equity	Property	A rated corporate bonds (medium)	RPI inflation expectation	17 year real govt bond yield	17 year govt bond yield
5 years	16th %'ile	-0.4%	-2.3%	-2.9%	-4.1%	-4.1%	-3.5%	-2.7%	1.9%	-2.5%	0.8%
	50th %'ile	0.7%	0.5%	0.3%	4.0%	4.1%	2.4%	0.8%	3.3%	-1.7%	2.1%
	84th %'ile	2.0%	3.3%	3.4%	12.7%	12.5%	8.8%	4.0%	4.9%	-0.8%	3.6%
10 years	16th %'ile	-0.2%	-1.8%	-1.3%	-1.5%	-1.4%	-1.5%	-0.9%	1.9%	-2.0%	1.2%
	50th %'ile	1.3%	0.0%	0.2%	4.6%	4.7%	3.1%	0.8%	3.3%	-0.8%	2.8%
	84th %'ile	2.9%	1.9%	1.7%	10.9%	10.8%	7.8%	2.5%	4.9%	0.4%	4.8%
20 years	16th %'ile	0.7%	-1.1%	0.1%	1.2%	1.3%	0.6%	0.7%	2.0%	-0.7%	2.2%
	50th %'ile	2.4%	0.3%	1.0%	5.7%	5.8%	4.3%	1.9%	3.2%	0.8%	4.0%
	84th %'ile	4.4%	2.0%	2.0%	10.3%	10.4%	8.1%	3.0%	4.7%	2.2%	6.3%
Volatility (Disp) (1 yr)		1%	7%	10%	17%	17%	14%	11%	1%		

E3 What assumptions are used in the funding target?

At the end of an employer's funding time horizon, an assessment will be made – for each of the 5,000 projections – of how the assets held compare to the value of assets required to meet the future benefit payments (the funding target). Valuing the cost of future benefits requires the actuary to make assumptions about the following financial factors:

- Benefit increases and CARE revaluation
- Salary growth
- Investment returns (the “discount rate”)

Each of the 5,000 projections represents a different prevailing economic environment at the end of the funding time horizon and so a single, fixed value for each assumption is unlikely to be appropriate for every projection. For example, a high assumed future

investment return (discount rate) would not be prudent in projections with a weak outlook for economic growth. Therefore, instead of using a fixed value for each assumption, the actuary references economic indicators to ensure the assumptions remain appropriate for the prevailing economic environment in each projection. The economic indicators the actuary uses are: future inflation expectations and the prevailing risk free rate of return (the yield on long term UK government bonds is used as a proxy for this rate).

The Fund has three funding bases which will apply to different employers depending on their type. Each funding basis has a different assumption for future investment returns when determining the employer's funding target.

Funding basis	Ongoing participation basis	Contractor exit basis	Low risk exit basis
Employer type	All employers except Transferee Admission Bodies and closed Community Admission Bodies	Transferee Admission Bodies	Community Admission Bodies that are closed to new entrants
Investment return assumption underlying the employer's funding target (at the end of its time horizon)	Long term government bond yields plus an asset outperformance assumption (AOA) of 1.6% p.a.	Long term government bond yields plus an AOA equal to the AOA used to allocate assets to the employer on joining the Fund	Long term government bond yields with no allowance for outperformance on the Fund's assets

E4 What other assumptions apply?

The following assumptions are those of the most significance used in both the projection of the assets, benefits and cashflows and in the funding target.

a) Salary growth

The salary increase assumption at the 2019 valuation has been set to be a blended rate combined of:

1. 2% p.a. until 31 March 2021, followed by
2. 1.0% above the Consumer Prices Index (CPI) per annum p.a. thereafter.

This gives a single "blended" assumption of CPI plus 0.8%. This is a change from the previous valuation, which assumed a blended assumption of CPI plus 0.6% per annum. The change has led to an increase in the funding target (all other things being equal).

b) 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.

At this valuation, we have continued to assume that CPI inflation is 1.0% per annum lower than RPI inflation. (Note that the reduction is applied in a geometric, not arithmetic, basis).

c) 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.

Allowance has been made in the ongoing valuation basis for future improvements in line with the 2018 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 updated allowance for future improvements will generally result in lower life expectancy assumptions and hence a reduced funding target (all other things being equal).

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.

d) General

The same financial assumptions are adopted for most employers (on the ongoing participation basis identified above), 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

Funding basis

The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target at the end of the employer's time horizon. The main assumptions will relate to the level of future investment returns, salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target.

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.

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**.

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 are also used in funding as an objective measure of a risk-free rate of return.

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 100 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 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 period until the next valuation is completed.

Scheduled Bodies

Types of employer explicitly defined in the LGPS Regulations, whose employees 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**. 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.

Valuation

A risk management exercise to review the **Primary and Secondary contribution rates**, and other statutory information, for a Fund, and usually individual employers too.

Warwickshire Pension Fund (“the Fund”)

Actuarial Statement for 2019/20

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 2020. 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);

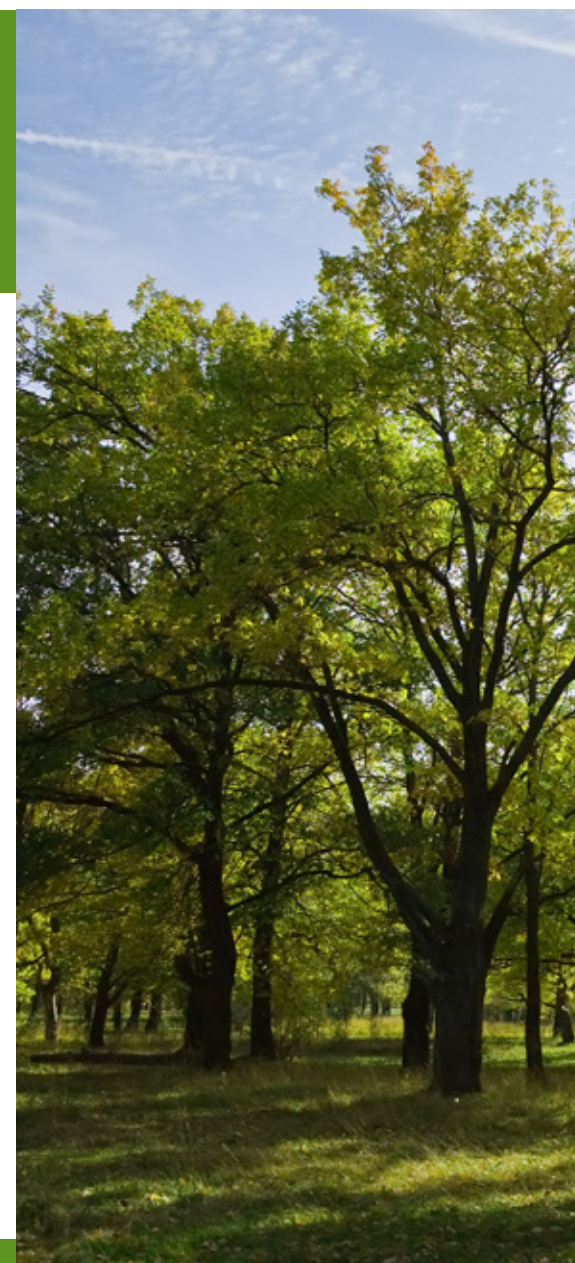
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce 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 have a sufficiently high likelihood of achieving the funding target over 19 years. 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 at least a 70% likelihood that the Fund will achieve the funding target 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 2019. This valuation revealed that the Fund’s assets, which at 31 March 2019 were valued at £2,166 million, were sufficient to meet 92.3% of the liabilities (i.e. the present value of



promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £180 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving their funding target within a time horizon and likelihood measure as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2023 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 2019 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 2019 valuation were as follows:

Financial assumptions	31 March 2019
Discount rate	3.7%
Salary increase assumption	3.1%
Benefit increase assumption (CPI)	2.3%

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 2018 model, an allowance for smoothing of recent mortality experience and 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	21.6 years	23.8 years
Future Pensioners*	22.5 years	25.4 years

* Aged 45 at the 2019 Valuation.

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2019

Markets were disrupted by COVID 19 which resulted in difficult market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced versus that reported in the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.

Robert Bilton FFA

2 May 2019

For and on behalf of Hymans Robertson LLP

Covid-19 Update

The last quarter of the year saw the rapid spread of the Covid-19 pandemic, starting with an initially unidentified illness found in Wuhan in December 2019. By the end of March the disease had spread worldwide having a very significant economic, social, and health impact, and a national lockdown was imposed to slow the spread of the virus.

The activities of the pension fund at the end of the year focused on maintaining the safety and wellbeing of staff and scheme members and maintaining operational effectiveness, in particular ensuring that pensions continued to be paid, that cashflow is managed, and that calls to place planned investments could be made.

Pension fund staff have been able to work from home since the lockdown with a minimal presence being required in the office for business-critical functions that could not be done from home, for example dealing with physical post received.

A review of risks specifically relating to Covid-19 was undertaken in late March including the identification of mitigating actions, and a briefing on fund activities was provided to the Staff and Pensions Committee, Pension Fund Investment Sub Commit, and Local Pension Board in early April.

Key operational administration and payroll activities were delivered during the lockdown, with pensions continuing to be paid. Cashflow

management has been maintained, with the fund holding higher cash balances to reduce the risk of needing to sell assets inappropriately to service cash requirements. Investment activity has continued, with the fund being able to meet calls made by fund managers relating to existing investment commitments.

The County Council recently moved to the Microsoft platform, using Microsoft 365 and issuing Surface Pros as standard. The functionality available has enabled staff to continue their roles including meeting with each other virtually, sharing information, and processing tasks.

Covid-19 caused significant volatility in financial markets towards the end of the financial year. Market activity is being monitored, however the Fund takes a long term view, and continues to work closely with its advisers on making decisions that focus on the Fund's long term objectives. Ultimately the effect of Covid-19 will be captured in the next Valuation and will be managed over the long-term time horizon to which the pension fund operates.



Risk Management

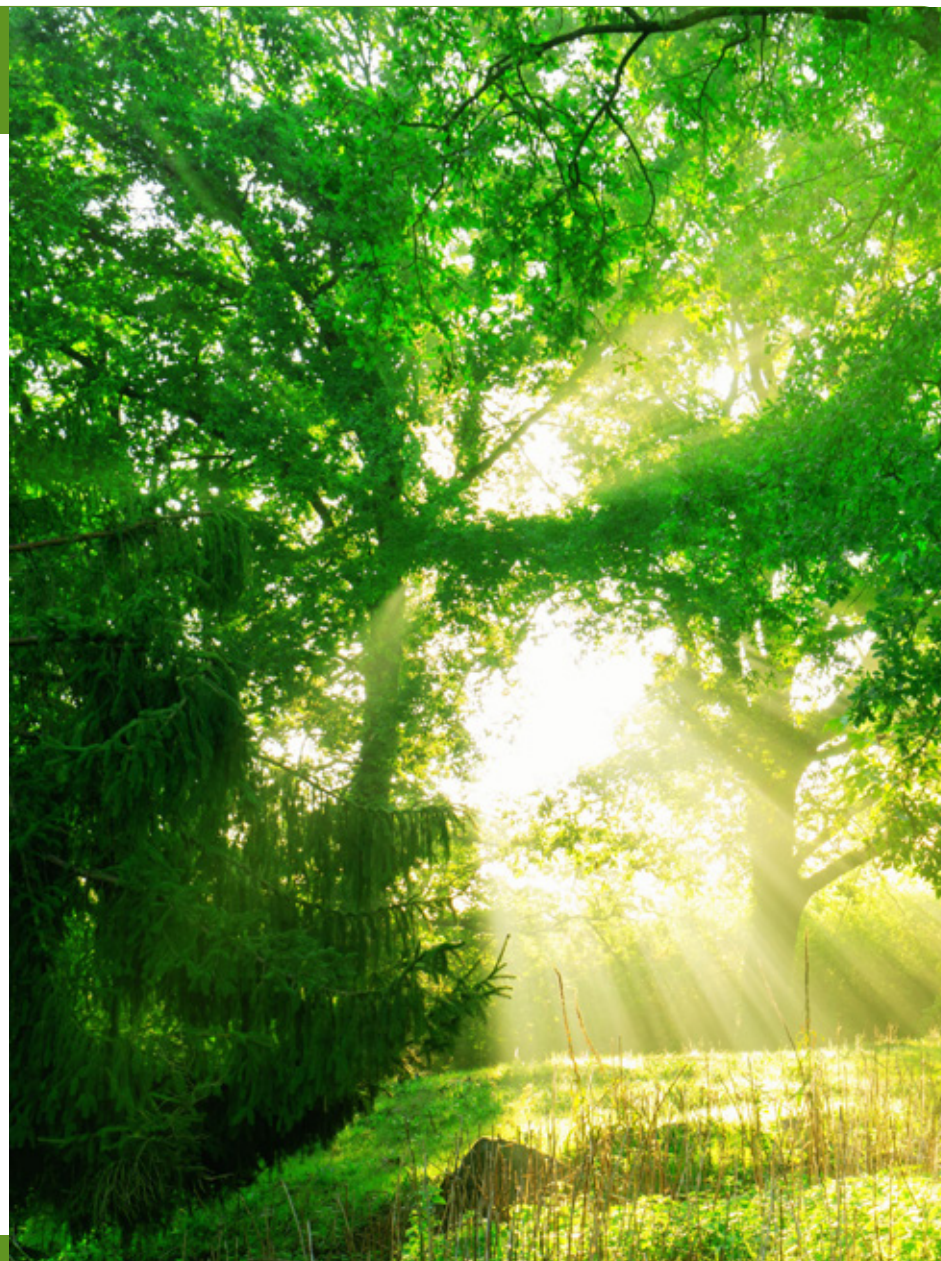
Risks are identified and evaluated via a risk evaluation model, with controls implemented to mitigate risks being recorded in a risk register. The risks involved in achieving the objectives of the fund are identified and quantified in terms of the likelihood of them occurring and the impact if they did occur.

The last routine review of risks was in early March 2019 based on information known up to February 2020. The review identified changing risk factors including long term increasing levels of demand on administration activity, climate change, the potential impact of McCloud on costs and on administration workload, meeting GDPR requirements and cyber security threats, maintaining good quality data, and the volatile and unpredictable national and global political climate.

However at the same time the Covid-19 pandemic was accelerating and later in March a review of risk was undertaken

focusing specifically on Covid-19 impacts and mitigating actions. The key increasing risks were assessed to be disruption to employer cashflows, short term and long term investment volatility, disruption to governance administration and fund management activity, and the health and safety of scheme members and staff.

Actions to mitigate these risks have been identified and implemented and the monitoring and management of risk will be reported quarterly to the Pension Fund Investment Sub Committee and Staff and Pensions Committee.



Appendix 1 – Governance Compliance Statement

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























Principle	Warwickshire's Approach	Compliance
Structure		
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Warwickshire County Council delegates the management of the Warwickshire Pension Fund to the Pension Fund Investment Sub Committee (PFISC) who are 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.	County Councillors sit on the primary and secondary committee and represent all stakeholders. In addition the Local Pension Board ensures equal 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.	Members of the secondary committee sit on the primary committee.	Comply

Principle	Warwickshire's Approach	Compliance
Representation		
That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: • employing authorities (including non-scheme employers, e.g., admitted bodies);	County Councillors sit on the primary and secondary committee and represent all stakeholders. In addition the Local Pension Board ensures equal representation.	Explain
• scheme members (including deferred and pensioner scheme members);	There are three member representative positions on the Local Pensions Board.	Comply
• independent professional observers; and	The PFISC employs an independent financial consultant who is present at all PFISC meetings.	Comply
• 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.	Comply
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 can be re-imbersted.	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 four times a year and is synchronised with the dates when the main committee sits.	The primary, secondary and The Local Pension Board meets at least four times a year and meetings are synchronised.	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 2018/19

	13 March 2019	10 June 2019	9 Sept 2019	9 Dec 2019	12 March 2020	
Bill Gifford						
John Horner						
Wallace Redford						
Bob Stevens						
Alan Webb						
Richard Chattaway						Attended 
Neil Dirveiks						Did not attend 

Post Pooling Report

This section of the report provides more detailed information about LGPS pooling and the associated costs. The Fund is a member of the Border to Coast Pension Partnership. The pool is made up of 12 local authority partners and was set up in 2017/18 with the first funds transferring in 2018/19.

The Warwickshire Pension Fund made its first investment into the pool in 2018/19, transferring funds into the Border to Coast UK Equity Alpha Fund, followed in 2019/20 by further funds including global equity fund, private equity, infrastructure, and investment grade credit. The amounts invested as at the 31st March 2020 are set out in Note 18 of the Pension Fund Account set out elsewhere in the Annual Report.

In addition to these investments the Fund holds £833k in the form of shareholder capital.

The Fund engages with the pool through a number of routes including membership of a Joint Committee that has responsibility for providing partner oversight of the pool, a

Section 151 Officer Group that provides advice on developments and an Operational Officer Group that provides a facility for regular communication and liaison between partner funds and the pool.

The pool has future funds in development. The Warwickshire Pension Fund has committed to private debt and investment grade credit, and intends to commit to a Multi Asset Credit fund. There are also further funds under development for example in respect of property.

Table 1
Set Up and Transition Costs

Set up costs in 2019/20 were £3.163m, the majority of which related to transition costs for the Global Equity Alpha fund.

The cumulative set up cost from inception includes £833k of regulatory capital

	17/18	18/19	19/20			
	Total	Total	Direct	Indirect	Total	Cumulative
	£000s	£000s	£000s	£000s	£000s	£000s
Set up costs:						
Recruitment	17					17
Legal	27					27
Procurement	36					36
Other support costs eg IT, accommodation	2					2
Share purchase/subscription costs*		833				833
Other working capital provided e.g. Loans						
Staff costs	62					62
Other costs	41	426	250		250	718
TOTAL SET UP COSTS	185	1,259	250		250	1,695
Transition costs:						
Transition fees		3,570		2,912	2,912	6,482
Taxation (seeding relief)						
Other transition costs						
TOTAL TRANSITION COSTS		3,570			2,912	6,482
TOTAL POOLING RELATED COSTS	185	4,829	250		3,163	8,177

*Share capital

Table 2

Management fees and Transaction Costs

This table reports on ongoing management fees relating to pooling activity. Costs have increased in comparison to 2018/19, however the amount of assets under management has increased.

	BCPP Asset Pool			Non-BCPP Asset Pool			Fund Total	
	Direct	Indirect	Total	Direct	Indirect	Total		
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	bps
Management fees:	1,468.4		1,468.4	4,736.0		4,736.0	6,204.4	30.63
ad valorem								
performance				1,097.0		1,097.0	1,097.0	5.42
research								
PRIIPS compliance								
Asset pool shared costs	187.8		187.8				248.0	1.22
Transition costs:				39.9		39.9	39.9	0.20
commissions								
aquisitions/issue costs								
disposal costs								
registration/filing fees								
taxes and STD								
Custody				61.9		61.9	61.9	0.31
Other				3,206		3,205.6	3,205.6	15.83
Total £000	378.0	0.0	378.0	9,140	0.0	9,140.4	10,856.8	47.30

Accounts for the year ending 31 March 2020

Statement of responsibilities for the statement of accounts

This section explains our responsibilities for our financial affairs and how we ensure we carry out these responsibilities properly in line with the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 and the Accounts and Audit Regulations 2015.

Responsibilities of the Pension Fund

We must do the following:

- make sure that one of our officers is responsible for managing our financial affairs. For the Pension Fund, Warwickshire County Council's Strategic Director for Resources is responsible for this;
- manage our affairs to use our resources efficiently and effectively and to protect our assets;
- comply with IFRS financial reporting framework; and
- approve the statement of accounts.

Responsibilities of the Strategic Director for Resources

As the Strategic Director for Resources, 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; and
- 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; and
- taken steps to prevent and detect fraud and other irregularities.

I certify that the Statement of Accounts presents a true and fair view of the financial position as at the 31st March 2020 and the income and expenditure for the year ended 31st March 2020. The unaudited draft accounts were authorised for issue on 26th June 2020. These were audited and were considered and approved at a meeting of the Council on 13th October 2020. The approved accounts were authorised for issue on that date.



Rob Powell

Strategic Director for Resources

13 October 2020



Councillor Alan Cockburn

Chair of the Council

13 October 2020

Warwickshire Pension Fund Account

2018/2019 £m		Notes	2019/2020 £m
	Dealings with members, employers and others directly involved in the fund		
(80.1)	Contributions	7	(84.9)
(8.5)	Transfers in from other schemes	8	(12.9)
(88.7)			(97.8)
76.9	Benefits payable	9	80.7
7.9	Payments to and on account of leavers	10	12.0
84.8			92.7
(3.9)	Net (additions)/withdrawals from dealing with members		(5.1)
12.3	Management expenses	11	13.2
8.5	Net (additions)/withdrawals inc fund management expenses		8.1
	Returns on investments		
(29.2)	Investment income	13	(20.3)
0.5	Taxes on income		(0.1)
(79.6)	Profit and losses on disposal of investments	23	(306.7)
(33.7)	Changes in the market value of investments	23	450.6
(141.9)	Net return on investments		123.5
(133.4)	Net (increase)/decrease in the net assets available for benefits during the year		131.6
(2,032.3)	Opening net assets of the scheme		(2,165.7)
(2,165.7)	Closing net assets of the scheme		(2,034.1)

Net Assets Statement

2018/19 £m		Notes	2019/2020 £m
0.8	Long-term Assets	15	0.8
2,139.7	Investment assets	15/16/17	2,003.6
0.0	Investment liabilities	15	0.0
17.5	Cash deposits	15/16/17	20.9
2,158.0	Total net investments		2,025.4
11.5	Current assets	29	12.6
(3.8)	Current liabilities	30	(3.8)
2,165.7	Net assets of the fund available to fund benefits at the period end		2,034.1

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in the Actuary Statement Note 28.

Notes to the Warwickshire Pension Fund Accounts for the year ended 31 March 2020

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 2019/20 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); and
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (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 Sub-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 automatic for entitled employees, but they 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; and
- 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 190 employer organisations with active members within Warwickshire Pension Fund including the county council itself, as detailed below.

Warwickshire Pension Fund	31 March 2019	31 March 2020
Number of employers with active members	192	190
Number of employees in scheme		
County Council	8,303	7,930
Other employers	8,755	8,786
Total	17,058	16,716
Number of pensioners		
County Council	7,706	8,039
Other employers	5,970	6,355
Total	13,676	14,394
Deferred pensioners		
County Council	10,680	11,262
Other employers	7,128	7,659
Total	17,808	18,921
Total	48,542	50,031

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 2020. Contributions are also made by employers which are set based on triennial actuarial funding valuations. The last valuation was at 31 March 2019 and a revised schedule of employer contribution rates became effective for the three years from 1 April 2020.

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 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump Sum	Automatic lump sum of 3 x 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 1/49th. Accrued pension is updated 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 2019/20 financial year and its position at year-end as at 31 March 2020. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2019/20* 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. Investment income arising from the underlying investments of the Pooled Investment Vehicles is either reinvested within the Pooled Investment Vehicles and reflected in the unit price or taken as dividends.

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 accrual basis. All staff costs of the pension's 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 accrual 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 accrual 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 increase the investment income.

g) Investment assets

Investment in the LGPS asset pool, Border to Coast Pensions Partnership, is valued at transaction price i.e. cost. The pool's main trading company, Border to Coast

Pensions Partnership Limited, became licensed to trade in July 2018 and does not have established trading results or profit forecasts available yet.

The Pension Fund's view is that the market value of investments in the Border to Coast Pension Partnership at 31 March 2020 cannot be reasonably assessed and that cost is therefore an appropriate estimate of fair value.

All other 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 asset 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.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Pension Fund Note 24). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

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; and
- 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 2018*.

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 15. 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. The last triennial valuation was carried out as at 31st March 2019. 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 (AVCs) 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).

m) Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term, 'financial instrument' covers both financial assets and financial liabilities and includes financial assets and liabilities such as trade receivables and trade payables.

IFRS 13 Fair Value Measurement - The standard provides a consistent definition of fair value and enhanced disclosure requirements. It is designed to apply to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value (with some exceptions). The Fund currently complies with this standard.

Note 4: Critical judgements in applying accounting policies

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.

The McCloud and Sargeant judgements upheld the claimant's cases that the method of implementation of the new public sector pension schemes discriminated against younger members. No allowance has been made for this in the accounts as the remedy to resolve the age discrimination has yet to be agreed and the financial impact remains uncertain. However, the fund actuary has included an allowance for the impact of McCloud in Note 28 within the fund liabilities.

Investment in Border to Coast Pensions Partnership

This investment has been valued at cost on the basis that fair value as at 31 March 2020 cannot be reasonably assessed as set out under Note 3.

Impact of COVID-19

The impact of COVID-19 has been felt throughout the Fund. The Fund has exposure to several Property and Infrastructure funds which have experienced some uncertainty surrounding their valuations. The Fund has decided to use the investment managers' valuations as the most reasonable available estimates of the values of these assets as at 1 March 2020, but these estimates are subject to greater uncertainty than in previous years. Transactions in the market have been limited due to the lockdown therefore valuers have not been able to rely on previous market experience. Most Property funds have suspended trading to protect the interest of investors during this time. As a result, the valuations presented in the accounts as at 31 March 20 are based on less certainty.

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 accounts as at 31 March 2020 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	<p>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>	<p>The effects on the net pension liability of changes in individual assumptions can be measured. For instance: - a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £294m - a 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £27m, and - a one-year increase in assumed life expectancy would increase the liability by approximately 3-5%.</p>
Private equity, Infrastructure and Private Debt	<p>These investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines 2018 and US GAAP. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.</p> <p>Due to the current Coronavirus pandemic, there is a risk that the valuation of these investments may have an increased level of uncertainty. There are a wide range of possible outcomes, resulting in a high degree of uncertainty.</p>	<p>The total value of Level 3 investments stand at £271.7m. 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 valuation is based. This equates to a tolerance of +/- £5.4m.</p>
Pooled property funds	<p>Valuation techniques are used to determine the carrying amount of pooled property funds and directly held freehold and leasehold property. Where possible these valuation techniques are based on observable data but where this is not possible management uses the best available data.</p> <p>As a result of the coronavirus pandemic, the valuation of these funds have therefore been reported on the basis of "material valuation uncertainty" as set out in Valuation Practice Guidance Application (VGPA)10 of the Royal Institute of Chartered Surveyors' Global Valuation Standards. Therefore the value of units may vary somewhat from the valuations in the accounts.</p> <p>Both property funds (Threadneedle and Schroders) suspended trading in March 2020. Threadneedle lifted some sector specific property trading suspensions in September 2020.</p>	<p>The Fund holds two property mandates managed by Schroders and Threadneedle. These are classified as Level 2 investments in the accounts.</p> <p>The materiality limit for the Fund accounts is £20m. The estimated value of these property funds at the balance sheet date was</p> <p>£217.4m. Therefore, for a material issue to be caused by the valuation of these funds, a movement of over 9.2% in their value would need to occur.</p> <p>Updated valuations have been received up to August 2020 and these do not show material differences in valuation from March 2020.</p>

Note 6: Events after the reporting date

Events from the balance sheet date to the date of authorisation for issue would be reflected as an adjustment to The Statement of Accounts whether favourable or adverse. This would occur where there was provision of evidence that these conditions were in place by the end of the reporting period and that these events were significant to the fair value of the Fund's net assets. Those events taking place after the date of authorisation for issue will not be reflected in the statement of accounts.

In June 2020, Northumberland Pension Fund and Tyne and Wear Pension Fund, two of the twelve partners in the Border to Coast Pension Partnership, merged into a single fund. This merger reduced the number of partners within the partnership from 12 to 11 and required a redistribution of share capital to reflect the new arrangements, with Northumberland being repaid its £866k capital and the other 11 partners making equal contributions of £76k each to replace this.

There has been significant volatility in markets since the 31st March 2020. Although markets fell significantly before the end of the financial year they have since recovered to some degree. The total Fund asset valuation reported as at Quarter 12020/21 to the Pension Fund Investment Sub Committee having risen by £203m due to returns on investments.

Note 7: Contributions receivable

By category

2018/2019 £m		2019/2020 £m
17.2	Employees' contributions	18.2
Employer's contributions:		
58.0	Normal contributions	60.3
4.8	Deficit Recovery contributions	6.5
62.9	Total employer's contributions	66.8
80.1		84.9

By authority

2018/2019 £m		2019/2020 £m
36.9	Administering authority	39.3
39.7	Scheduled bodies	42.8
3.4	Admitted bodies	2.7
0.1	Bodies no longer contributing	0.1
80.1		84.9

Note 8: Transfers in from other pension funds

2018/2019 £m		2019/2020 £m
0.7	Group transfers	0.7
7.8	Individual transfers	12.2
8.5		12.9

Note 9: Benefits payable

By category

2018/2019 £m		2019/2020 £m
62.1	Pensions	65.6
13.3	Commutation and lump sum retirement benefits	13.3
1.5	Lump sum death benefits	1.8
76.9		80.7

By authority

2018/2019 £m		2019/2020 £m
41.8	Administering authority	43.2
30.7	Scheduled bodies	32.7
3.7	Admitted bodies	4.0
0.8	Bodies no longer contributing	0.9
76.9		80.7

Note 10: Payments to and on account of leavers

2018/2019 £m		2019/2020 £m
0.3	Refunds	0.4
0.0	Group transfers	0.0
7.7	Individual transfers	11.7
7.9		12.0

Note 11: Management expenses

2018/2019 £m		2019/2020 £m
1.3	Administration costs	1.6
10.0	Investment management expenses	10.6
1.0	Oversight and governance costs	1.0
12.3		13.2

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

2018/2019 £m		2019/2020 £m
8.6	Management fees	9.4
1.0	Performance related fees	1.1
0.1	Custody fees	0.1
0.3	Transaction costs	0.0
10.0		10.6

Note 13: Investment income

2018/2019 £m		2019/2020 £m
0.0	Index linked bonds	0.0
15.4	Equity dividends	5.3
13.5	Managed funds:	14.8
4.9	Property	4.9
1.0	Infrastructure	1.5
0.2	Pooled Equity	1.2
0.5	Private Debt	0.9
5.5	Absolute Return	4.9
1.4	Private Equity	1.4
0.3	Interest on cash deposits	0.2
0.0	Stock lending	0.0
29.2		20.3

Note 14: Other fund account disclosures: external audit costs

The external audit fee for 2019/20 was £18,397 excluding VAT. The fee for 2018/19 was £19,724.

Note 15: Investments

2018/2019 £m		2019/2020 £000
	Long term investments	
0.8	Equities	0.8
	Investment Assets	
389.3	Equities	0.0
101.2	Private Equity	120.7
224.7	Pooled Property	217.4
1,308.9	Pooled Investments, Unit Trusts & Other Managed Funds	1508.2
47.9	Infrastructure	67.9
62.1	Private Debt	83.1
1,744.8	Managed funds:	1,997.3
17.5	Cash deposits	20.9
5.6	Investment current assets	6.4
2,158.0	Total Investment Assets	2,025.3
	Investment Liabilities	
0.0	Investment current liabilities	0.0
	Total Investment Liabilities	
2,158.0	Net Investment Assets	2025.3

Note 16: Reconciliation of movements in investments

	Market value 31 March 2019 £ m	Purchases during the year £ m	Sales during the year £ m	Change in market value during the year £ m	Market value 31 March 2020 £ m
Investment Assets					
Equities	390.1	13.8	-446.6	43.5	0.8
Private Equity	101.2	14.8	-17.7	22.3	120.7
Pooled Property	224.7	12.8	-10.3	-9.8	217.4
Pooled Investments, Unit Trusts & Other Managed Funds	1,308.9	874.5	-463.0	-212.3	1508.2
Infrastructure	47.9	14.5	-0.7	6.3	67.9
Private Debt	62.1	22.8	-5.7	3.8	83.1
Managed funds:	1,744.8	939.5	-497.4	-189.7	1,997.3
Other Investment Balances					
Cash deposits	17.5	59.9	-56.9	0.4	20.9
Net investment current assets	5.6	0.5	0.0	0.3	6.4
Net Investment Assets	2,158.0	1,013.7	-1,000.8	-145.5	2,025.3

	Market value 31 March 2019 £ m	Purchases during the year £ m	Sales during the year £ m	Change in market value during the year £ m	Market value 31 March 2020 £ m
Investment Assets Equities	638.3	78.8	-361.4	34.5	390.1
Private Equity	78.1	17.1	-15.9	21.9	101.2
Pooled Property	207.8	13.3	-3.7	7.3	224.7
Pooled Investments, Unit Trusts & Other Managed Funds	996.3	574.4	-305.3	43.5	1308.9
Infrastructure	31.9	16.1	-2.5	2.5	47.9
Private Debt	0.0	60.2	-0.2	2.1	62.1
Managed funds:	1,314.1	681.0	-327.6	77.4	1,744.8
Other Investment Balances	0.0				0.0
Cash deposits	73.7	80.3	-137.0	0.4	17.5
Net investment current assets	11.2	0.1	-5.8	0.1	5.6
Net Investment Assets	2,037.3	840.2	-831.9	112.4	2,158.0

Note 17: Analysis of investments

31 March 2019 £m		31 March 2020 £m
	Equities	
0.8	UK	0.8
389.3	Overseas	0.0
390.1		0.8
	Managed funds	
224.4	Pooled Property	217.4
1,308.9	Pooled Investments, Unit Trusts & Other Managed Funds	1508.2
17.7	Infrastructure	24.0
1,551.0	UK:	1,749.5
62.1	Private Debt	83.1
101.2	Private Equity	120.7
0.3	Pooled Property	0.1
30.2	Infrastructure	44.0
193.8	Overseas:	247.8
1,744.8		1,997.3
	Cash deposits	
11.2	UK Sterling	20.4
6.3	Foreign currency	0.5
17.5		20.9
5.6	Net investment current assets/(liabilities)	6.4
2,158.0	Net Investment Assets	2,025.3

Note 18: Investments analysed by fund manager

Market value 31 March 2019			Market value 31 March 2020		
£ m	%		£ m	%	
Investments managed by BCPP asset pool					
253.6	11.8%	UK Equity Alpha Fund	199.0	9.8%	
0.8	0.0%	BCPP Shareholding	0.8	0.0%	
0.0	0.0%	Private Equity	0.9	0.0%	
0.0	0.0%	Infrastructure	3.7	0.2%	
0.0	0.0%	Global Equity Alpha Fund	292.2	14.4%	
0.0	0.0%	BCPP Investment Grade Credit	173.1	8.5%	
254.5	11.8%		669.7	33.1%	
Investments managed outside of BCPP asset pool					
0.7	0.0%	Columbia Threadneedle Investments (UK Equities)	0.0	0.0%	
396.9	18.4%	MFS Investment Management (Global Equities)	2.3	0.1%	
578.3	26.8%	Legal and General Investment Management (Index Tracker - Global Equities)	542.4	26.8%	
349.3	16.2%	Legal and General Investment Management (Index Tracker - Fixed Income)	179.0	8.8%	
121.8	5.6%	Columbia Threadneedle Investments (Property)	114.2	5.6%	
105.5	4.9%	Schroder Investment Management (Property)	107.1	5.3%	
101.2	4.7%	HarbourVest (Private Equity)	119.8	5.9%	
128.2	5.9%	JP Morgan (Strategic Bond)	122.8	6.1%	
17.7	0.8%	Standard Life Capital (Infrastructure)	22.3	1.1%	
30.2	1.4%	Partners Group (Infrastructure)	41.9	2.1%	
10.3	0.5%	Alcentra (Private Debt)	29.9	1.5%	
51.8	2.4%	Partners (Private Debt)	53.2	2.6%	
11.7	0.5%	BNY Mellon (Global Custodian)	20.8	1.0%	
1,903.5	88.0%		1355.6	67%	
2,158.0	100.0%		2,025.3	100.0%	

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

Security	Market value 31 March 2020 £m	% of total fund as at 31 March 2020
Border to Coast Global Alpha Equity Fund	292.2	14.48%
Border to Coast Alpha Equity Fund	199.0	9.86%
L&G Fundamental Indexation	183.4	9.09%
Border to Coast Investment Grade Credit	173.1	8.58%
L&G Europe (Exc UK) Equity Index	130.2	6.45%
JPM Strategic Bond Fund	122.8	6.08%
L&G Index linked Bonds	121.8	6.04%
Columbia ThreadneedleTPN Property A	114.2	5.66%
L&G UK Equity Index	107.2	5.31%

Security	Market value 31 March 2019 £m	% of total fund as at 31 March 2019
Border to Coast Alpha Equity Fund	253.6	11.79%
L&G Investment Grade Corporate Bond	229.4	10.66%
L&G Fundamental Indexation	216.6	10.07%
L&G Europe (Exc UK) Equity Index	136.0	6.32%
JPM Strategic Bond Fund	128.2	5.96%
Columbia ThreadneedleTPN Property A	121.8	5.66%
L&G Index linked Bonds	119.6	5.56%
L&G UK Equity Index	117.6	5.47%

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 £0.0m (31 March 2019: £4.0m). Any 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 no collateral (via the custodian) (31 March 2019: £4.3m). Collateral is obtained at 102% for sterling denominated equities and 106% 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	Assets at amortised cost	Financial liabilities at amortised cost	Fair value through profit and loss	Assets at amortised cost	Financial liabilities at amortised cost
31 March 2019			31 March 2020		
£ m	£ m	£ m	£ m	£ m	£ m
390.1			Investment Assets Equities		0.8
101.2			Private Equity		120.7
224.7			Pooled Property		217.4
1,308.9			Pooled Investments, Unit Trusts & Other Managed Funds		1,508.2
47.9			Infrastructure		67.9
62.1			Private Debt		83.1
1,744.8			Managed funds:		1,997.3
	17.5		Cash deposits	20.9	
	5.6		Investment current assets	6.4	
	9.8		Debtors	9.0	
	1.7		Cash balances	3.6	
2,134.9	34.5	0.0	1,998.1	39.8	0.0
			Liabilities		
		0.0	Investment current liabilities		0.0
		-3.8	Creditors		-3.8
0.0	0.0	-3.8	0.0	0.0	-3.8
2,134.9	34.5	-3.8	1,998.1	39.8	-3.8

Note 23: Net gains and losses on financial instruments

31 March 2019 £m		31 March 2020 £m
	Financial Assets	
113.2	Fair value through profit and loss	306.7
0.0	Loans and receivables	0.0
	Financial liabilities	
0.0	Fair value through profit and loss	-450.6
0.0	Loans and receivables	0.0
113.2	Total	-143.9

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 Unquoted equities holding in Border to Coast Pensions Partnership is valued at cost (i.e. transaction price), as an appropriate estimate of fair value. A fair value cannot be otherwise established for these assets as at 31 March 2020 because the main trading vehicle of Border to Coast Pensions Partnership only became licenced to trade in July 2018 and the reliability of any observable or unobservable inputs used to calculate fair value cannot as yet be assessed with certainty.

All other investments are held at fair value in accordance with the requirements of the Code and IFRS13. The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year.

All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

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 and debt investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity, infrastructure and private debt are based on valuations provided by the general partners to the 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.

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
Private equity, Infrastructure and Private Debt Level 3	These investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines 2018 and US GAAP.	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 funds 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 2020	Level 1	Level 2	Level 3	Total
	£ m	£ m	£ m	£ m
Financial assets				
Financial assets at fair value through profit and loss	144.0	1,582.4	271.7	1,998.1
Financial liabilities				
Financial liabilities at fair value through profit and loss	0.0	0.0	0.0	0.0
Net financial assets	144.0	1,582.4	271.7	1,998.1

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Valuation at 31 March 2019	Level 1	Level 2	Level 3	Total
	£ m	£ m	£ m	£ m
Financial assets				
Financial assets at fair value through profit and loss	528.7	1,394.2	211.2	2,134.1
Financial liabilities				
Financial liabilities at fair value through profit and loss	0.0	0.0	0.0	0.0
Net financial assets	528.7	1,394.2	211.2	2,134.1

The following assets have been carried at cost:

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Valuation at 31 March 2020	Level 1	Level 2	Level 3	Total
	£ m	£ m	£ m	£ m
Investment in Border to Coast Pensions Partnership Investments held at cost			0.8	0.8

Note 25: Reconciliation of fair value measurements within Level 3

	Market value 31 March 2019	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 2020
	£ m	£ m	£ m	£ m	£ m	£ m
Private Debt	62.1	22.8	-5.7	4.8	-1.0	83.1
Private Equity	101.2	14.8	-17.7	13.4	9.0	120.7
Infrastructure	47.9	14.5	-0.7	1.3	5.0	67.9
	211.2	52.2	-24.2	19.5	13.0	271.7

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 (i.e. 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 Investment Sub-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; and
- 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's 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 2019/20 reporting period. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Asset Type	2019/20 Potential market movement
	%
UK Pooled Funds	27%
Overseas Pooled Funds	28%
Total Bonds, Index Linked & Pooled Managed Funds	10%
Cash	0%
Property	14%
Alternatives	11%

The potential price changes disclosed above are broadly consistent with a one-year dispersion 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 2020	Potential market movement	Value on increase	Value on decrease
	£ m	£ m	£ m	£ m
UK Pooled Funds	306.1	82.7	388.8	223.5
Overseas Pooled Funds	727.3	203.6	930.9	523.6
Total Bonds	352.0	35.2	387.1	316.8
Cash	27.3	0.0	27.3	27.3
Alternatives	394.5	43.4	437.8	351.1
Property	217.4	30.4	247.9	187.0
Total	2,024.5	395.3	2,419.8	1,629.2

Note: Segregated mandates have fully transitioned the BCPP pool

Asset Type	Value as at 31 March 2019	Potential market movement	Value on increase	Value on decrease
	£ m	£ m	£ m	£ m
UK Equities	578.3	98.3	676.7	480.0
Overseas Equities	652.0	117.4	769.4	534.6
Total Bonds & Pooled Managed Funds	349.3	34.9	384.2	314.3
Cash	11.7	0.1	11.8	11.6
Alternatives	339.4	33.9	373.4	305.5
Property	227.3	31.8	259.1	195.4
Total	2,158.0	316.5	2,474.5	1,841.5

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.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates.

Asset Type	Duration	Value as at 31 March 2020	Value on 1% increase	Value on 1% decrease
	Years	£ m	£ m	£ m
LGIM UK Corporate Bonds	7.6	57.1	52.7	61.4
LGIM UK Index Linked	21.4	121.8	95.7	147.9
JPM Absolute Return Bonds	8.5	122.8	112.4	133.2
BCPP IGC	3.1	173.1	167.7	178.4
Total		474.7	428.5	521.0

Asset Type	Duration	Value as at 31 March 2019	Value on 1% increase	Value on 1% decrease
	Years	£ m	£ m	£ m
LGIM UK Corporate Bonds	7.9	229.4	211.2	247.5
LGIM UK Index Linked	22.1	119.6	93.1	146.0
JPM Absolute Return Bonds	1.5	128.2	126.3	130.1
Total		477.1	430.7	523.6

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. Our investment adviser has provided an estimate of 10% volatility for a pooled overseas fund.

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 and based on the Funds segregated overseas mandate which has now transitioned to the BCPP pool:

Asset Type	Value as at 31 March 2020	Potential market movement	Value on increase	Value on decrease
	£ m	£ m	£ m	£ m
Overseas Pooled Funds	727.3	72.7	800.0	654.6
Total	727.3	72.7	800.0	654.6

Note: Segregated mandates have fully transitioned the BCPP pool

Currency	Value as at 31 March 2019	Potential market movement	Value on increase	Value on decrease
	£ m	£ m	£ m	£ m
Czech Republic Koruna	0.0	0.0	0.0	0.0
Danish Krone	2.7	0.2	3.0	2.5
Euro	136.4	12.3	148.6	124.1
Japanese Yen	10.8	1.4	12.2	9.4
Mexican Peso	1.0	0.1	1.2	0.9
Swedish Krona	9.2	0.9	10.0	8.3
Swiss Franc	30.2	3.4	33.6	26.8
Thai Baht	0.8	0.1	0.9	0.7
US Dollar	307.0	30.1	337.1	276.9
Hong Kong Dollar	0.7	0.1	0.8	0.7
Total	498.8	48.6	547.4	450.3

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 cash to meet investment commitments.

The Pension Fund has immediate access to its cash holdings and has had 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 2020 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 2019 and set contribution rates for the three years commencing 1 April 2020.

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; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the council taxpayer 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 2019 actuarial valuation, the Fund was assessed as 92% funded. This corresponded to a deficit of £180m.

Contribution increases were phased in over the three-year period ending 31 March 2023. The common contribution rate (i.e. the rate which all employers in the Fund pay) is as follows:

Valuation Date	31 March 2019
Total contribution rate	
Primary Rate (% of pay)	20.1%
2018/19 Secondary Rate £000	60.71
2018/19 Secondary Rate £000	62.51
2019/20 Secondary Rate £000	64.36

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 2016 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

Financial assumptions	Nominal	Real
	%	%
Post Retirement Discount Rate	3.7%	1.4%
Pre Retirement Discount Rate	3.7%	1.4%
Salary Increases	3.1%	0.8%
Price Inflation/Pension Increases	2.3%	-

Demographic assumptions

Assumed life expectancy from age 65 is as follows:

Demographic assumptions	31 March 2019	
Assumed life expectancy at age 65	Male	Female
Pensioners	21.6	23.8
Non-pensioners	22.5	25.4

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

1.0% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option.

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 2019/20 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.

31 March 2019 £m		31 March 2020 £m
1,593	Active members	1,167
670	Deferred pensioners	651
948	Pensioners	1089
3,211	Present value of promised retirement benefits	2,907

The fair value of scheme assets (bid value) figure as at 31 March 2020 has been provided by the Administering Authority and is as disclosed in the Fund's 2019/20 accounts.

The promised retirement benefits at 31 March 2020 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. 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.

Note that the above figures at 31 March 2020 include an allowance for the "McCloud ruling", i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes.

The 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 2020 and 31 March 2019. I estimate that the impact of the change in financial assumptions to 31 March 2020 is to decrease the actuarial present value by £275m. I estimate that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £90m.

Financial assumptions

Year ended (% p.a.)	31 March 20	31 March 19
	%	%
Inflation/pensions increase rate	1.9%	2.5%
Salary increase rate	2.7%	3.1%
Discount rate	2.3%	2.4%

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long-term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Male	Female
Current pensioners	21.6 years	23.8 years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	22.5 years	25.4 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 2020	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	9%	275
0.5% p.a. increase in the Salary Increase Rate	1%	27
0.5% p.a. decrease in the Real Discount Rate	10%	294

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 2020 for accounting purposes'. The covering report identifies the appropriate reliance's and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

Robert Bilton

23 April 2020

For and on behalf of Hymans Robertson LLP

Note 28.2: Other Notes

In July 2020 a consultation on the remedy to a legal ruling (“McCloud”) that transitional protections introduced when the Local Government Pension Scheme was changed in 2014 were unlawful on the ground of age discrimination was launched. The impact of this is uncertain both in terms of future changes to benefits payable to individuals and the resulting financial impact for the authority. Initial high level estimates indicate this is unlikely to be a material figure.

In June 2020 a tribunal ruled that amendments to the Teachers Pension Scheme were discriminatory against survivors of female members. There is a likelihood that any remedy would eventually also impact upon the LGPS. The issue would impact on a small scale, impacting survivors or female members who were in the scheme prior to 1998 who died after 2005. The detailed financial impact and the timing are currently uncertain.

Note 29: Current assets

31 March 2019 £m		31 March 2020 £m
	Debtors:	
1.4	Contributions due: Employees	1.2
6.1	Contributions due: Employers	5.7
1.7	Invoiced debtors	1.6
0.6	Sundry debtors	0.6
1.7	Cash balances	3.6
11.5	Total	12.6

Note 30: Current liabilities

31 March 2019 £m		31 March 2020 £m
	Liabilities:	
1.0	Owed to administering authority	1.5
1.6	Sundry Creditors	1.5
1.1	Benefits Payable	0.9
3.8	Total	3.8

Note 31: Additional Voluntary Contributions

31 March 2019 £m		31 March 2020 £m
2.6	Standard Life	2.4
0.2	Utmost Life and Pensions*	0.2
2.8	Total	2.7

*AVCs previously held with Equitable Life now managed by Utmost Life and Pensions

31 March 2018 £m		31 March 2019 £m
2.5	Standard Life	2.6
0.2	Equitable Life	0.2
2.8	Total	2.8

AVC contributions of £2.4m were paid directly to Standard Life and £0.2m was paid directly to Utmost Life and Pensions during the year (2018/19: £2.5m to Standard Life and £0.2m 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 £1,244,413 (2018/19:

£892,212) 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 £39.9m in 2019/20 (£36.9m in 2018/19).

Border to Coast Pensions Partnership

The Warwickshire Pension Fund, through Warwickshire County as the Administering Authority, is a shareholder in the Border to Coast Pension Partnership Limited. The Partnership is a wholly owned private limited company registered in England and Wales founded to carry out pension fund asset pooling obligations set out by the Government. The company provides the facility to pool the pension fund investments of 12 local authorities in order to gain the benefits of economies of scale, concentration of expertise and improved ability to reduce investment costs. The company was incorporated in 2017/18 and the first transfers of investment assets into the pool occurred in 2018/19. As at the balance sheet date all 12 partners own an equal 1/12th share of the company.

The Border to Coast Pension Partnership is a joint venture that brings risks as well as benefits. The partnership has grown significantly, for example in terms of the value of assets under management and the number of personnel employed. Pooling and membership of the Border to Coast Pension Partnership is a regular and high profile feature of reporting to the Pension Fund Investment Sub Committee and the Fund's risk register has regard to key pooling risks.

Governance

There are two members of the Pension Fund Investment Sub-Committee who are 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 three members of the Local Pension Board who are active members of the Warwickshire Pension Fund.

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. The posts of Head of Resources, Assistant Director, Finance Manager and Technical Specialist are considered to be key management personnel. These employees and their financial relationship with the Fund are set out below.

	2019/20	2018/19
	£000	£000
Short-term benefits	108.0	109.5
Post-employment benefits	103	-298

Note: Post-employment benefits have been calculated on an IAS19 basis. 18/19 figures have been restated to reflect this. Year 18/19 shows a fall in post retirement benefits following departure of two KMP in year who were not replaced until 19/20 and 20/21.

Note 33: Contingent Liabilities and Contractual Commitments

Outstanding capital commitments at 31 March 2020 totalled £302.6m. Of this, £108.7 related to Private Equity, £135.9 related to Infrastructure, £23m related to Private Debt and £35m related to Private Credit.

Glossary

A

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*, *infrastructure* and *commodities*. Property is also sometimes described as an alternative.

Asset allocation

The apportionment of a fund's assets between different *asset classes*.

B

Benchmark

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

C

Currency risk

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

D

Defined benefit scheme

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

Diversification

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

H

Hedge Funds

A hedge fund is a capital pool that has the ability to use *leverage* and to take both *long* and *short* positions with the aim of achieving an *absolute return*. A large variety of hedge fund strategies exist, 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.

I

IAS19 (International Accounting Standards)

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.

IAS1

An accounting standard that sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

P

Private equity

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

Private Debt

Private debt comprises mezzanine and other forms of debt financing that comes mainly from institutional investors such as funds and insurance companies – but not from banks.

R

Risk

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

S

Stocklending

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

T

Transaction costs

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

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 employers.
- 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 either by telephone or emailing pensions@warwickshire.gov.uk.
- Quarterly bulletins on the investment performance of the fund are distributed to all members of the Pension Fund Sub Committee.
- An annual report is made available online.
- The report is produced on our website and hard copies are available on request.



Contact Details

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AVC Provider

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(Heritage Equitable Life customers)

Utmost Life and Pensions
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Colmore Plaza
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Fund Managers

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Border to Coast Pensions Partnership Ltd

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LS1 2HJ

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 *private equity*, *infrastructure*, *private debt*, *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

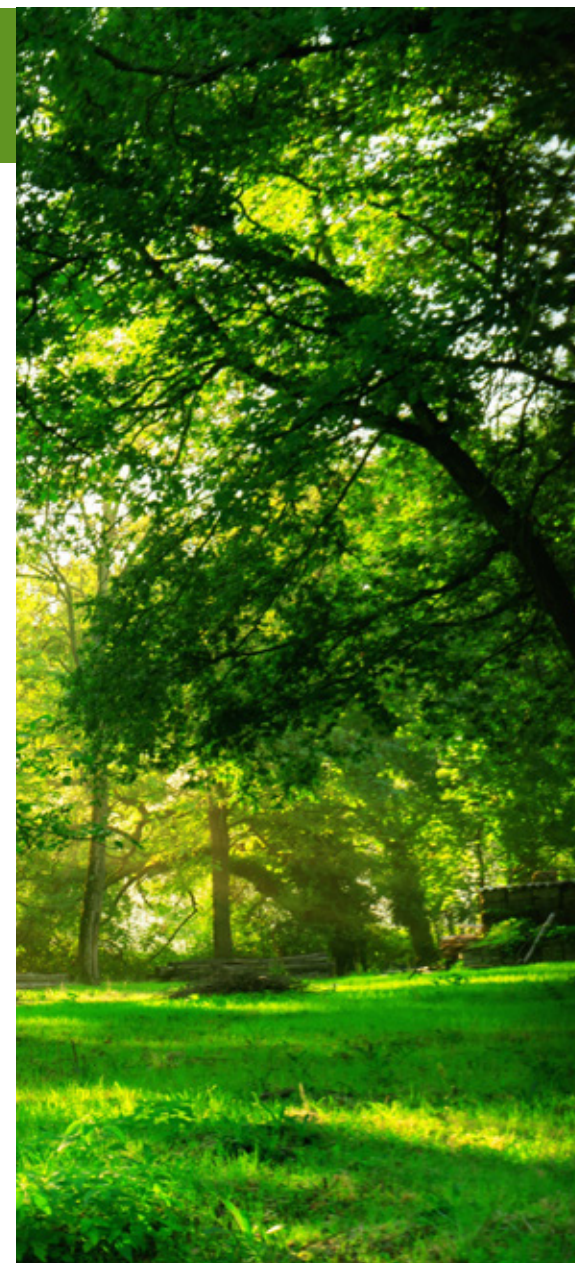
A type of pension scheme where the pension that will ultimately be paid to the employee is fixed, usually as a percentage of final salary. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the pension promised. Compare with *defined contribution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

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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www.warwickshirepensionfund.org.uk