



Warwickshire Pension Fund Statement of Accounts 2013/2014

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We would welcome any comments, judgements or suggestions that you have regarding this publication. Andrew Lovegrove, Corporate Finance, Resources Group, Warwickshire County Council.

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You can also leave your comments on our website at www.warwickshire.gov.uk

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WARWICKSHIRE COUNTY COUNCIL

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Warwickshire County Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of Warwickshire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Head of Finance and auditor

As explained more fully in the Statement of the Head of Finance Responsibilities, the Head of Finance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

John Gregory,
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Colmore Plaza
20 Colmore Circus
Birmingham
B4 6AT

25 September 2014

Statement of responsibilities for the statement of accounts

This section explains our responsibilities, in line with the Accounts and Audit Regulations 2003, for our financial affairs and how we make sure we carry out these responsibilities properly.

Responsibilities of the Pension Fund

We must do the following:

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

Responsibilities of the Head of Finance

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

In preparing the Pension Fund accounts, I have:

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

I have also:

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



John Betts
Head of Finance

Date: 25 September 2014

I confirm that the accounts were considered and approved at a meeting of the Council on 25 September 2014.

Councillor Brian Moss
Chair of the Council



Date: 25 September 2014

The Pension Fund

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

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

2012/2013 £ millions	Revenue account	2013/2014 £ millions
	Income to the fund	
	Contributions receivable:	
-40.9	From employers (Note 6)	-49.0
-15.2	From employees (Note 6)	-15.8
-6.1	Transfers in from other schemes (Note 9)	-6.4
-62.2	Income to the fund	-71.2
	Spending by the fund (Note 6)	
	Benefits to be paid:	
49.1	Pension payments	51.7
12.6	Commutation of pensions & lump sum retirement benefits	10.2
1.5	Lump sum death benefits	1.6
	Payments to and on behalf of leavers	
0.0	Refunds of contributions to people who leave the scheme	0.0
4.2	Individual transfers out of the scheme	3.7
1.4	Administration expenses paid by the scheme (Note 17)	1.4
68.8	Spending by the fund	68.6
6.6	Net additions from dealing with members	-2.6
	Return on investments (Note 18):	
-11.5	Dividends from stocks and shares	-14.1
-4.0	Income from pooled investment vehicles	-7.3
0.0	Interest on cash deposits	0.0
	Change in market value of investments (Note 5):	
-39.3	Realised profit (-) or loss on sales	-64.8
-125.3	Unrealised profit (-) or loss on investments	-18.2
	Taxes on Income	
0.8	Tax we cannot claim back	1.0
5.2	Investment management expenses (Note 19)	6.0
-174.1	Net returns on investments	-97.4
-167.5	Net increase (-) / decrease in fund during the year	-100.0

2012/2013 £ millions	Pension fund net assets	2013/2014 £ millions
167.5	Net increase / decrease (-) in fund during the year	100.0
1,211.7	Add opening net assets of the scheme	1,379.2
1,379.2	Net assets at the end of the year	1,479.2

As at 31 March 2013 £ millions	Net assets statement	As at 31 March 2014 £ millions
	Investment assets (Note 5)	
6.9	Fixed interest securities	6.6
420.0	Stocks and shares	468.6
943.8	Managed funds	991.6
6.4	Cash and deposits	10.4
0.8	Other Investments	0.5
1,377.9		1,477.7
	Current assets	
5.0	Debtors (Note 20)	5.5
	Current liabilities	
-3.6	Creditors (Note 20)	-3.3
-0.1	Cash balances (Note 21)	-0.7
1.3		1.5
1,379.2	Net assets at the end of the year	1,479.2

John Betts
Head of Finance

Notes

1 Operations and membership

We administer the statutory Warwickshire Local Government Pension Fund (a defined benefit scheme set up under the Local Government Pension Scheme Regulations 1997).

The Scheme is a statutory scheme, established by an Act of Parliament, the Superannuation Act 1972. The Scheme is governed by the following regulations:

- Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- Local Government Pension Scheme (Administration) Regulations 2008 (as amended)
- Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (as amended).

The fund is open to our employees, the five district and borough councils and other organisations. You can find a list of scheduled and admitted bodies in Note 8. The fund does not cover teachers, police officers or firefighters as these staff have alternative pension arrangements. The Pension Fund Investment Sub-committee is responsible for managing the pension fund. It is made up of five County Councillors. A specialist advisor provides advice and guidance to the sub-committee as well as to the Head of Finance and his staff.

As at 31 March 2013	Membership	As at 31 March 2014
15,501	Number of members contributing to the fund	16,502
10,642	Number of pensioners paid by the fund	11,035
13,247	Number of ex-members whose pension rights are 'frozen' until they retire	14,367

2 Accounting policies

The accounts of the pension fund contain the information set out in the Code of Practice on Local Authority Accounting 2013/2014 (The Code). The Code says the accounts must adhere to the SORP Financial Reports of Pension Schemes (the Pensions SORP). As a result, the accounting policies are consistent with the Pensions SORP. The accounts give a summary of the transactions and net assets of the fund. The accounts do not include the liability to pay pensions and other benefits in the future. This is dealt with by the actuary's valuation every three years.

We have prepared the financial statements on an 'accruals basis'. This means that we account for income and expenditure as we earn or agree to spend it, not when we actually receive or pay it.

a How we have prepared these accounts

The following accounting policies have been applied when preparing the financial statements.

b Valuing investments

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

i) Market-quoted investments

The value of an investment for which there is a readily available market price is determined by the bid market price 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:

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the council expects to receive on wind-up, less estimated realisation costs.
- Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed adhere to industry guidelines, to standards set by the constituent documents of the pool or the management agreement.
- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.
- Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.

iv) Limited partnerships

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

v) Pooled investment vehicles

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

The value of fixed interest investments in the scheme's investment portfolio excludes interest earned but not paid over at the end of the financial year. This is included in "Other Investments" in the accounts and Note 5.

We include acquisition costs in the purchase costs of investments.

c Investment income

We account for income from stocks and shares on the date shares are quoted 'ex-dividend'. Income from overseas investments is recorded excluding irredeemable withholding tax.

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

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

d Foreign currencies

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

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

e Contributions

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

f Benefits due to be paid

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

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

g Transfer to and from other schemes

Transfer values relate to amounts we receive from other pension funds for new members or to amounts we pay to other pension schemes for members who have left the fund. These are accounted for when either received or paid. This is normally when the member liability is accepted or discharged.

h Other expenses

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

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

Fund manager	Mandate	Negotiated fee
State Street Global Advisors	Passive Index Tracker (UK stocks and shares)	Percentage of the fund
Threadneedle Investment Services	UK stocks and shares	Percentage of the fund
MFS Investment Management	Global stocks and shares	Percentage of the fund
BlackRock Global Investors	Passive index tracker (Balanced)	Percentage of the fund
Schroder Investment Management	Fund of funds (UK property)	Percentage of the fund
Legal and General Investment Management	Passive index tracker (global stocks and shares)	Percentage of the fund
Legal and General Investment Management	Passive index tracker (fixed income)	Percentage of the fund
Threadneedle Investments	Pooled Fund (UK property)	Percentage of the fund
Blackstone Group International	Fund of funds (hedge funds)	Percentage of the fund
HarbourVest Partners	Fund of Funds (private equity)	Percentage of the fund
J P Morgan	Absolute Return Strategic Bond	Percentage of the fund
Baring Asset Management	Absolute Return Multi Asset	Percentage of the fund

i Private Equity

The determination of fair value of private equity investments can be subjective as these investments are not publicly listed. Valuations are based on forward looking estimates and judgements involving many factors. The unquoted private equity has been valued by the fund manager using guidelines set out by the British Venture Capital Association. The total private equity investment in the pension fund is valued at £16.5 million.

j 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.

k 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.

l Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

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.

m 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 3. This estimate is subject to significant variances based on changes to the underlying assumptions.

n Assumptions made about the future

The Statement of Accounts contains estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

3 Actuarial valuation

The purpose of an actuarial valuation, which by law must be carried out every three years, is to assess the ability of the fund to meet its long-term liabilities. The actuary assesses the future growth in the value of the fund, and the future liability to pay pensions to current and former employees. The difference between projected assets and liabilities sets the amount employers must contribute. The fund aims to set employers' contributions rates so that the projected assets equal at least 100% of the projected liabilities. The actuarial valuation as at 31 March 2013 in the report calculated a funding level of 77%. A revised schedule of employers' contribution rates came into force from 1 April 2014.

During 2013/2014, the County Council paid employers' contributions at a rate of 16.0%. The district and borough councils paid employers' contributions at rates ranging between 16.7% and 18.7%.

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

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

The fund is valued using the projected unit method which is consistent with the aim of achieving the 100% funding level described above. At the 31 March 2013 actuarial valuation, the fund's assets were valued at £1,379 million.

4 Fund manager holdings

2012/2013 £ millions	%	Market value of external investments	2013/2014 £ millions	%
99.7	7.2	State Street Global Advisors (Index Tracker UK Equities)	108.5	7.4
207.8	15.1	Threadneedle Investments (UK Equities)	237.3	16.1
220.5	16.0	MFS Investment Management (Global Equities)	239.9	16.2
241.8	17.6	Black Rock Global Investors (Index Tracker)	250.1	16.9
159.1	11.6	Legal and General Investment Management (Index Tracker - Global Equities)	138.0	9.3
125.0	9.1	Legal and General Investment Management (Index Tracker - Fixed Income)	150.9	10.2
66.0	4.8	Threadneedle Investments (Property)	74.4	5.1
60.7	4.4	Schroder Investment Management (Property)	67.9	4.6
62.1	4.5	Blackstone Group International (Hedge Funds)	66.9	4.5
11.7	0.8	HarbourVest (Private Equity)	16.5	1.1
62.5	4.5	Baring Asset Management (Absolute Return)	63.6	4.3
59.7	4.3	JP Morgan (Strategic Bond)	59.1	4.0
1.3	0.1	BNY Mellon (Global Custodian)	4.6	0.3
1,377.9	100.0	Total	1,477.7	100.0

5 Investments

	Value 1 April 2013	Purchases at cost	Sales proceeds	Realised profit or loss (-)	Unrealise d profit or loss (-)	Increase in debtors or (creditors)	Value 31 March 2014
	£ millions	£ millions	£ millions	£ millions	£ millions	£ millions	£ millions
Fixed interest securities	6.9	0.0	0.0	0.0	-0.3	0.0	6.6
Stocks and shares	420.0	116.9	-103.6	22.4	12.9	0.0	468.6
Managed funds	943.8	144.8	-145.3	42.5	5.8	0.0	991.6
Cash and deposits	6.4	60.6	-59.5	-0.1	-0.2	3.2	10.4
Other investments	0.8	3.0	-0.1	0.0	0.0	-3.2	0.5
Total	1,377.9	325.3	-308.5	64.8	18.2	0.0	1,477.7

2012/2013 £ millions		2013/2014 £ millions
6.9	Fixed interest securities UK quoted	6.6
6.9		6.6
226.7	Stocks and shares UK quoted	219.5
193.3	Overseas quoted	249.1
420.0		468.6
943.3	Managed funds Managed funds	991.6
943.3		991.6
3.2	Cash and deposits Sterling	7.8
3.2	Foreign currency	2.6
6.4		10.4
2.2	Other investments Debtors	2.0
-1.4	Creditors	-1.5
0.8		0.5

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

6 Contributions and benefits

2012/2013 £ millions	Contributions we receive	2013/2014 £ millions
	Administering authority	
21.5	~ From employers	23.5
8.3	~ From employees	8.5
29.8		32.0
	Scheduled bodies	
17.2	~ From employers	18.6
6.3	~ From employees	6.6
23.5		25.2
	Admitted bodies	
1.6	~ From employers	6.9
0.7	~ From employees	0.7
2.3		7.6
	Non-scheduled bodies	
0.5	~ From employers	0.0
0.0	~ From employees	0.0
0.5		0.0
56.1	Total	64.8

The total contributions we received from employers was £49.0 million (£40.8 million in 2012/2013) and £15.8 million (£15.3 million in 2012/2013) from employees.

Employees contributions during the year included payments of £0.2 million to buy added year and additional regular contributions (£0.2 million in 2012/2013) for added years.

Employers' contributions during the year included £1.2 million received from employers for compensation to the fund for those retiring early and being made redundant (£0.7 million in 2012/2013).

The funding objective is to achieve and maintain a funding level of 100% of liabilities. For this reason a certain proportion of employer contribution received will be to reduce an existing deficit. The 2010 actuarial valuation stated that the deficit could be eliminated by an average contribution addition of 4.8% of pensionable pay for 19 years.

2012/2013 £ millions	Analysis of contributions by type	2013/2014 £ millions
15.0	Employee contributions - normal	15.6
0.2	Employee contributions - purchase of additional years	0.2
30.4	Employers contributions - normal, rechargeable and early retirement strain	31.7
10.5	Employers deficit funding Contributions	17.3
56.1	Total	64.8

The deficit funding contributions figure is an actuarial calculation based on a proportion of normal employer contributions. However, in the year 2013/2014 the fund received cash amounts from one employer.

2012/2013 £ millions	Benefits to be paid	2013/2014 £ millions
35.1	Administering authority	35.0
2.7	~ Pension paid (including lump sums)	1.6
37.8	~ Transfers out	36.6
25.1	Scheduled bodies	25.2
1.1	~ Pension paid (including lump sums)	1.7
26.2	~ Transfers out	26.9
2.5	Admitted bodies	2.6
0.4	~ Pension paid (including lump sums)	0.4
2.9	~ Transfers out	3.0
0.5	Non-scheduled bodies	0.6
0.0	~ Pension paid (including lump sums)	0.0
0.5	~ Transfers out	0.5
67.4	Total	67.1

The total pensions paid out (including lump sums) was £63.4 million (£63.2 million in 2012/2013) and the total transfers out was £3.7 million (£4.2 million in 2012/2013).

7 Statement of Investment Principles

The Investment Board approved a statement of investment principles in April 2013. You can get a copy by writing to the Resources Group, PO Box 3, Shire Hall, Warwick CV34 4RH or from the website:

www.warwickshire.gov.uk/pensions.

8 Organisations contributing to the fund

Scheduled bodies

Alcester Grammar Academy	Myton Academy
Alcester High Academy	National Education Trust
Alcester St Nicholas Academy	North Warwickshire and Hinckley College
Alcester Town Council	North Warwickshire Borough Council
Ash Green Academy	Nuneaton and Bedworth Borough Council
Ashlawn Academy	Polesworth Nethersole Academy
Atherstone Town Council	The Priors Free School Academy
Aylesford School Academy	Reach 2 Academy
Bilton High Academy	Rugby Borough Council
Bishops Itchington Parish Council	Royal Leamington Spa Town Council
Bidford upon Avon Parish Council	Rugby High Academy
Burton Green Parish Council	Ryton on Dunsmore Parish Council
Campion School Academy	Shipston High Academy
Cawston Grange Primary Academy	Shipston Town Council
Central Multiple Academy Trust Admin Centre	Southam Town Council
Central Multiple Academy Trust Academy	Stratford upon Avon College
Clifton on Dunsmore Parish Council	Stratford on Avon District Council
Coleshill Academy	Stratford on Avon Girls Grammar Academy
Coleshill Town Council	Stratford on Avon Girls King Edward VI Academy
Community Academy Trust	Stratford on Avon School Academy
Curdworth Parish Council	Stratford upon Avon Town Council
Etone Academy	Studley High Academy
Griffin Trust Academy	Tanworth in Arden Academy
Heartwood Academy Trust	Tudor Grange Academy Trust
Henley High Academy	Warwick District Council
Henley Primary Academy	Warwickshire College
Henry Hinde Academy	Warwickshire County Council
Higham Lane Academy	Warwickshire Police and Crime Commission
King Edward VI College, Nuneaton	Warwickshire Probation Service
Kingsbury Parish Council	Warwickshire Valuation Tribunal
Long Itchington Parish Council	Wellesbourne Parish Council
Mancetter Parish Council	Whitnash Town Council
Matrix Academy Trust	
The Midland Academies Trust	

Admitted bodies

ABM Catering
 Alliance in Partnership (2 contracts)
 Balfour Beatty

 Bedworth, Rugby and Nuneaton Citizens Advice Bureau
 Class Catering (8 contracts)
 Coventry Mind
 Goldcrest Cleaning
 Lawrence Cleaning
 Mid Warwickshire MENCAP
 North Warwickshire Citizens Advice Bureau
 Nuneaton and Bedworth Leisure Trust
 Nuneaton Mencap
 Orbit Housing and Care Group (Sanctuary Housing)
 Rugby Town Centre Company Limited
 Shipston Leisure
 Solihull School
 Stratford and District MENCAP
 Stratford upon Avon Council for Voluntary Service
 Stratford upon Avon Citizens Advice Bureau
 Stratford upon Avon Town Trust Co Ltd
 Taylor Shaw (3 contracts)
 The Rowan Organisation
 Warwick District Citizens Advice Bureau
 Warwick Schools
 Warwickshire Association for the Blind
 Warwickshire Care Services Ltd
 Warwickshire Day Care Centres
 Warwickshire Welfare Rights Service
 Westfield Community Development Association

Other admitted bodies with pensioners but no pensionable employees

Beaudesert and Henley-in-Arden Joint Parish Council
 Lapworth Parish Council

 North Warwickshire Council for Voluntary Service
 Nuneaton and Bedworth Council for Voluntary Service
 Orbit Housing Group
 People in Action
 Remnant Water Authority
 Rugby Council for Voluntary Service
 Rugby MENCAP Hostels
 Rugby MIND and Rugby Mental Health Association
 Severn Trent Water Plc
 Solihull Metropolitan Borough Council
 St Paul's College
 Stretton on Dunsmore Parish Council
 Warwick Town Council
 Youth Clubs UK
 Stonham (Home Group Ltd) (Ceased November 2013)

9 Transfers In

2012/2013 £millions	Transfers In From Other Pension Funds	2013/2014 £millions
-0.7	Group transfers	-0.7
-5.4	Individual transfers	-5.7
-6.1		-6.4

10 Additional voluntary contributions

In 2013/2014, some members of the pension scheme paid voluntary contributions to Equitable Life and Standard Life to buy extra pension benefits when they retire. These contributions are invested in a wide range of assets to provide a return on the money invested. The pension fund accounts do not include the assets held by Equitable Life or Standard Life, which were valued at £0.4 million in Equitable Life, and £3.0 million in Standard Life on 31 March 2014. The pension fund accounts also do not include additional voluntary contributions. During the financial year 2013/2014, employees contributed £0.3 million in additional voluntary contributions to Standard Life and £4,000 to Equitable Life.

In accordance with Regulation 5(2) (c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 these amounts are not included in the Pension Fund Accounts but are disclosed as a note only.

11 Related Party transactions

Warwickshire County Council is the administering authority and largest employer of the Pension Fund; consequently there is a strong relationship between the council and the fund. The County Council incurred costs of £0.8 million in relation to the staffing and running costs of the fund and has been reimbursed by the fund for these expenses. There is no co-mingling of cash, the Pension Fund manages its own bank account and operates its own cash flow.

The scheduled and admitted bodies of the fund are related parties; these can be found listed in Note 8.

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

	Accrued pension as at 31 March 2013 £	Accrued pension as at 31 March 2014 £
Head of Corporate Finance	502,725.73	541,252.87
Head of Corporate Financial Services	190,605.15	211,113.89
Pensions Manager	339,176.17	358,625.21
Treasury and Pension Fund Manager	94,022.86	112,187.32
Principal Accountant	-	21,546.13

12 Investment performance

Investment performance	Our pension fund %	Our benchmark %	Local Authority Average %
Yearly return on investments for 2013/2014	7.34%	6.03%	6.30%

Overall in the financial year 2013/2014, the fund had a return of 7.34% compared with the fund's specific benchmark of 6.03%.

13 Contingent liability

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

14 Actuarial Present Value of Promised Retirement Benefits as Provided by Hymans Robertson Pension Fund Actuary.

CIPFA's Code of Practice on Local Authority Accounting 2013/14 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

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

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

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

I have been instructed by the Administering Authority to provide the necessary information for the Warwickshire County Council Pension Fund, which is in the remainder of this note.

Balance sheet

Year ended	31 Mar 2013 £ millions	31 Mar 2014 £ millions
Present value of Promised Retirement Benefits	2,256.0	2,112.0

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. I estimate this liability at 31 March 2014 comprises £939m in respect of employee members, £359m in respect of deferred pensioners and £814m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, the Pension Fund is satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. Allowance has not been made for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. The estimate of the impact due to the change of assumptions to 31 March 2014 is to increase the actuarial present value by £35m.

Financial assumptions

The financial assumptions are summarised below:

Year ended	31 Mar 2013 % p.a	31 Mar 2014 % p.a
Inflation/Pensions Increase Rate	2.80%	2.80%
Salary Increase Rate	5.10%	4.60%
Discount Rate	4.50%	4.30%

Longevity assumption

As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI_2010 model, assuming the current rate of improvements has reached a peak and will converge in a long term rate of 1.25% per annum. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.4 years	24.4 years
Future Pensioners*	24.3 years	26.6 years

*Future pensioners are assumed to be currently aged 45

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

Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2014 for IAS19 purposes' dated 1 May 2014. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

Richard Warden FFA
17 March 2014
For and on behalf of Hymans Robertson LLP

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

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £2,112 million, this figure is used for statutory accounting purposes by Warwickshire County Council Pension Fund and complies with the requirements of IAS26.

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

15 Risk and how the Pension Fund manages the Risks faced

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

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

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

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

Credit risk

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

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

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

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

Liquidity risk

The Pension Fund holds a working cash balance or overdraft in its bank account to pay pensions and other benefits. Cash is also required if the Fund's Private Equity Fund of Fund's manager requires additional funds. The Fund currently enjoys a long term positive cash flow. Cash flow surpluses are invested with fund managers as and when required. The Pension Fund is authorised to borrow on a short term basis to fund cash flow deficits.

The fund actuary produces regular cash flow forecasts which are presented to the investment sub-committee who will take action where appropriate.

Market risk

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

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

For investments denominated in non-sterling currencies, the Pension Fund is exposed to currency risk as a result of possible fluctuations in foreign currency exchange rates. So far as the Fund's equity investments are concerned, these risks are mitigated to some extent by the

global nature of their underlying businesses. Furthermore, investment fund managers will take account of currency risk in their investment decisions.

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

Currency	Value (£000)	Change %	Value on Increase (£000)	Value on Decrease (£000)
Australian Dollar	5	9.8%	5.12	4
Brazilian Real	1,744	12.7%	1,965	1,523
Canadian Dollar	11,028	6.0%	11,694	10,362
Czech Republic Koruna	564	8.8%	613	514
Danish Krone	2,094	6.3%	2,225	1,963
EURO	75,751	6.3%	80,531	9,975
Indian Rupee	1,010	10.8%	1,119	900
Israeli Shekel	1,009	6.9%	1,079	939
Japanese Yen	4,143	11.5%	4,621	3,665
Mexican Peso	754	10.0%	830	679
Norwegian Krone	11	8.8%	12	10
South Korean Won	1,665	6.6%	1,774	1,555
Swedish Krona	2,209	7.0%	2,364	2,054
Swiss Franc	25,563	7.4%	27,460	23,666
Thai Baht	764	7.4%	820	707
US Dollar	134,083	8.1%	144,904	123,263
Asia Pacific ex Japan Basket	39,296	6.1%	41,697	36,895
Total	301,692	7.3%	323,714	218,675

Table may not sum due to roundings

2012/13

Currency	Value (£000)	% Change	Value on Increase (£000)	Value on Decrease (£000)
Australian Dollar	6	10.0%	6	5
Brazilian Real	1,942	11.6%	2,167	1,716
Canadian Dollar	6,240	5.6%	6,590	5,890
Czech Republic Koruna	852	10.0%	937	767
Danish Krone	1,755	7.7%	1,890	1,619
EURO	70,968	7.8%	76,504	65,433
Indian Rupee	1,309	9.3%	1,431	1,187
Israeli Shekel	764	8.7%	830	697
Japanese Yen	5,900	11.8%	6,594	5,205
Norwegian Krone	12	9.0%	13	11
South Korean Won	1,938	7.6%	2,084	1,791
Swedish Krona	3,242	8.1%	3,505	2,978
Swiss Franc	22,258	9.4%	24,342	20,175
US Dollar	105,296	8.7%	114,499	96,093
Global Basket	4,392	5.3%	4,626	4,158
Asia Pacific ex Japan Basket	19,122	6.3%	20,329	17,916
Total Currency	245,995	8.3%	266,347	225,642

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

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

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds so the overall outcome depends on the asset allocation of the fund. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the last three years. The closing investment assets of the scheme have been assessed for price risk in the following table.

Asset Type	Value £millions	% Change	Value on Increase £millions	Value on Decrease £millions
UK Equities	530.0	12.3%	595.2	464.8
Overseas Equities	357.7	12.2%	401.5	313.9
Total Bonds & IL	232.1	4.8%	243.2	221.0
Cash	9.5	0.0%	9.5	9.5
Alternatives	206.1	3.4%	213.0	199.2
Property	142.3	2.7%	146.1	138.5
Total Assets	1,477.7		1,608.6	1,346.8

Table may not sum due to roundings

2012/13

Asset Type	Value £millions	% Change	Value on Increase £millions	Value on Decrease £millions
UK Equities	534.0	13.0%	603.5	464.5
Overseas Equities	308.0	13.2%	348.5	267.5
Total Bonds & IL	208.2	4.3%	217.1	199.2
Cash	5.7	0.0%	5.7	5.7
Alternatives	195.9	3.5%	202.9	189.0
Property	126.1	2.4%	129.1	123.1
Total Assets	1,377.9		1,506.7	1,249.1

The % change for Total Assets includes the impact of correlation across asset classes

16 Other disclosures

At 31 March 2014, the fund had stock valued at £9.0 million (£4.5 million at 31 March 2013) which was lent out to other organisations. The collateral held against this stock was valued at £9.5 million. This generated a total income of £0.035 million up to 31 March 2014.

With the delivery of loaned stock to borrowers the fund obtains collateral to the required percentage of market value at 102% where held in £GBP or 105% in any other currency. The fund has full beneficial ownership of the collateral during the length of the loan made. Of the £9.5m held in collateral at 31 March 2014 the entire sum is held in the form of Government debt and would be sold in the event of a borrower being unable to repay the loaned stock to the fund.

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

Our policy is to reinvest income from fixed interest securities within the pooled units of the fund. During 2013/2014 we did not earn any interest from fixed interest securities held in pooled units.

During the year 2013/2014, the pension fund paid refunds of contributions to employees of £7,000 after tax has been deducted.

Transaction costs totalling £0.5 million attributable to the acquisition and disposal of the fund investments have been added to purchase costs and netted against sale proceeds as shown in note 5.

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

The fund paid its external auditors a fee of £0.036 million during the year 2013/2014.

17 Administrative Expenses

2012/2013 £millions	Administration Expenses	2013/2014 £millions
0.1	Actuary Fees	0.2
0.8	Costs Incurred by Administering Authority	0.8
0.1	Support/Audit/Financing Costs	0.0
0.4	Payroll Charges	0.4
1.4		1.4

18 Investment Income

2012/2013 £000	Investment Income	2013/2014 £000
4.7	Cash - UK - From administration of the Fund	5.9
11.3	Cash & Other Investments - UK - Fund Mgrs	5.9
0.0	Cash & Other Investments - Overseas	0.0
7,868.2	Equities - UK	9,236.7
1,616.0	Equities - North America	2,171.8
1,702.9	Equities - Europe	2,414.8
198.0	Equities - Japan	127.5
32.2	Equities - Pacific (Ex Japan)	38.0
72.3	Equities - Emerging Markets	78.7
54.0	Stock Lending	34.6
2,749.8	Managed Funds - UK	6,325.6
1,278.4	Managed Funds - Overseas	938.1
15,587.9		21,377.6

Table may not sum due to roundings

19 Investment Expenses

2012/2013 £millions	Investment Expenses	2013/2014 £millions
4.0	Fund Managers Fees	4.8
1.1	Fund Expenses	1.1
0.1	Custody and Governance Fees	0.1
5.2		6.0

20 Analysis of Current Assets and Liabilities

2012/2013 £millions	Current Assets	2013/2014 £millions
2.9	Contributions due from Employers	2.9
1.2	Contributions due from Employees	1.2
0.0	Deficit Recovery Contributions due from Employers	0.0
0.0	Debtors - Strain on Fund	0.1
0.8	Sales to Cash (Invoiced Debtors)	0.8
0.2	Other Debtors	0.5
-0.1	Cash balances	0.0
5.0		5.5

2012/2013 £millions	Current Liabilities	2013/2014 £millions
1.3	Owed to Administrating Authority	0.8
1.5	Creditors - Suppliers	1.9
0.7	Creditors - Income Received in Advance	0.1
0.1	Creditors - Retirements	0.5
3.6		3.3

21 Financial Instruments

The following tables present the funds closing net assets by category of financial instrument.

Financial Instruments 2013/2014	Fair Value Through Profit and Loss £ millions	Loans and Receivables £ millions	Financial Liabilities (current) £ millions	Total £ millions
Fixed interest securities	6.6	0.0	0.0	6.6
Stocks and shares	468.6	0.0	0.0	468.6
Managed funds	991.6	0.0	0.0	991.6
Cash and deposits	0.0	10.4	0.0	10.4
Other Investments	0.0	2.0	-1.5	0.5
Debtors	0.0	5.5	0.0	5.5
Cash balances	0.0	0.0	-0.7	-0.7
Creditors	0.0	0.0	-3.3	-3.3
Net assets at the end of the year	1,466.8	17.9	-5.5	1,479.2

Financial Instruments 2012/2013	Fair Value Through Profit and Loss £ millions	Loans and Receivables £ millions	Financial Liabilities (current) £ millions	Total £ millions
Fixed interest securities	6.9	0.0	0.0	6.9
Stocks and shares	420.0	0.0	0.0	420.0
Managed funds	943.8	0.0	0.0	943.8
Cash and deposits	0.0	6.4	0.0	6.4
Other Investments	0.0	2.3	-1.5	0.8
Debtors	0.0	5.0	0.0	5.0
Cash balances	0.0	-0.1	0.0	-0.1
Creditors	0.0	0.0	-3.6	-3.6
Net assets at the end of the year	1,370.7	13.6	-5.1	1,379.2

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

2012/2013 £millions		2013/2014 £millions
-164.6	Fair Value through profit and loss	-83.0
0.0	Loans and Receivables	0.0
0.0	Financial Liabilities (current)	0.0
-164.6		-83.0

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

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

Using observable inputs - where valuation techniques have been used to arrive at a value in an active market.

With significant unobservable inputs the values will rely on judgement and assumptions where there is no market data.

The carrying value of assets is the same as their fair value.

Valuation at 31 March 2014	Quoted market price £ millions	Using observable inputs £ millions	With significant unobservable inputs £ millions	Total £ millions
Financial assets at fair value	1,252.0	142.3	83.4	1,477.7
Loans and Receivables	5.5	0.0	0.0	5.5
Financial liabilities	-4.0	0.0	0.0	-4.0
Net assets at the end of the year	1,253.5	142.3	83.4	1,479.2

Valuation at 31 March 2013	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	£ millions	£ millions	£ millions	£ millions
Financial assets at fair value	1,176.6	126.7	73.8	1,377.1
Loans and Receivables	5.7	0.0	0.0	5.7
Financial liabilities	-3.6	0.0	0.0	-3.6
Net assets at the end of the year	1,178.7	126.7	73.8	1,379.2

	Value 1 April 2013	Purchases at cost	Sales proceeds	Realised profit or loss (-)	Unrealised profit or loss (-)	Value 31 March 2014
	£ millions	£ millions	£ millions	£ millions	£ millions	£ millions
Fund of Hedge Funds	62.1	65.7	-65.7	15.6	-10.8	66.9
Private Equity	11.7	5.7	-1.4	0.0	0.5	16.5
Total	73.8	71.4	-67.1	15.6	-10.3	83.4

Since incorporation of the requirements of IFRS 13 into the Code has been deferred until 2014/15, the financial statements do not include the measurement and disclosure requirements of that standard.

22 Investments greater than 5% of Total Assets

The following table lists single investments that exceed 5% of the total investment assets of the Fund.

Security Description	Market Value £m 31/03/2013	% of Total Fund	Market Value £m 31/03/2014	% of Total Fund
L&G GRADE CP BOND ALL STOCKS	106.6	7.8%	118.9	8.1%
SSGA UK EQUITY INDEX SUB-FUND	99.7	7.3%	108.5	7.4%
L&G EUROPE (EX UK) EQUITY	0.0	0.0%	77.1	5.2%
THREADNEEDLE TPN PROPERTY A	0.0	0.0%	74.4	5.1%
	206.3		378.9	

23 Authorisation for Issue

These accounts have taken into account all known events up to 25 September 2014. On that date the accounts were authorised for issue by the Head of Finance.



John Betts
Head of Finance

Glossary

An A to Z of Investment terms

A

Absolute Return

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

Active management

A style of investment management where the fund manager aims to outperform a *benchmark* by superior *asset allocation*, market timing or *stock selection* (or a combination of these). Compare with *passive management*.

Active risk

A measure of estimated *volatility* of fund performance against the *benchmark*. Also known as forecast *tracking error* or *relative risk*. In technical terms, it is defined as the forecast standard deviation of annual returns versus the *benchmark*. Active risk is usually quoted *ex-ante*, the *ex-post* measure of *volatility* of actual returns more usually being referred to as realised *tracking error*.

Actuarial valuation

A review of the assets and *liabilities* of a pension fund to determine the surplus or deficit, and the future rate of contributions required. consistently high alpha this can indicate skilful management.

Alternative investments

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

Asset allocation

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

Asset/liability modelling

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

B

Benchmark

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

Beta

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

C

Class action

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

Combined Code

A code of *corporate governance* principles for UK companies. So called because it combines the

recommendations of several key reports on corporate governance issues including those of the committees chaired by Cadbury, Greenbury, Hampel and Higgs.

Commission recapture

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

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. is altered using *derivatives* (usually *forward* contracts).

Currency risk

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

D

Defined benefit scheme

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

Defined contribution scheme

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

Derivatives

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

Diversification

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

Dow Jones Industrial Average

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

Duration

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

F

FRAG 21

Financial Reporting and Auditing Group guide on the

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

FRS 17/IAS19

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

FTSE All-Share Index

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

Fund of hedge funds

See *hedge funds*.

G

Growth manager

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

H

Hedge Funds

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

Hedging

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

I

IMA

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

L

LIBID

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

LIBOR

London Inter-Bank Offer Rate. Interest rate at which prime

banks will offer to lend money in the London Inter-Bank market.

London Stock Exchange (LSE)

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

N

NAPF

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

P

PRAG

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

Private equity

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

R

Risk

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

Risk-free asset/rate

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

Risk premium

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

S

SORP

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

Specialist management

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

Statement of Investment Principles (SIP)

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

Stocklending

The lending of a *security* by the registered owner, to an authorised third party, for a fixed or open period of time, for an agreed consideration secured by *collateral*. The demand to

borrow *securities* comes mainly from *market makers* to cover *short positions* or take *arbitrage* opportunities.

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Transaction costs

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

Transition

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

