Warwickshire Pension Fund

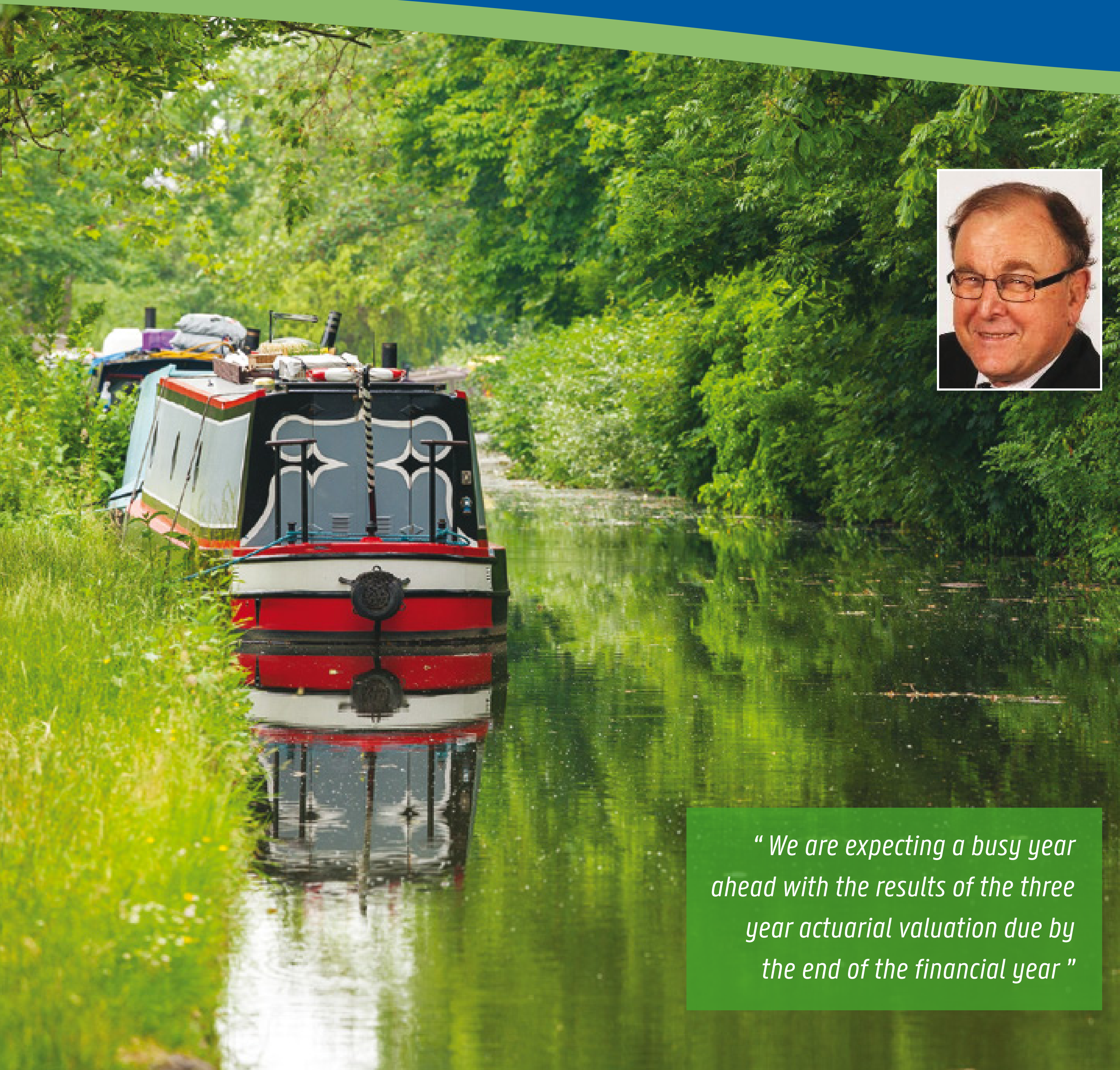
Annual Report & Financial Statements

2015-2016

WARWICKSHIRE
pension fund

Warwickshire
County Council

Contents



Chairman's Statement

In May of this year I was appointed as Chair of the Pension Fund Investment Sub-Committee and thank Cllr John Appleton for leaving such a healthy and well run fund. 2015 saw another year of growth in the fund with the value of the fund now comfortably exceeding £1.6 Billion. I look forward to an ever changing period as your chairman as the effects of the Brexit vote begin to be realised and our funds stabilise.

Since becoming chair my attention has been focussed on the requirement to combine our fund with 12 other like-minded local authority funds to create a single asset pool called Border to Coast Pensions Partnership. The combined assets are estimated to be in the region of £37 billion and we will use this scale to reduce investment costs and improve governance. The initial submission to government has been made and approval and implementation will continue over the next 2 years at least. In the meantime the management of our funds will remain as at present.

We are expecting a busy year ahead with the results of the three year actuarial valuation due by the end of the financial year. The Pension Fund Investment Sub-Committee is currently working with officers and the fund actuary in setting the underlying assumptions and future employer contribution rates.

The added influence of a new Chancellor of the Exchequer and potential for changing policies will add to the overall volatility.

An interesting and exciting year ahead compounded by the expectation of the unexpected as the actual effect of the referendum decision becomes a reality.

" We are expecting a busy year ahead with the results of the three year actuarial valuation due by the end of the financial year "

Cllr Bob Stevens

Chairman of the Pension Fund
Investment Sub-Committee

" Investment performance continues to be positive and in the last quarter (to March 2016) our £1.6bn investment fund continued to grow by a further 2.4%. "

Introduction from the Head of Finance

It has become something of a cliché to reference the alleged Chinese curse "may you live in interesting times". The inference is that "uninteresting times" must be those of peace and tranquillity. In which case, those of us embroiled in the Local Government Pension Scheme have either been cursed or certainly live in very interesting times.

I am writing this in the aftermath of the Brexit referendum, with a new Prime Minister outlining a different approach towards the public service realm. At the same time, we have the departure of the Chancellor of the Exchequer, who was the key architect behind the pooling of LGPS assets and the so called Sovereign Wealth Funds. Further, both officers and elected members continue to work on the fast moving agenda relating to Asset Pooling as we have joined the Borders to Coast pool and continue to work through some of the governance aspects of this. The financial prize at stake is considerable, as evidenced by the recent collaborative procurement on passive mandates where the Fund's transfer of £295m has made considerable savings. Meanwhile, the Local Pension Board also continues to find its feet and provide input into this issue and many more.

Despite all these uncertainties and distractions, the Fund continues to be well managed. We are continuing to support employers through auto-enrolment, developing the funding strategy statement and are working closely with all stakeholders in readiness for the actuarial revaluation. Meanwhile, investment performance continues to be positive and in the last quarter (to March 2016) our £1.6bn investment fund continued to grow by a further 2.4%.

So, there is much to celebrate, despite those "interesting times" and I would like to place on record my thanks to all the staff and others who support us in running the Fund in such a successful manner.

John Betts
Head of Finance

Report from the Treasury and Pension Fund Manager

" We consolidated the funds passive holdings in early 2016 from three managers to one single manager "

Market conditions in 2015/16 provided a great example of why we continue our stance in holding a diversified portfolio and the use of correct active management. Despite relatively flat equity returns for investors in Europe, and single digit losses further afield (the exception being the US) our fund posted a strong return of 1.87% for the year versus a benchmark of -0.35%. The two main reasons for this are that both active equity managers (MFS and Columbia Threadneedle) achieved strong absolute performance in the period and also that property as an asset class (currently 10% of the fund) had a fantastic year achieving low double digit returns.

We consolidated the funds passive holdings in early 2016 from three managers to one single manager. Legal and General are therefore the funds sole indexation manager. As this move was combined with a group of midland pension funds we were able to use the combined scale to negotiate a better fee level which means real cash savings for the fund going forward.

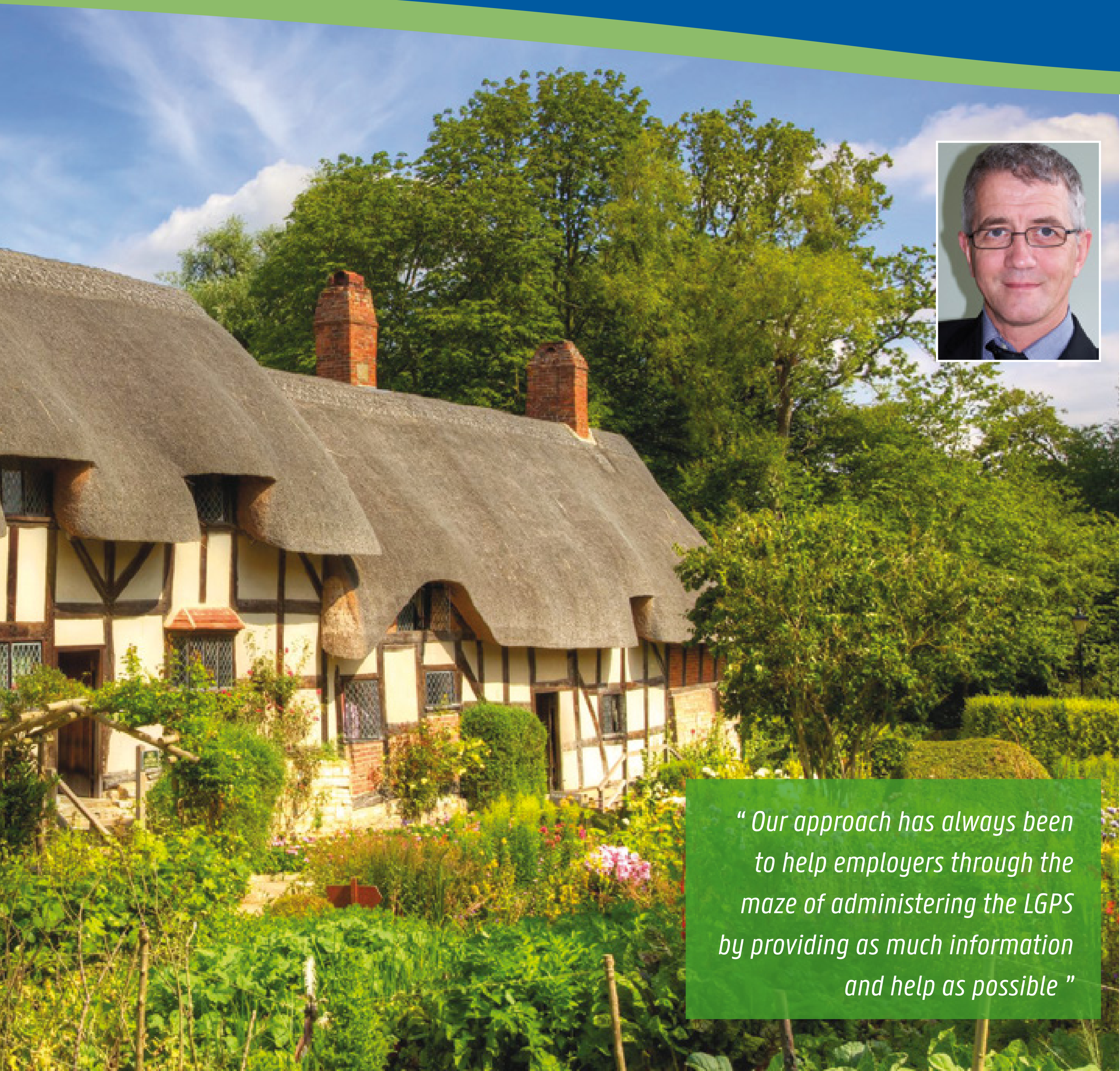
Our chosen Pension Pool (Border to Coast Pensions Partnership) delivered a detailed submission to Government on 15th July 2016. This document is the blueprint for how we see this large pool of money being best managed for the benefit of our membership whilst achieving Central Government's ambitions of scale, governance, cost effectiveness and infrastructure investment. Assuming the current timetable remains unchanged I will be able to present the feedback from Central Government at the Annual General Meeting in November, in the meantime the submission is available on the funds website.

I will be continuing to work with the Pool in the run up to April 2018, by which time we will need to be ready to begin our transfer of assets to the new structure.

Mat Dawson

Treasury and Pension Fund Manager

Scheme Administration Report



“ Our approach has always been to help employers through the maze of administering the LGPS by providing as much information and help as possible ”

I would like to start this years' report with a "thank you" to all our employers for their help in submitting their data. For the majority of employers the annual return was submitted by the deadline of 30 April 2016. There were inevitably a few stragglers and apologies to them for the 'phone calls you received from the team harassing you for your end of year return.

I have spoken in the past about how the increase in the number of employers continues to make the job for the pensions team challenging and none more so than at the time of a valuation.

The Fund now administers the scheme for a diverse set of employers ranging from the County Council (our largest employer) down to a parish council who will have one member working just a few hours a month, or contractors who provide cleaning or catering services at a school or academy.

The pensions team realises that the information we ask for can prove challenging for some employers; the poor parish clerk still has to wrestle with, for example, what is pensionable pay under the 2014 scheme and the previous schemes in the same way as a larger employer has to, they just don't have to deal with the same number of amendments as the larger employer does. The contractor may not have dealt with the Local Government Pension Scheme before and although is fully conversant in providing information for a defined contribution plan has no knowledge of defined benefit pension schemes let alone local authority pension funds and what we need in respect of their employees who are members of the LGPS.

How do we support employers?

Our approach has always been to help employers through the maze of administering the LGPS by providing as much information and help as possible. New academies, for example, will receive a pack about the LGPS and the Warwickshire Fund explaining the

1. Pensions Administration Performance Indicators

Indicator	Target	
Letter detailing transfer in quote	10 days	98%
Letter detailing transfer out quote	10 days	97%
Process refund and issue payment voucher	5 days	88%
Letter notifying estimate of retirement benefit	10 days	96%
Letter notifying actual retirement benefit	5 days	90%
Letter notifying amount of dependant benefits	5 days	91%
Calculate and notify deferred benefits	10 days	91%

2. Pensions Administration Full Time Equivalent Staff

Pensions Admin total		17.1
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		**12.1**

There is 1 member of administration staff for every 3700 LGPS scheme members

There are 3005 new starters and 7,500 changes to details processed

A total of 770 quotations to pension benefits

The total number of actual events (retirements, transfers, refunds, deaths) 3156

information we need and when. The offer is there for members of the team to visit employers and this offer is often accepted.

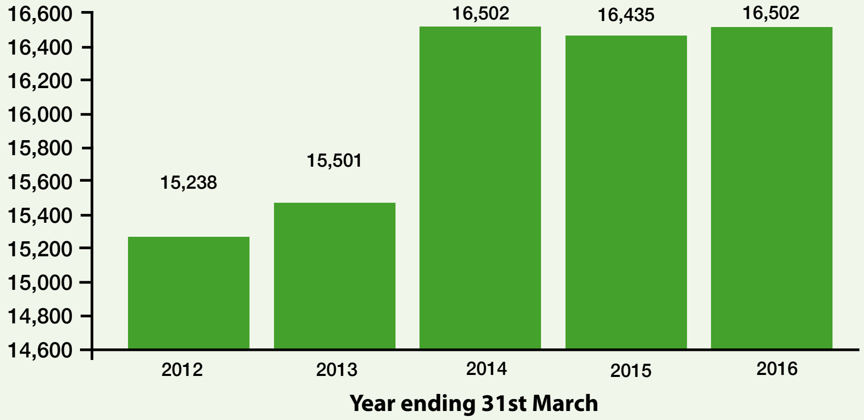
We are not complacent and look at how we can improve our support. For example, we are speaking to a software provider regarding an online system for the transmission of data on a monthly basis. Such a system will not only help the employers but also assist us in the administration of the Fund and improve the quality of the data we hold.

The team are also working hard on the introduction of an online e-learning system where employers can have access to information about our requirements.

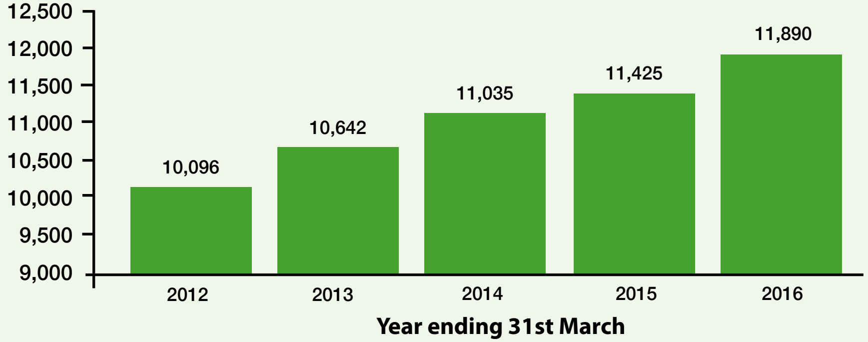
Hopefully, I will have more information about these innovations at this years' administration forum scheduled for 9 December. Keep an eye on your in-box for the invitation.

Neil R Buxton
Pension Services Manager

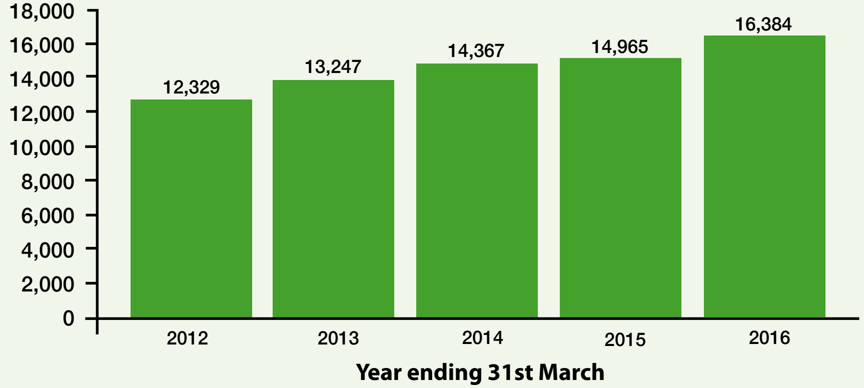
No. of Active Members



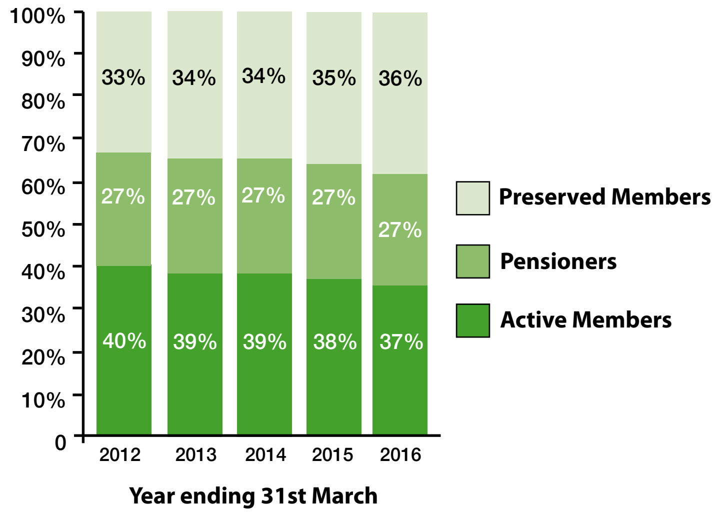
No. of Pensioners



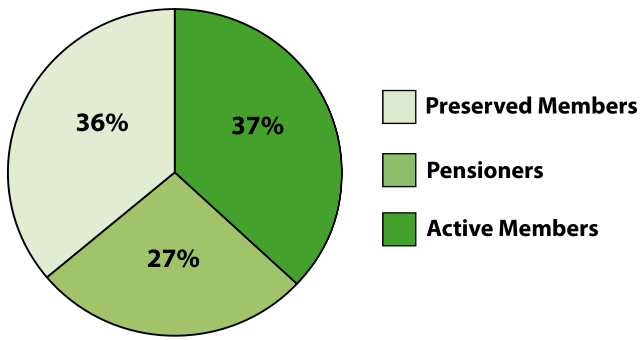
No. of Preserved Members



Scheme Membership profile over the last 5 years



Membership profile as at 31 March 2016



Contributions Paid 2015/16

>£1m

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

<£1m

North Warwickshire & Hinckley College
Warwick Schools

<£500k

Community Academy Trust
Midland Academies Trust (Nuneaton)
Oak Wood Primary and Secondary Academy
Stratford-Upon-Avon College
Balfour Beatty
Solihull School
Avon Valley School Stratford upon Avon
High School Academy
Griffin Trust (Nich Chamb)
Myton Academy
Central MAT (CovDio Academies)
Higham Lane Academy
Ashlawn Academy
Lawrence Sheriff School
Coleshill School Academy
Bilton High Academy
King Edward VI College Nuneaton
Erudition (Kingsbury)
Reach2 Academy (Oakfield)
Holy Spirit Academy Trust - St Thomas More Catholic School
Erudition (Queen Elizabeth)
Campion School Academy
Aylesford School Academy
Coventry Diocese - Harris High

<£100k

Heartwood CofE Academy Trust
Studley High Academy
Stratford On Avon Grammar Academy
Warwickshire Care Services Ltd
Alcester Grammar Academy
Coventry Diocese - St Michaels
Rugby High Academy
Stour Federation (Shipston Primary)
Stratford upon Avon - King Edward VI Academy
Alcester High Academy
Henley High Academy
The Rowan Organisation
Community Academies Trust - Woodloes Primary
Barnardo's Rugby
The Brandon Trust (North Warwicks)
Matrix Academy Trust - Etone
Ash Green Academy
Griffin Trust (Park Lane)
Shipston on Stour High School Academy
Heart of England MENCAP
NSL
Dunchurch Infant School
Cawston Grange Primary Academy
Holy Spirit Academy Trust - St Anne's Catholic Primary School
Stratford-Upon-Avon Citizens Advice Bureau
Sports and Leisure Management, Nuneaton Leisure Services
Stratford & District MENCAP
National Education Trust (Henry Hinde Junior School)

<£50k

Tanworth in Arden Academy
Bedworth, Rugby and Nuneaton Citizens Advice Bureau
Holy Spirit Academy Trust - Our Lady of the Angels
Central MAT (Admin Centre)
Alcester St Nicholas Academy
Holy Spirit Academy Trust -St Joseph's Catholic Junior School
Discovery Academy Nuneaton
National Education Trust (Keresley Newland)
Stratford-Upon-Avon Town Council
Barnardo's Nuneaton
Heart of England Housing & Care Ltd
Coventry Diocese - St Nicolas
Polesworth Nethersole Academy
Henley Primary Academy
Holy Spirit Academy Trust - St Francis Catholic Primary School
Midland Academies Trust (Hartshill)
Middlemarch Middle School
Griffin Trust (Race Leys)
Midland Academies Trust (George Eliot)
Henry Hinde Academy (Infants)
Warwickshire Welfare Rights Service
Coventry Diocese - St Oswalds

Holy Spirit Academy Trust - St Benedicts Catholic Primary School
Barnardo's North Warwickshire
Coventry Diocese - Studley St Marys
Coventry Diocese - Queens Middle School
People in Action
Warwick District Citizens Advice Bureau
Stratford-Upon-Avon Town Trust Co. Ltd
Rugby Town Centre Company Ltd
Mappleborough Green School
Coleshill Town Council
Tudor Grange Academy Trust (Haselor)
Coventry Diocese - St James
The Brandon Trust (Rugby)
Westfield Community Development Association
Stratford Artshouse Trust
Royal Leamington Spa Town Council
Dunnington C of E Junior & Infant School
Coventry Diocese - Leamington Hastings C of E Academy
Temple Grafton School
Wolverton Junior & Infant School
Warwick Association for the Blind
Barnardo's Kenilworth
North Warwickshire Citizens Advice Bureau
Midland Academies Trust (Studio College)
Moreton Morrell Church of England School
Stratford-Upon-Avon Council for Voluntary Service

<£10k

Southam Town Council
The Priors Free School Academy
Atherstone Town Council
Shipston Town Council
ABM Catering North Leam School
Taylor Shaw (Myton)
Warwickshire Day Care Centres
Alcester Town Council
The Parenting Project
Barnardo's Warwick
Warwickshire Valuation Tribunal
Long Lawford Parish Council
Studley Parish Council
Bidford-On-Avon Parish Council
Whitnash Town Council
Wellesbourne Parish Council
Alliance in Partnership St Edwards RC
Ryton on Dunsmore Parish Council
Bishops Itchington Parish Council
Class Catering (Thomas Jolyffe)
Taylor Shaw (St Paul's)
Rugby Free Primary School
Kingsbury Parish Council
Long Itchington Parish Council
Tanworth in Arden Parish Council
Mancetter Parish Council
Barnardo's Bedworth
Class Catering (St Mary Immaculate)
Curdworth Parish Council
Ettington Parish Council
Wolvey Parish Council
Class Catering (The Willows)
Lawrence Cleaning
Beaudesert and Henley Parish Council
Superclean Services
Class Catering (Budbrooke Primary)
Alliance in Partnership Mappleborough
Alliance In Partnership - Henley
Class Catering (SoA Primary Sch)
Shipston Leisure (SLM)
Clifton upon Dunsmore Parish Council
Taylor Shaw - Ridgeway Warwick

Contributions Paid 2015/16

Employees Contributions

>£1m

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<£1m

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Warwick District Council
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Shipston Leisure (SLM)
Clifton upon Dunsmore Parish Council
Taylor Shaw - Ridgeway Warwick

Receipt of contributions

2015/2016	%
on or before 19th of each month	87
After	13
Total	**100**

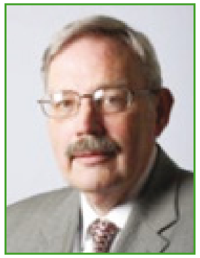
Pension Fund Investment Sub-Committee

The Role of the Sub-Committee

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

Membership of the Pension Fund Investment Sub-Committee

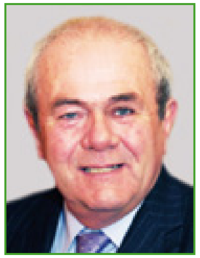
Councillor
Bob Stevens
(Conservative)
Chairman



Councillor
Bill Gifford
(Liberal Democrat)
Vice Chairman

Councillor
John Appleton
(Conservative)

Councillor
Alan Webb
(Labour)



Councillor
Brian Moss
(Labour)

Staff, Advisors and Investment Managers

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

Management and Administration

John Betts CPFA, Head of Finance

Andrew Lovegrove FCA MBA, Strategic Finance Manager

Mat Dawson FCCA, Treasury and Pension Fund Manager

Neil Buxton MIPP, Pensions Services Manager

Vicki Forrester CPFA, Principal Accountant

Treasury Team: Jen Turner, Aneeta Dhoot, Sukhdev Singh

Membership Team: Dawn Clutton, Chris Holmes, Sonu Copson, Sharan Mundey, James Taylor-Hoff, Joseph Atwill

Benefits Team: Lisa Eglesfield, Ian Morris, Linda Radley, Carly Cleary, Holly Gallan, Anthony Hall

Firefighters Pension Scheme: Ali Wickens, Amarjit Powar

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

Investment Advisors

Independent Advisors: Peter Jones, Karen Shackleton

Actuary: Richard Warden, Hymans Robertson

External Consultants: Paul Potter, Hymans Robertson

Investment Managers

UK Equities: Columbia Threadneedle Investments

Global Equities: MFS Investment Management

Passive Index Tracker: Legal and General Investment Management

Fund of Hedge Funds: Blackstone Group International

UK Property: Schroder Investment Management and Columbia Threadneedle Investments

Fund of Private Equity Funds: HarbourVest Partners

Absolute Return: JP Morgan Asset Management

Infrastructure: Standard Life Capital Partners and Partners Groups

The Local Government Pension Scheme

The Warwickshire Pension Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS is governed by statute, primarily the Superannuation Act 1972 and the Local Government Pension Scheme Regulations 2013 (as amended). The statutory responsibility for the LGPS falls under the remit of the Minister of State for the Department for Communities and Local Government.

The Warwickshire Pension Fund is administered by the Head of Finance on behalf of Warwickshire County Council (the scheme manager), five district councils and other scheduled and admitted public service organisations and their contractors. The administration of the fund is carried out through Warwickshire County Council's Staff and Pensions Committee, the Pension Fund Sub-Committee and the Local Pension Board. The committees are comprised of elected County Council members whilst the Board is an equal mix of representatives of employers and scheme members.

At March 2016, the total membership of the fund stood at 44,776 and the total value of net assets amounted to £1.7 billion. Of the total membership,16,502 are active members currently contributing to the fund, 16,384 members with a preserved benefit and 11,890 retired or dependant members are in receipt of a pension.

All local government employees (except temporary and casual employees) are automatically entered into the scheme and must opt out if they do not wish to remain a member. Temporary and casual employees must make an election to join the scheme. Temporary employees on a contract of less than three months duration are not eligible for membership.

Benefits of the Pension Fund

Members of the LGPS belong to a scheme which provides high quality pension benefits based on career average related pension. The scheme is a defined benefit scheme and members' benefits are determined strictly in accordance with the provisions of the Regulations and are not subject to changes affecting the fund assets. For members contributing to the scheme before 1 April 2014, protections are in place for benefits to be based on accrued scheme membership and full-time equivalent pensionable pay at retirement.

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

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

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

The core benefits of the scheme are:

- A guaranteed annual pension based on the pay received during the year and revalued in line with earnings.
- The tax free lump sum is available by commuting part of the pension.
- Life assurance of three times the members' yearly pay from the day they join the scheme.
- Pensions for spouses, civil registered partners, qualifying cohabiting partners and eligible children on the death of the member.
- An entitlement paid early if a member has to stop work permanently due to permanent ill health.
- Inflation proofed preserved pensions and pensions in payment.
- Pensions payable from age 55, including (with the employers consent) flexible retirement and early retirement.
- The option to contribute a reduced contribution for a reduced benefit - the 50/50 option.

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

Cost of membership

Employees pay on average 6.5% of pensionable pay received and receive tax relief on their contributions.

Employers also pay a contribution towards the pension costs. This amount is decided every three years following an independent actuarial evaluation by the Fund's Actuary. The average employer rate at the 2013 valuation was 20%.

The next triennial valuation will be calculated as at 31 March 2016 and will set the contribution rates for the three years from 2017/18.

Investment Report for the year ending 31 March 2016

Global Review

Global markets performed positively for much of the year 2015/16, before a slump in early 2016 saw most major equity indices end the period lower. In local-currency terms, US equities were the sole exception among developed markets, after staging one of the biggest quarterly rebounds in decades. The bearish sentiment in the new year was largely down to fears of a slowdown in China, which had weighed on markets since the country's soaring equities had gone into a sharp reverse in June. August also saw sell-offs in many markets, not least the US, as concerns grew about China's economy. The UK struggled given the large weighting of energy and mining companies in the index, which were hurt by the fall in commodity prices, but rallied slightly towards the end of the year following the Chancellor's Spending Review, which was welcomed by the markets. Markets in Asia had a poor year, as China's stock-market slump sent stocks and currencies around the region into a tailspin. Asian markets were further buffeted by capital outflows, as investors became increasingly focused on when the US Federal Reserve (Fed) would raise interest rates. In the event, the Fed raised rates in December, by 0.25%, for the first time since 2006.

Central banks' monetary policy was a key theme throughout the year, with markets in the eurozone and Japan buoyed by quantitative easing (QE). In the first half of 2015, a bigger-than-expected programme of QE from the European Central Bank (ECB) boosted equities in Europe and beyond, and took the euro to multi-year lows against the US dollar. Towards the end of the year, the ECB announced that it was extending its bond-buying programme and made a further cut to already negative deposit rates. Amid sluggish growth and low inflation, the ECB extended its stimulus once again in March of 2016. In the UK, commentary from the Bank of England suggested that the base rate might remain on hold until 2017, a view which saw the pound weaken versus the dollar.

For much of the period, markets and currencies increasingly came under the sway of slumping oil prices. While cheaper oil offered the prospect of a boost to consumer spending, it also ravaged the economies of oil exporters, including Russia and Venezuela. Numerous reasons were given for the prolonged slump, including high inventory levels and the "shale revolution" in the US, along with slowing demand, particularly in China. Indeed, the slowdown in China precipitated falls in many commodity prices, including copper.

Japanese equities initially rose before falling back sharply in the first quarter of 2016. Initial gains came on the back of a large programme of QE and a marked decline in the yen, which provided a boost to

the country's crucial export sector. Later in the period, the Bank of Japan unexpectedly introduced a negative interest rate for certain deposits in an attempt to encourage increased lending. However, much of these effects were undone in the first quarter of 2016, as market turbulence drew investors towards the traditional "safe haven" of the Japanese currency, with negative implications for exports and overseas earnings.

During the period under review, Asian markets' performance was driven largely by the ebb and flow of sentiment regarding global liquidity and the condition of China's economy. A strengthening US economy, together with rate-hike fears, placed emerging-market currencies under increasing pressure towards the end of the year.

After a meteoric rise over much of the first half of 2015, the MSCI China index plummeted sharply from mid-June and, following some respite late in the year, fell sharply again in early 2016. To support the economy, the People's Bank of China announced further cuts in official interest rates and banks' reserve requirements, increased fiscal measures and in early August, devalued the yuan to improve China's competitiveness. The latter event led to increased weakness in commodity-related markets and currencies, with Indonesia, Malaysia and Australia particularly hard hit. In the new year, a persistent drip of poor manufacturing and export data saw further falls in Chinese markets, with confidence also dented by another devaluation of the yuan in January.

The property market had another strong year, with significant capital-value growth again forming the core component of total return, supported by income return. Throughout the last nine months of the year, expectations of significant rental-value growth were increasingly bullish, in all but retail markets, and there was enhanced availability of attractively priced debt finance. A severely restricted supply-side pipeline and improved tenant demand across the majority of key office and industrial sub-sectors were the principle contributors to rising rents. Office rental values, positively influenced by significant growth in London and the south east, continued to be the best-performing sub-sector.

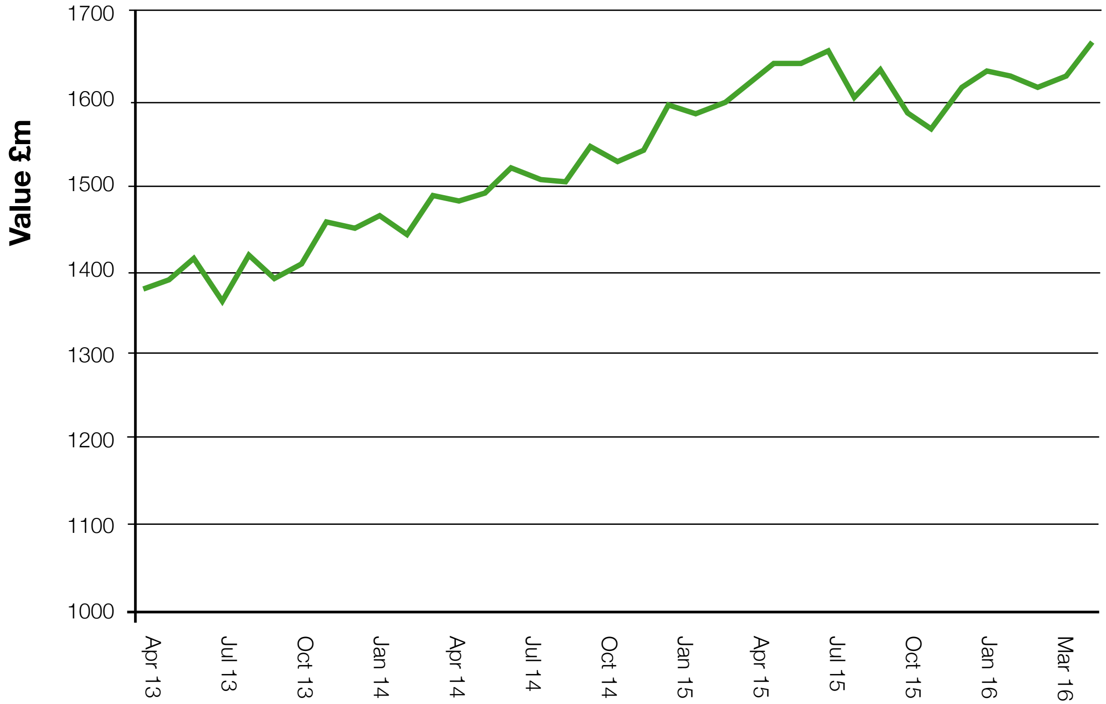
Investment Return Compared to the Local Authority Universe 2014/15

	1 Year Return	**3 Year Return**
Warwickshire	1.9%	7.3%
Warwickshire's Benchmark	-0.4%	5.7%
Local Authority Universe	0.2%	6.2%
Out (under) performance compared to benchmark	2.3%	1.6%

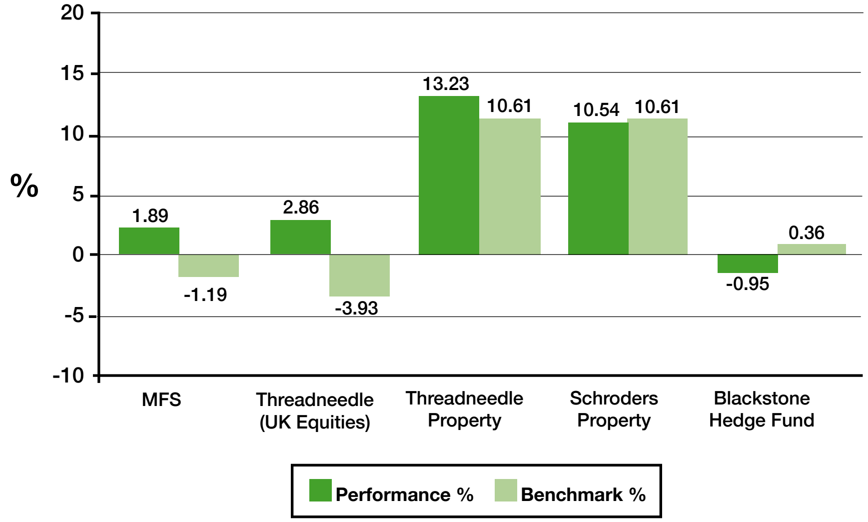
Top Ten Holdings at 31 March 2016

		£ millions
1	Royal Dutch Shell	11.3
2	Imperials Brands	11.1
3	BT Group	10.0
4	Thermo Fisher Scientific	8.1
5	Accenture	7.9
6	Nestle	7.7
7	Honeywell International	7.7
8	Time Warner	7.6
9	Unilever	7.5
10	London Stock Exchange Group	7.4

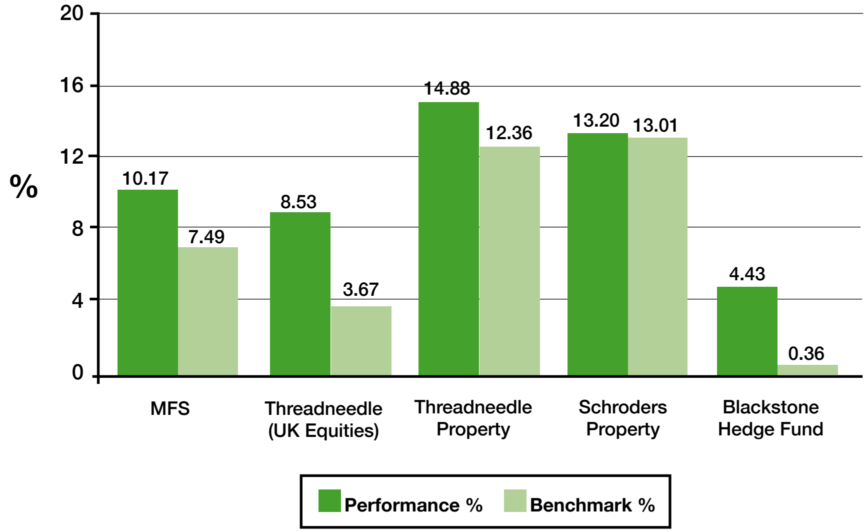
Fund Value over the last Three Years



Fund Manager Performance for the Year Ending 31 March 2016



Fund Manager Performance for Three Years Ending 31 March 2016



Statement of Investment Principles

1. Introduction

Warwickshire County Council (the "Authority") has drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The Authority has consulted with such persons as it considers appropriate including obtaining advice from its consultants in preparing this Statement.

Overall investment policy falls into two parts: strategic management and day-to-day management. The strategic management of the assets is fundamentally the responsibility of the Authority (acting on advice as it deems appropriate) and is driven by its investment objectives as set out in Section 3 below. The day-to-day management of the assets is delegated to the investment managers.

Annex 1 shows how the Warwickshire Pension Fund currently complies with the Principles for Investment Decision Making in accordance with the CIPFA guidance published in 2009 and in accordance with SI 3093 (2009).

Annex 2 sets out the role of the investment consultant.

Annex 3 sets out the day to day investment management arrangements.

2. Overall Responsibility

Warwickshire County Council is the designated statutory body responsible for the administration of the Warwickshire Pension Fund on behalf of its constituent scheduled and admitted body employers. The responsibility for the Fund is delegated through the Staff and Pensions Committee to the Pension Fund Investment Sub-Committee.

The Pension Fund Investment Sub-Committee consists of five County Councillors who are advised by the Council's investment consultant (Hymans Robertson), its independent advisers (Peter Jones and Karen Shackleton) and officers of the County Council. The Board is responsible for:

- Setting investment policy;
- Appointing suitable investment managers to implement the investment policy;
- Reviewing and monitoring investment performance.

The day-to-day monitoring of investment managers is delegated to the Head of Finance who also has a statutory duty to ensure that proper financial arrangements are in place to manage the Fund. The Pension Fund Investment Sub-Committee meets four times a year or more frequently as necessary. The active investment managers will attend these Board meetings on a regular basis.

The Pension Fund Investment Sub-Committee takes account of the views of stakeholders

3. Investment Objectives and Risk

3.1 Investment Objectives

The Authority has set the objective to be at or above a 100% funding level in order that it is able to meet its current and future liabilities. It also has an objective to maintain a stable employer contribution rate that is as low as possible. In order to meet these objectives, a number of secondary objectives have been agreed as follows:

(i) Seek returns that are consistently strong and outperform or match those available in the major investment markets and are comparable with other institutional investors.

(ii) Emphasise investment in markets that over time are likely to give better returns relative to the liabilities.

(iii) Acknowledge the risks of investing and have regard to best practice in managing these risks.

(iv) Have sufficiently liquid resources available to meet the Fund's current liabilities as they fall due.

(v) For the assets of the Fund, in aggregate to outperform the benchmark set out in 3.3.

3.2 Risk

The Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. The principal risks affecting the Fund are

Funding Risks

- Financial mismatch –
  - o The risk that Fund assets fail to grow in line with the developing cost of meeting liabilities.
  - o The risk that unexpected inflation increases the pension and benefit payments and the Fund assets do not grow fast enough to meet the increased cost.
- Changing demographics –The risk that longevity improves and other demographic factors change increasing the cost of 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 liabilities.

The Authority measures and manages financial mismatch in two ways. As indicated above, it has set a strategic asset allocation benchmark for the Fund. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. It also assesses risk relative to the Fund's liabilities by monitoring the delivery of returns relative to liabilities.

The Authority keeps under review mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation.

The Authority 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 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.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates

The Authority manages asset risks as follows. It provides a practical constraint on Fund investments deviating greatly from the intended approach by setting itself diversification guidelines and by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Authority's expected parameters.

By investing across a range of assets, including quoted equities and bonds, the Authority has recognised the need for some access to liquidity in the short term.

In appointing several investment managers, the Authority has considered the risk of underperformance by any single investment manager.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers.
- 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.

When carrying out significant transitions, the Authority takes professional advice and considers the appointment of specialist transition managers.

The Authority monitors and manages risks in these areas through a process of regular scrutiny of its providers and audit of the operations they conduct for the Fund.

3.3 Investment Strategy

The Authority sets a long-term investment strategy (the mix of asset types) to have regard to the Fund's liability structure and the investment objectives above. This is reviewed at least every three years, after each actuarial valuation. The Authority believes that the following investment strategy is currently appropriate for controlling the risks identified in 3.2, given the liability profile of the Fund and its financial position.

Asset Class	Index-Trackers	Active Managers	Alternative Assets	Total (%)
UK Equities	**8.00**	**15.00**		**23.00**
Overseas Equities	**14.00**	**12.50**		**26.50**
European	*7.00*	*2.00*		*9.00*
North American	*1.50*	*7.50*		*9.00*
Far East/ Emerging Markets	*5.50*	*3.00*		*8.50*
Fundamental Global Equity	**5.00**			**5.00**
Property			**10.00**	**10.00**
Hedge Funds			**5.00**	**5.00**
Private Equity			**4.00**	**4.00**
Infrastructure			**4.00**	**4.00**
UK Corporate Bonds	**10.00**			**10.00**
UK Fixed Interest	**2.50**			**2.50**
UK Index-Linked	**5.00**			**5.00**
Absolute Return Bonds		**5.00**		**5.00**
Total	**44.50**	**32.50**	**23.00**	**100.00**

4. Management of the Assets

Detail on the individual investment manager mandates and other pooled investments are provided in Annex 3

4.1 Investment Restrictions

The investment managers are required to comply with LGPS investment regulations. All investment managers are permitted to utilise derivatives in the efficient management of portfolios.

The investment managers' investment decisions are further constrained by a maximum 5% limit on any single investment.

4.2 Realisation of Investments

In general, the Fund's investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. The majority of the Fund's investments may be realised quickly if required. Some of the alternative investments and property may be difficult to realise quickly. However, in aggregate, the combined weight of illiquid assets in the Fund benchmark is around 18% of Fund assets. Further, the Fund has adequate cash flow including investment income to cover benefits without the need to realise assets.

4.3 Expected Return

The strategic benchmark is expected to produce a return in excess of the rate of return assumed in the Actuarial valuation.

4.4 Monitoring and Review

The performance of the Fund's investment managers is independently measured by BNY Mellon Asset Servicing, a subsidiary of the Authority's global custodian, on a quarterly and annual basis. They provide quarterly and annual performance reports to the Authority.

In addition, the Authority meets the main active investment managers at least once a year to review their actions together with the reasons for the background behind the investment performance. The investment managers also provide monthly and quarterly reports and give additional presentations to the Authority as appropriate.

Hymans Robertson is retained as investment consultant to assist the Authority in fulfilling its responsibility for monitoring the investment managers.

The Authority reviews the Fund's asset allocation between the managers on a quarterly basis.

The Authority also monitors the transactions costs of the investment activity of the fund managers.

5. Social, Environmental and Ethically Responsible Investment

- The Authority believes that environmental, social and corporate governance (ESG) issues can have a material impact on the long term performance of its investments. The Authority believes that its primary concern is its responsibility to safeguard the best financial interests of beneficiaries.
- The Authority is a signatory to the FRC's Stewardship Code, and as such expects its investment managers to take account of ESG considerations as part of their investment analysis and decision making process.
- The Authority will monitor its investment managers in this regard and as part of the regular monitoring process will hold its managers to account.

6. Exercise of voting rights

The Authority will be an active owner and will exercise its ownership rights in order to protect the long term interests of the Fund. This will be achieved by exercising voting rights and regular monitoring of the engagement activity of their investment managers.

A specialist advisory firm has been appointed to assist the Fund with its approach to voting.

7. Stocklending

The Authority's policy on stock lending reflects the nature of the mandates awarded to investment managers, which include both pooled and segregated mandates.

Within segregated mandates, the Authority has absolute discretion over whether stock lending is permitted. The Authority permits stock lending in their active mandates (MFS and Threadneedle).

The manager(s) 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 Authority has no direct control over stock lending in pooled funds. The Authority is comfortable that the extent and nature of this activity is appropriate to the circumstances of the Fund.

8. LGPS Investment Regulations – Limits on investment

The Regulations contain limits on the percentage of a pension fund that may be invested into partnerships. The Committee has adopted the higher limits permissible under the regulations in order to allow investment in private equity and infrastructure funds.

The Regulations contain limits on the percentage of a pension fund that may be invested into a single insurance contract. The Committee has adopted the higher limits permissible under the regulations in order to allow more efficient management of its index-tracking assets.

9. Fee Structures

9.1 Rationale for Fee Structure

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

9.2 Investment Consultant Fees

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

9.3 Manager Fees

Manager fees are based on a percentage of assets managed. (In the case of private equity and hedge fund investments there is a performance-related fee element).

10. Compliance with this Statement

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

11. Review of this Statement

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

Principles for Investment Decision Making

The Myners report on Institutional Investment in the UK was published in 2001, and included ten principles of good investment practice. The Local Government (Management and Investment of Funds) Regulations 2002 required Administering Authorities to publish the extent to which they complied with these principles.

In 2007 a review was conducted, and the outcome was that the ten principles were updated to reflect the findings of the review.

Six (modified) principles replaced the original ten and the LGPS regulations 2009 require the Administering Authority to publish the extent to which they comply with these six principles.

Principle 1: Effective Decision-Making

Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.

Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Best Principle Guidance

- The board has appropriate skills for, and is run in a way that facilitates, effective decision making.
- There are sufficient internal resources and access to external resources for trustees and boards to make effective decisions.
- It is good practice to have an investment sub-committee, to provide the appropriate focus and skills on investment decision-making.
- There is an investment business plan and progress is regularly evaluated.
- Consider remuneration of trustees.
- Pay particular attention to managing and contracting with external advisers (including advice on strategic asset allocation, investment management and actuarial issues).

Evaluation of Compliance

- Full compliance. The Fund has a dedicated Investment Sub-Committee that is supported by suitably experienced officers and an independent adviser. All members of the Sub-Committee are offered training and are required to comply or explain. A formal forward looking business plan is published annually. This includes a timetabled programme of tasks concerning the investment advice and actuarial processes for the Fund.

Principle 2: Clear Objectives

Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

Best Practice Guidance

- Benchmarks and objectives are in place for the funding and investment of the scheme.
- Fund managers have clear written mandates covering scheme expectations, which include clear time horizons for performance measurement and evaluation.
- Trustees consider as appropriate, given the size of fund, a range of asset classes, active or passive management styles and the impact of investment management costs when formulating objectives and mandates.
- Consider the strength of the sponsor covenant.

Evaluation of Compliance

- Full compliance. Fund objectives are set out in the Statement of Investment Principles. Fund managers operate to detailed written mandates that give clear investment objectives and timescales for measurement . A customised benchmark has been adopted based on asset/liability studies undertaken by the Fund's investment adviser. Control ranges are in place consistent with performance targets to which the fund managers should work. Management styles and the impact of investment management costs are considered at the time of the regular procurement exercises.

Principle 3: Risk and Liabilities

In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

Best Practice Guidance

- Trustees have a clear policy on willingness to accept under-performance due to market conditions.
- Trustees take into account the risks associated with their liabilities' valuation and management.
- Trustees analyse factors affecting long-term performance and receive advice on how these impact on the scheme and its liabilities.
- Trustees have a legal requirement to establish and operate internal controls.
- Trustees consider whether the investment strategy is consistent with the scheme sponsor's objectives and ability to pay.

Evaluation of Compliance

- Full compliance. Asset allocation forms part of the customised benchmark proposed by the Fund's investment advisor following an asset/liability study and consulted on by the Fund's actuary and independent advisor, and then recommended to the Investment Sub-Committee. Fund managers have discretion to position their portfolios around their agreed benchmark within ranges set out in the SIP, consistent with the performance objectives of the Fund. Whilst the Fund's aspiration is that the active managers will outperform their benchmarks at all times, allowance is made for the managers to have periods of underperformance, while delivering good performance over the long term.

Principle 4: Performance Assessment

Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisors. Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Best Practice Guidance

- There is a formal policy and process for assessing individual performance of trustees and managers.
- Trustees can demonstrate an effective contribution and commitment to the role (for example measured by participation at meetings).
- The chairman addresses the results of the performance evaluation.
- State how performance evaluations have been conducted.
- When selecting external advisers take into account relevant factors, including past performance and price.

Evaluation of Compliance

- Full compliance. Performance of the Fund, and Fund's investment managers, is monitored quarterly. Monitoring of past performance and price of all external service providers and advisers is undertaken annually.

Principle 5: Responsible Ownership

Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents. A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles. Trustees should report periodically to members on the discharge of such responsibilities.

Best Practice Guidance

- Policies regarding responsible ownership are disclosed to scheme members in the annual report and accounts or in the Statement of Investment Principles.
- Trustees consider the potential for engagement to add value when formulating investment strategy and selecting investment managers.
- Trustees ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company.
- Trustees ensure that investment consultants adopt the ISC's Statement of Practice relating to consultants.

Evaluation of Compliance

- The Fund has signed up to the Financial Reporting Council's Stewardship Code, and a statement is on the Fund's website.
- All of the Fund's investment managers (with the exception of the private equity and hedge fund managers) are signatories to the Stewardship Code.
- The Fund has appointed Manifest Voting Agency to undertake voting services.
- The Investment Sub-Committee has already adopted the Institutional Shareholders' Committee Statement of Principles.

Principle 6: Transparency and Reporting

Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.

Trustees should provide regular communication to members in the form they consider most appropriate.

Best Practice Guidance:

- Reporting ensures that the scheme operates transparently and enhances accountability to scheme members and best practice provides a basis for the continuing improvement of governance standards.

Evaluation of Compliance

- Full compliance. Details of the Fund's communication policy is published on the Pension Fund website, together with the actuarial valuation, annual report of the fund, funding strategy statement, governance compliance statement, governance policy statement, statement of investment principles and Myners compliance statement. A summary of the annual report is made publicly available.

Role of Investment Consultant

Hymans Robertson LLP are employed as Investment Consultants to the Fund. The Investment Consultant provides advice to the Authority but does not have responsibility for decision making in any areas. The role encompasses, but is not limited to, the following areas:

i. assistance in helping the Authority formulate investment objectives;

ii. advice on Investment Strategy;

iii. advice on devising an appropriate investment manager structure;

iv. assistance in selecting and monitoring of investment managers.

Investment Management Structure

Having taken advice from its investment consultant, the Authority decided to implement a specialist manager structure. The approach allows the selection of "best in class" managers in each region or asset class, which should lead to superior performance. A specialist structure is less exposed to the performance of any one manager and hence reduces the probability that a poor manager selection detracts from overall performance. A further advantage of this approach is that the investment managers have been selected so that they are unlikely to apply the same investment themes or process and so this provides an additional level of diversification.

Main Assets

The Authority invests the main assets of the Fund in portfolios operated by external investment managers. The Authority is satisfied that the spread of assets by type and the investment managers' policies on investing in individual securities within each type provides adequate diversification of investments.

The investment managers are required to comply with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The managers appointed are listed below.

Manager	Role	Target (%)
Legal and General Investment Management ("LGIM")	Passive Multi-Asset Portfolio	39.5
Columbia Threadneedle Investments ("Threadneedle")	Active UK Equity Portfolio	14.0
MFS Investment Management ("MFS")	Active Global Equity Portfolio	13.5
Legal and General Investment Management ("LGIM")	Passive Fundamental Global Equity Portfolio	5.0
Schroder Investment Management ("Schroder")	Active Property (Multi-Manager) Portfolio	5.0
Columbia Threadneedle Investments ("Threadneedle")	Active Property Portfolio	5.0
Blackstone Alternative Asset Management ("Blackstone")	Active Fund of Hedge Funds Portfolio	5.0
HarbourVest	Private Equity	4.0
J P Morgan Asset Management (UK)	Absolute Return Bonds	5.0
Partners Group	Infrastructure	2.5
Standard Life Capital Partners	Infrastructure	1.5

The investment managers' mandates are as follows:

Columbia Threadneedle Investments: Active UK equity mandate

The details of the UK equity mandate are as follows:-

	Benchmark (%)	Allowable Range (%)	Index
UK Equities	100.0	+/- 5.0	FTSE All-Share Index
Cash	0.0	+/- 5.0	

The performance target for the Threadneedle UK equity mandate is FTSE All Share Index +2.0% per annum (gross of fees) over rolling three-year periods.

LGIM: Passive Global Multi-Asset mandate

LGIM will be expected to maintain the overall Fund benchmark, excluding the proportion of the assets invested in 'alternative assets', by rebalancing its assets under management, i.e., LGIM will act as a "Swing Manager" on behalf of the Fund. Therefore, the ongoing asset allocation will vary. Due to the nature of the Fund's investment in alternative assets, the allocations to Schroder, Threadneedle (Property), Blackstone, JP Morgan, the Fundamental Index mandate and the private equity and infrastructure managers are monitored separately.

LGIM will make use of the following funds to carry out this role.

	Index
UK Equities	FTSE All-Share Index
European (ex UK) Equities	FTSE AW Developed Europe (ex UK) Index
North American Equities	FTSE AW Developed North America Index
Pacific Basin (ex Japan) Equities	FTSE Asia Pacific Developed Pacific (ex Japan) Index
Japan Equities	FTSE AW Japan Index
Emerging Markets Equities	FTSE AW All Emerging Index
UK Index-Linked Gilts	FTSE A Index Linked All Stocks
UK Corporate Bonds	iBoxx Sterling Non-Gilts All Stocks Index
UK Fixed Interest Gilts	FTSE A UK Gilts All Stocks
Total	

Within each class of assets, LGIM will be expected to track the relevant benchmark index within agreed tolerance limits.

LGIM: Passive Fundamental Equity Portfolio

The details of the passive global fundamental equity mandate are as follows:

	Benchmark (%)	Allowable Range (%)	Index
Global Equities	100.00	+/- 5.0	FTSE RAFI All-World 3000 Index
Cash	0.00	+/- 5.0	

LGIM will be expected to track the relevant benchmark index within agreed tolerance limits.

MFS: Active Global Equities

The details of the global equity mandate are:

	Benchmark (%)	Allowable Range (%)	Index
Global Equities	100.00	+/- 5.0	MSCI AC World Index
Cash	0.00	+/- 5.0	
Total	**100.00**		

The out-performance target for the global equity mandate is 1.5% per annum (gross of fees) over rolling three-year periods above the return of the index .

Schroders: Multi-manager Property

The details of the multi-manager property mandate are:

	Benchmark (%)	Index
Property Multi-Manager	100.00	AREF/IPD UK Pooled Funds Index – All Balanced Funds Weighted Average
Total	**100.00**	

The out-performance target for the property mandate is 1.0% per annum (net of fees) over rolling three-year periods above the index return. Schroder has the discretion to invest in European property up to 20% value of the portfolio.

Schroder has the discretion to use derivatives in the management of the fund.

Columbia Threadneedle: Property

The details of the property mandate are:

	Benchmark (%)	Index
Property	100.00	AREF/IPD UK Pooled Funds Index – All Balanced Funds Weighted Average
Total	**100.00**	

The out-performance target for the property mandate is 1.0% per annum (net of fees) over rolling three-year periods above the index return.

Threadneedle has the discretion to invest in European property as part of this mandate.

Blackstone: Fund of Hedge Funds

The details of the fund of hedge funds mandate are:

	Benchmark (%)	Index
Fund of hedge funds	100.00	UK LIBID 7 Day Notice
Total	**100.00**	

The out-performance target for the fund of hedge funds mandate is 6% per annum (net of fees, in Sterling terms) over rolling three-year periods above the index return.

HarbourVest: Fund of Private Equity Funds

The details of the fund of private equity funds mandate are:

	Benchmark (%)	Index
Fund of private equity funds	100.00	MSCI World Index
Total	**100.00**	

The out-performance target for the fund of private equity funds mandate is 5% per annum (net of fees) over the life of the programme.

JP Morgan: Absolute Return Bonds

The details of the absolute return bond mandate are:

	Benchmark (%)	Index
Strategic Bond Fund	100.00	LIBOR
Total	**100.00**	

The performance target for the absolute return bond mandate is +3% p.a. (gross of fees) over a rolling 3 year period.

In addition, Standard Life and Partners Group have been chosen as providers of pooled infrastructure funds for the Fund.

Funding Strategy Statement (FSS)

This Statement has been prepared by Warwickshire County Council (the Administering Authority) to set out the funding strategy for the Warwickshire County Council Pension Fund ("the Fund"), in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the guidance papers issued in March 2004 and November 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

1. Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Warwickshire County Council 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 19 May 2014.

1.2 What is the Warwickshire County Council Pension Fund?

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

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

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

1.3 Why does the Fund need a Funding Strategy Statement?

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

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

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

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

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

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

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for

the next three years) which can be found in an appendix to the formal valuation report;

- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles (see Section 4).

1.4 How does the Fund and this FSS affect me?

This depends who you are:

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

1.5 What does the FSS aim to do?

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

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

1.6 How do I find my way around this document?

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

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

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

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

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. some more details about the actuarial calculations required,

E. the assumptions which the Fund actuary currently makes about the future,

F. a glossary explaining the technical terms occasionally used here.

If you have any queries please contact Neil Buxton at e-mail address neilbuxton@warwickshire.gov.uk or on telephone number 01926 412195.

2. Basic Funding issues

More detailed and extensive descriptions are given in Appendix D.

2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being built up from year to year, referred to as the "future service rate"; plus

b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the "past service adjustment". If there is a deficit the past service adjustment will be an increase in the employer's total contribution; if there is a surplus there may be a reduction in the employer's total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the "deficit recovery period").

2.2 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets, 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.

A larger deficit will give rise to higher employer contributions. If a deficit is spread over a longer period then the annual employer cost is lower than if it is spread over a shorter period.

2.3 How are contribution rates calculated for different employers?

The Fund's actuary is required by the Regulations to report the Common Contribution Rate, for all employers collectively at each triennial valuation, combining items (a) and (b) above. This is based on actuarial assumptions about the likelihood, size and timing of benefit payments to be made from the Fund in the future, as outlined in Appendix E.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances specific to each individual employer. The sorts of specific circumstances which are considered are discussed in Section 3. It is this adjusted contribution rate which the employer is actually required to pay, and the rates for all employers are shown in the Fund's Rates and Adjustments Certificate.

In effect, the Common Contribution Rate is a notional quantity, as it is unlikely that any employer will pay that exact rate. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific circumstances.

Details of the outcome of the Actuarial Valuation as at 31 March 2013 can be found in the formal valuation report dated 31 March 2014, including an analysis at Fund Level of the Common Contribution Rate. Further details of individual employer contribution rates can also be found in the formal report.

2.4 What else might affect the employer's contribution?

Employer covenant, and likely term of membership, are also considered when setting contributions: more details are given in Section 3.

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.

If an employer is approaching the end of its participation in the Fund then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of the higher rate will be taken by the Fund Actuary at subsequent valuations.

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

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

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CABs") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TABs"). 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.

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

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

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

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

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible;

- 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 consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where an employer is considered relatively low risk then the Fund will permit greater smoothing (such as stabilisation or a longer deficit recovery period relative to other employers) which 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, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a more prudent funding basis or a shorter deficit recovery period relative to other employers). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

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

3. Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of methods which the Administering Authority may permit, in order to improve the stability of employer contributions. These include, where circumstances permit:-

- capping of employer contribution rate changes within a pre-determined range ("stabilisation")
- the use of extended deficit recovery periods
- the phasing in of contribution rises or reductions
- the pooling of contributions amongst employers with similar characteristics
- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

These and associated issues are covered in this Section.

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

3.2 The effect of paying contributions below the theoretical level

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than the theoretical contribution rate. 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 choice of method,
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term, and
- it will take longer to reach full funding, 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, other FE establishments and Academies	Open to new entrants	Closed to new entrants	(all)
Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)		Ongoing, but may move to "gilts basis" -see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Future service rate	Projected Unit Credit approach (see Appendix D – D.2)			Attained Age approach (see Appendix D – D.2)	Projected Unit Credit approach (see Appendix D – D.2)
Stabilised rate?	Yes - see Note (b)	Risk Based Model			No
Maximum deficit recovery period – Note (c)	19 years	19 years	19 years	Future working lifetime, subject to 19 years maximum	Outstanding contract term
Deficit recovery payments – Note (d)	Monetary amounts	Monetary amounts	Monetary amounts	Monetary amounts	Monetary amounts
Treatment of surplus (where applicable)	Covered by stabilisation arrangement	Preferred approach: contributions kept at future service rate unless fully funded on a gilts basis.			Reduce contributions by spreading the surplus over the remaining contract term
Phasing of contribution changes	Covered by stabilisation arrangement	3 years - Note (e)	3 years - Note (e)	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	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).		Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

Note (a) (Basis for CABs and Designating Employers (that are not Parish or Town Councils) 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 vary the discount rate used to set the employer's contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

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

Note (b) (Stabilisation)

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

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

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

On the basis of extensive modelling carried out for the 2013 valuation exercise (see Section 4), the stabilised details are as follows:

Type of employer	Local Authority or Police
Max contribution rate increase	+0.75% of pay per annum
Max contribution rate decrease	-0.75% of pay per annum

The stabilisation criteria and limits will be reviewed at the 31 March 2016 valuation, to take effect from 1 April 2017. This will take into account the employer's membership profiles, the issues surrounding employer security, and other relevant factors.

Note (c) (Deficit Recovery Periods)

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for the 2013 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 spreading periods, for example where there were no new entrants.

Where stabilisation applies, the resulting employer contribution rate would be amended to comply with the stabilisation mechanism.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor, not to exceed 19 years.

Note (d) (Deficit Recovery Payments)

The deficit recovery payments for each employer covering the three year period until the next valuation are set as a monetary amount as default.

Note (e) (Phasing in of contribution changes)

All phasing is subject to the Administering Authority being satisfied as to the strength of the employer's covenant.

Employers which have no active members at this valuation will not be phased.

Note (f) (Regular Reviews)

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

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

Note (g) (New Academy employers)

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

a) The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;

b) 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;

c) The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

d) The new academy's initial contribution rate will be set with reference to the following contribution rates:

Year	Contribution rate (% of pay)
2014/15	19.7%
2015/16	20.9%
2016/17	22.0%

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

Note (h) (New Admission Bodies)

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

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

For all new Transferee Admission Bodies, 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.

The Administering Authority will only consider requests from Community Admission Bodies (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/commissioning 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 "commission" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

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

ii) Letting employer retains pre-contract risks

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

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and doesn't pay any cessation deficit.

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

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

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

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

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

a) Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in Appendix E;

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

c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

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

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

The Fund has a formal cessation policy which was last reviewed in November 2013. Full details are available on request.

3.4 Pooled contributions

From time to time the Administering Authority may set up pools for employers with similar characteristics. This will always be in line with its broader funding strategy.

With the advice of the Actuary the Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

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

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 2013 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools.

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 deficit recovery period, 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;
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (NB the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

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

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

3.7 Employers with no remaining active members

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

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

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employees.

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

3.8 Policies on bulk transfers

The Fund will be treat each case 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;
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4. Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

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

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (SIP), 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 after each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

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

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

Therefore, the funding and investment strategies are inextricably linked.

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

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

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

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

4.4 How does this differ for a large stable employer?

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

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;
- Stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

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

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

Whilst the current stabilisation mechanism is to remain in place until 2017, it should be noted that this will need to be reviewed following the 2016 valuation.

Appendix A - Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

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

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

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by the Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2012) and to its Statement of Investment Principles.

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 made available to all participating employers during April and May 2014 for comment;

b) Comments were requested within 30 days;

c) Following the end of the consultation period the FSS was updated where required and then published following the May 2014 sub-committee meeting.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at www.warwickshire.gov.uk/pensions
- A full copy included in the annual report and accounts of the Fund;
- Copies sent to investment managers and independent advisers;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2016.

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

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

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

A5 How does the FSS fit into other Fund documents?

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

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

Appendix B – Responsibilities of key parties

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

B1 The Administering Authority should:-

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

B2 The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- have a policy and exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of Admission Bodies' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

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

Appendix C – Key risks and controls

C1 Types of risk

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

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

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	Only anticipate long-term return 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.
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.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
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. 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).**

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. 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.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, express contributions as monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision.
Reductions in payroll causing insufficient deficit recovery payments	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: **Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).** **For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and deficit contributions have moved from a percentage of payroll to fixed monetary amounts.**

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.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.

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.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations. Deficit contributions are expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. **Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.** **Actuarial advice is subject to professional requirements such as peer review.**
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.

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

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.

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 future benefits being accrued, referred to as the "future service rate"; plus

b) an adjustment for the funding position of accrued benefits relative to the Fund's solvency target, "past service adjustment". If there is a surplus there may be a reduction in the employer's contribution rate. If there is a deficit there will be an increase in the employer's contribution rate, with the surplus or deficit spread over an appropriate period. The aim is to return the employer to full funding over that period. See Section 3 for deficit recovery periods.

The Fund's actuary is required by the regulations to report the Common Contribution Rate[1], for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay; it is in effect an average rate across all employers in the Fund.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[2]. It is the adjusted contribution rate which employers are actually required to pay. The sorts of "peculiar" factors which are considered are discussed below.

In effect, the Common Contribution Rate is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific past service deficit spreading and increased employer contribution phasing periods.

[1] See LGPS (Administration) Regulations 36(5).
[2] See LGPS (Administration) Regulations 36(7).

D2 How is the Future Service Rate calculated?

The future service 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 future service 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 calculation is on the "ongoing" valuation basis (see Appendix E), but where it is considered appropriate to do so the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a more prudent basis (see Section 3).

The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies and Designating Employers that may have the power not to automatically admit all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

a) Employers which admit new entrants

These rates will be derived using the "Projected Unit Method" of valuation with a one year period, i.e. only considering the cost of the next year's benefit accrual and contribution income. If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise over time.

b) Employers which do not admit new entrants

To give more long term stability to such employers' contributions, the "Attained Age" funding method is normally adopted. This measures benefit accrual and contribution income over the whole future anticipated working lifetimes of current active employee members.

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

D3 How is the Solvency / Funding Level calculated?

The Fund's actuary is required to report on the "solvency" of the whole Fund in a valuation which should be carried out at least once every three years. As part of this valuation, the actuary will calculate the solvency position of each employer.

'Solvency" is defined to be the ratio of the market value of the employer's asset share to the value placed on accrued benefits on the Fund actuary's chosen assumptions. This quantity is known as a funding level.

For the value of the employer's asset share, see D5 below.

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

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

D4 What affects a given employer's valuation results?

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

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between each triennial valuation.

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

D5 How is each employer's asset share calculated?

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

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

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

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

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

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

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

E1 What are the actuarial assumptions?

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

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

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

E2 What basis is used by the Fund?

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

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

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

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

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

For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation. In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this "pay freeze" does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2013 valuation has been set to 1% above the retail prices index (RPI) per annum. This is a change from the previous valuation, which assumed long term growth at RPI plus 1.5% per annum.

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. This change was allowed for in the valuation calculations as at 31 March 2010. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the "formula effect" of the difference between RPI and CPI. At this valuation, we propose a reduction of 0.8% per annum.

d) Life expectancy

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

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

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the CMI 2010 model assuming future improvements in life expectancy have peaked and that longer term mortality rates will fall at a rate of 1.25% p.a. for men and women. This is a higher allowance for future improvements than was made in 2010.

The combined effect of the above changes from the 2010 valuation approach, is to add around one year of life expectancy on average. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

e) General

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the future service rate: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

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

Appendix F – Glossary

Actuarial assumptions/basis

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

Administering Authority

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

Admission Bodies

Employers which voluntarily participate in the Fund, so that their employees and ex-employees are **members**. There will be an Admission Agreement setting out the employer's obligations. For more details (see 2.5).

Common contribution rate

The Fund-wide **future service rate** plus **past service adjustment**. It should be noted that this will differ from the actual contributions payable by individual employers.

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.

Deficit

The shortfall between the assets value and the liabilities value. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

Deficit repair/recovery period

The target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual past service adjustment (deficit repair contribution), and vice versa.

Designating Employer

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

Discount rate

The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a liabilities value which is consistent with the present day value of the assets, to calculate the deficit. A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the future service rate and the common contribution rate.

Employer

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

Funding level

The ratio of assets value to liabilities value: for further details (see 2.2).

Future service rate

The actuarially calculated cost of each year's build-up of pension by the current active members, excluding members' contributions but including Fund administrative expenses. This is calculated using a chosen set of actuarial assumptions.

Gilt

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

Guarantee / guarantor

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

Letting employer

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

Liabilities

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

LGPS

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

Maturity

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

Members

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

Past service adjustment

The part of the employer's annual contribution which relates to past service deficit repair.

Pooling

Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another. For further details of the Fund's current pooling policy (see 3.4).

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 up dated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.

Scheduled Bodies

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

Solvency

In a funding context, this usually refers to a 100% funding level, ie where the assets value equals the liabilities value.

Stabilisation

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

Theoretical contribution rate

The employer's contribution rate, including both future service rate and past service adjustment, which would be calculated on the standard actuarial basis, before any allowance for stabilisation or other agreed adjustment.

Valuation

An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2013), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

Actuarial Statement for 2015/16

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 May 2014. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view;
- to 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;
- to reflect the different characteristics of different employers in determining contribution rates; 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 below the theoretical rate required to return their portion of the Fund to full funding over 19 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is a sufficiently high chance that the Fund will return to full funding over 19 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £1,379 million, were sufficient to meet 77% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £419 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 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 valuation report dated 31 March 2014.

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 2013 valuation were as follows:

Financial assumptions	31 March 2013 % p.a. Nominal	31 March 2013 % p.a. Real
Discount rate	4.6%	2.1%
Pay increases	4.3%	1.8%
Price inflation/Pension increases	2.5%	

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 2010 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are as follows:

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

* Currently aged 45

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from Warwickshire County Council, the Administering Authority to the Fund.

Experience over the period since April 2013

Experience has been worse than expected since the last formal valuation (excluding the effect of any membership movements). Real bond yields have fallen dramatically placing a higher value on liabilities. The effect of this has been only partially offset by the effect of strong asset returns. Funding levels are therefore likely to have worsened and deficits increased over the period.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

Richard Warden FFA

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

20 Waterloo Street

Glasgow

G2 6DB

22 April 2016

Risk Management

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

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

The process is summarised as follows:

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

The most recent evaluation was completed in November 2013, copies of the Sub-Committee meeting agenda and minutes are available at:

www.warwickshire.gov.uk/pensions

Governance Compliance Statement

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

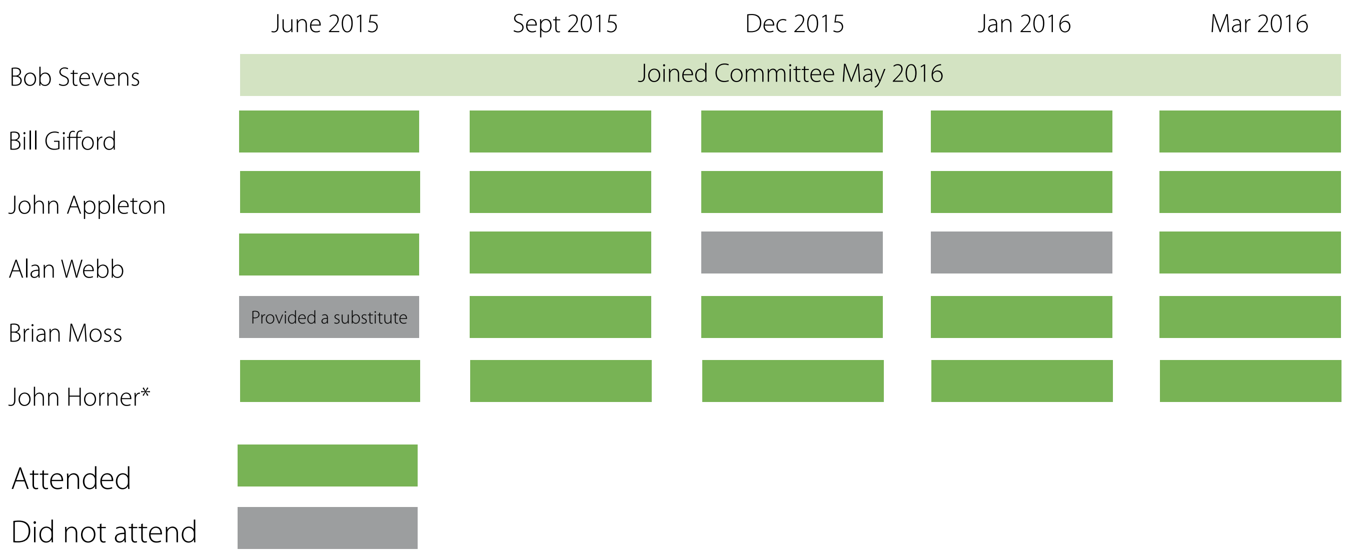
Principle	Warwickshire's Approach	Compliance
Structure		
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Warwickshire County Council delegates the management of the Warwickshire Pension Fund to the Pension Fund Investment Sub-Committee (PFISC) who responsible for these areas under the terms of reference contained in the Council's constitution.	Comply
That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Warwickshire is compliant with these principles. The Local Pension Board ensures employers and scheme members have equal and fair representation.	Comply
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels	Minutes of the PFISC and Local Pension Board meetings are freely available.	Comply
That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	The PFISC consists of County Councillors only.	Explain

Principle	Warwickshire's Approach	Compliance
Representation		
That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: • employing authorities (including non-scheme employers, e.g., admitted bodies);	There are three employer positions on the Local Pension Board representing the administering authority, major precepting employers and a member representing remaining admitted and scheduled bodies.	Comply
• scheme members (including deferred and pensioner scheme members);	The Local Pension Board has two members from trade unions who must demonstrate their commitment to each type of scheme member.	Comply
• independent professional observers; and	The PFISC employs an independent consultant who is an experienced ex chief executive of an investment house. The investment consultant is also present at all PFISC meetings.	Comply
• expert advisors (on an ad hoc basis).	Expert advisors attend the Local Pension Board as required depending on the nature of the decisions to be taken. For example, the actuary attends when the valuation is being considered and the investment consultant attends when strategic asset allocation decisions are being discussed.	Comply
That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	All members are treated equally in terms of access to papers and to training that is given as part of the Board processes. The Local Pension Board members are duty bound to have the skills to sit on the board and are given training and support.	Explain
Selection and role of lay members		
That Board or Panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	PFISC and Local Pension Board members are given initial and ongoing training to support them in their role.	Comply
Voting		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Warwickshire is fully compliant with this principle. Most decisions are reached by consensus, but voting rights remain with councillors because the Council retains legal responsibility as the administering authority. The Local Pension Board has its own voting system and must be independent from the PFISC.	Comply

Principle	Warwickshire's Approach	Compliance
Training/Facility time/Expenses		
That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	This falls within the County Council's normal approach to member expenses. The Chair of the Local Pension Board receives an allowance and expenses but the remainder of the Board will not receive expenses.	Comply
That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	The policy applies equally to all elected members of the PFISC.	Comply
Meetings (Frequency/Quorum)		
That an administering authority's main committee or committees meet at least quarterly.	Warwickshire is fully compliant with this principle by holding quarterly and special appointment meetings.	Comply
That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	The Local Pension Board meet twice yearly.	Comply
That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	The Pension Fund holds an annual meeting in November each year to which all key stakeholders are invited.	Comply
Access		
That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee	Certain papers involving confidential information are held to be exempt from the usual distribution process.	Explain

Principle	Warwickshire's Approach	Compliance
Scope		
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Warwickshire is fully compliant with this principle by bringing investment issues to the PFISC and benefit issues to both the Local Pension Board and Staff and Pensions Committee. A business plan is approved each year.	Comply
Publicity		
That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Warwickshire is fully compliant with this principle by publishing statements in the Annual Report and on its website.	Comply

Member Attendance at Pension Fund Investment Sub-committee Meetings in 2015/16



* ceased being a Committee Member in May 16

Accounts for the year ending 31 March 2016

This section explains our responsibilities, in line with the Public Service Pensions Act 2013 and Local Government Pension Scheme Regulations, for our financial affairs and how we ensure we carry out these responsibilities properly.

Responsibilities of the Pension Fund

We must do the following:

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

Responsibilities of the Head of Finance

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

In preparing the Pension Fund accounts, I have:

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

I have also:

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

John Betts
Head of Finance
22 September 2016

I confirm that the accounts were considered and approved at a meeting of the Council on 22 September 2016.

Councillor Bob Hicks
Chair of the Council
22 September 2016

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.

2014/2015 (Restated) £ m	Fund account – Dealings with members, employers and other people directly involved	2015/2016 £ m
	Income to the fund	
	Contributions receivable	
-53.1	From employers (Note 6)	-52.5
-16.1	From employees (Note 6)	-16.4
-5.7	Transfers in from other schemes (Note 9)	-6.7
-74.9	**Income to the fund**	**-75.6**
	Spending by the fund	
	Benefits to be paid (Note 6)	
54.0	Pension payments	55.5
11.2	Commutation of pensions & lump sum retirement benefits	10.6
1.1	Lump sum death benefits	1.8
	Payments to and on behalf of leavers (Note 6)	
0.2	Refunds of contributions to people who leave the scheme	0.1
33.0	Transfers out of the scheme	5.2
7.4	**Management expenses** (Note 16)	8.2
106.9	**Spending by the fund**	**81.4**
32.0	**Net additions from dealing with members**	**5.8**
	Return on investments (Note 17):	
-13.9	Dividends from equities	-14.8
-7.6	Income from pooled investment vehicles	-7.2
-0.7	Interest on cash deposits	-0.1

2014/2015 (Restated) £ m	Fund account – Dealings with members, employers and other people directly involved	2015/2016 £ m
	Change in market values of investments (Note 5):	
-96.4	Realised profit (-) or loss on sales	-167.0
-73.0	Unrealised profit (-) or loss on investments	155.4
	Taxes on Income	
0.7	Tax we cannot claim back	0.9
-190.9	**Net returns on investments**	**-32.8**
-158.9	**Net increase (-) / decrease in fund during the year**	**-27.0**

2014/2015 £ m	Pension fund net assets	2015/2016 £ m
158.9	Net increase / decrease (-) in fund during the year	27.0
1479.2	Add opening net assets of the scheme	1638.1
1,638.1	**Net assets at the end of the year**	**1,665.1**

As at 31 March 2015 (Restated) £ m	Net assets statement	As at 31 March 2016 £ m
	Investment assets (Note 5)	
7.7	Fixed interest securities	84.3
530.5	Equities	544.8
1,066.7	Managed funds	1,013.2
24.1	Cash and deposits	13.5
2.3	Other Investments	2.9
1,631.3		**1,658.7**
	Current assets	
9.4	Debtors (Note 18)	9.0
1.0	Cash balances (Note 19)	1.0
	Current liabilities	
-3.6	Creditors (Note 18)	-3.6
0.0	Cash balances (Note 19)	0.0
6.8		6.4
1,638.1	**Net assets at the end of the year**	**1,665.1**

Notes to the accounts

1. Operations and Membership

The Warwickshire Pension Fund ('the fund') is part of the Local Government Pension Scheme and is administered by Warwickshire County Council.

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

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

The fund is open to WCC employees, the five district and borough councils and other organisations. You will 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. Two independent specialists provide advice and guidance to the sub-committee, to the Head of Finance and to his staff.

The Public Service Pensions Act 2013 included a requirement to establish a local Pension Board for each LGPS Fund, 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.

The Local Government Pension Scheme was amended from April 2014 when the above regulations came into force. The LGPS Regulations 2013 saw the introduction of a career related pension scheme based on an accrual of 1/49th of pensionable pay received. The pension awarded each year would be revalued in line with earnings as notified by government.

There are protections in place for existing members at 1 April 2014. The benefit structure for these is as follows:

Service prior to 1 April 2008 at 1/80th pensionable pay provides an annual pension and a tax free lump sum based on 3/80th

Service from 1 April 2008 to 31 March 2014 at 1/60th of pensionable pay provides an annual pension.

Membership from 1 April 2014 provides an annual pension of 1/49th of pensionable pay.

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. Whereas, contributions under LGPS2014 are assessed on all pensionable pay received (including overtime and bonus). The contribution bandings were extended with many of the higher paid seeing an increase in contributions. LGPS2014 also saw the introduction of a 50/50 option allowing members the opportunity to contribute 50% for 50% of the benefit entitlement.

As at 31 March 2015	Membership	As at 31 March 2016
16,435	Number of members contributing to the fund	16,502
11,425	Number of pensioners paid by the fund	11,890
14,965	Number of ex-members whose pension rights are 'frozen' until they retire	16,384

2. Accounting Policies

The accounts of the pension fund contain the information set out in the Code of Practice on Local Authority Accounting 2015/2016 (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. They 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 bases. 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 Pension Fund 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 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 the constituent documents of the pool or to the management agreement.
- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.
- Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets 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; 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 equities on the date they 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 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 fund 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 may receive a lump sum retirement grant in addition to a pension. We account for lump sum retirement grants at the date a pension becomes due.

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 recoverable VAT.

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

Fund manager	Mandate	Negotiated fee
Columbia Threadneedle Investments	UK equities	Percentage of the fund
MFS Investment Management	Global equities	Percentage of the fund
Schroder Investment Management	Fund of funds (UK property)	Percentage of the fund
Legal and General Investment Management	Passive index tracker	Percentage of the fund
Columbia 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
Partners Group	Infrastructure	Percentage of the fund
SL Capital	Infrastructure	Percentage of the fund

Where fund manager fees are deducted at source, as opposed to being charged via an invoice, this fee is recorded in the fund revenue account via a journal entry to reflect the charge.

i Private Equity

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using the International Private Equity and Venture Capital Valuation Guidelines 2012. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.

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

n Hedge fund of funds

The fund of funds is valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the fund of funds' directors or independent administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.

o Assumptions made about the future

The Statement of Accounts contains estimated figures that are based on assumptions made by the pension fund 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.

The actuarial valuation at 2013 had made an assumption for the next three financial years and set contribution rates on their view of the future.

We have not made any critical judgements in compiling the accounts

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 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 calculated a funding level of 77%. A revised schedule of employers' contribution rates came into force for three years from 1 April 2014.

During 2015/2016, the County Council contribution rate was 14.30% plus an additional lump sum payment of £4.662 million. Individual employers' rates vary depending on the demographic and actuarial factors particular to each employer. Full details can be found in the 2013 actuarial valuation report and the funding strategy on the Warwickshire Pension Fund website.

The assumptions used for the March 2013 actuarial valuation were as follows:

Actuarial valuation	Nominal %	Real %
Post Retirement Discount Rate	4.60%	2.10%
Pre Retirement Discount Rate	4.60%	2.10%
Salary Increases	4.30%	1.80%
Price Inflation / Pension Increases	2.50%	-

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.

The suceeding triennial valuation, as at 31 March 2016, is now underway. As a result the employers within Warwickshire Pension Fund will have a revised schedule of employer contribution rates for the three years effective from 1 April 2017.

4. Fund Manager Holdings

2014/2015 £ m	%	Market value of external investments	2015/2016 £ m	%
36.5	2.2	State Street Global Advisors (Index Tracker UK Equities)	0.0	0.0
259.3	15.9	Columbia Threadneedle Investments (UK Equities)	264.6	16.0
289.4	17.7	MFS Investment Management (Global Equities)	294.9	17.8
284.4	17.4	Black Rock Global Investors (Index Tracker)	0.0	0.0
220.9	13.5	Legal and General Investment Management (Index Tracker - Global Equities)	404.5	24.4
177.2	10.9	Legal and General Investment Management (Index Tracker - Fixed Income)	283.2	17.1
88.4	5.4	Columbia Threadneedle Investments (Property)	100.1	6.0
79.7	4.9	Schroder Investment Management (Property)	88.1	5.3
79.7	4.9	Blackstone Group International (Hedge Funds)	79.0	4.8
31.1	1.9	HarbourVest (Private Equity)	48.3	2.9
76.6	4.7	JP Morgan (Strategic Bond)	74.0	4.5
0.0	0.0	Standard Life Capital Partners (Infrastructure)	19.3	1.2
0.0	0.0	Partners Group (Infrastructure)	0.7	0.0
8.1	0.5	BNY Mellon (Global Custodian)	2.0	0.1
1,631.3	**100.0**	**Total**	**1,658.7**	**100.0**

5. Investments

	Value 1 April 2015 £ m	Purchases at cost £ m	Sales proceeds £ m	Realised profit or loss (-) £ m	Unrealised profit or loss (-) £ m	Increase in debtors or (creditors) £ m	Value 31 March 2016 £ m
Fixed interest securities	7.7	114.2	-40.4	1.3	1.5	0.0	84.3
Equities	530.5	84.8	-69.5	10.0	-11.1	0.0	544.8
Managed funds	1,066.7	494.8	-557.9	155.6	-146.0	0.0	1,013.2
Cash and deposits	24.1	77.8	-86.5	0.0	0.1	-2.0	13.5
Other investments	2.3	0.3	-1.7	0.0	0.0	2.0	2.9
Total	**1,631.3**	**771.8**	**-756.0**	**167.0**	**-155.4**	**0.0**	**1,658.7**

(Restated)	Value 1 April 2014 £ m	Purchases at cost £ m	Sales proceeds £ m	Realised profit or loss (-) £ m	Unrealised profit or loss (-) £ m	Increase in debtors or (creditors) £ m	Value 31 March 2015 £ m
Fixed interest securities	6.6	0.0	-0.1	0.0	1.2	0.0	7.7
Equities	468.6	107.2	-101.5	19.1	37.1	0.0	530.5
Managed funds	991.6	241.2	-277.6	76.8	34.7	0.0	1,066.7
Cash and deposits	10.4	171.4	-155.7	0.5	0.0	-2.5	24.1
Other investments	0.5	0.6	-1.3	0.0	0.0	2.5	2.3
Total	**1,477.7**	**520.4**	**-536.2**	**96.4**	**73.0**	**0.0**	**1,631.3**

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.

2014/2015 (Restated) £ m		2015/2016 £ m
	Fixed interest securities	
7.7	UK quoted	84.3
7.7		**84.3**
	Stocks and shares	
263.0	UK quoted	261.0
267.5	Overseas quoted	283.8
530.5		**544.8**
	Managed funds	
1,066.7	Managed funds	1,013.2
1,066.7		**1,013.2**
	Cash and deposits	
18.7	Sterling	10.2
5.4	Foreign currency	3.3
24.1		**13.5**
	Other investments	
2.5	Debtors	15.5
-0.2	Creditors	-12.6
2.3		**2.9**

6. Contributions and Benefits

The total contributions we received from employers was £52.5 million (£53.1 million in 2014/2015) and £16.4 million (£16.1 million in 2014/2015) from employees.

Employees contributions during the year included payments of £0.2 million to buy added years and to make additional regular contributions (£0.2 million in 2014/2015).

Employers' contributions during the year included £0.8 million compensation to the fund for those retiring early and being made redundant (£1.9 million in 2014/2015).

The funding objective is to achieve and maintain a funding level of 100% of liabilities. For this reason a proportion of employer contribution received will be to reduce an existing deficit.

2014/2015 £ m	Contributions we receive	2015/2016 £ m
	Administering authority	
25.2	~ From employers	25.5
8.5	~ From employees	8.5
33.7		**34.0**
	Scheduled bodies	
21.5	~ From employers	23.5
7.0	~ From employees	7.3
28.5		**30.9**
	Admitted bodies	
6.3	~ From employers	3.4
0.6	~ From employees	0.6
6.9		**4.0**
	Non-scheduled bodies	
0.1	~ From employers	0.1
0.0	~ From employees	0.0
0.1		**0.1**
69.2	**Total**	**68.9**

2014/2015 £ m	Analysis of contributions by type	2015/2016 £ m
15.9	Employee contributions - normal	16.2
0.2	Employee contributions - purchase of additional years	0.2
43.6	Employers' normal contributions - normal, rechargeable and early retirement strain	42.0
9.5	Employers' deficit funding contributions	10.5
69.2	**Total**	**68.9**

2014/2015 £ m	Benefits to be paid	2015/2016 £ m
	Administering authority	
36.1	~ Pension paid (including lump sums)	37.7
2.2	~ Transfers out (including refunds)	2.0
38.3		**39.7**
	Scheduled bodies	
26.7	~ Pension paid (including lump sums)	26.5
31.0	~ Transfers out (including refunds)	3.3
57.7		**29.8**
	Admitted bodies	
2.9	~ Pension paid (including lump sums)	2.9
0.0	~ Transfers out	0.0
2.9		**2.9**
	Non-scheduled bodies	
0.6	~ Pension paid (including lump sums)	0.8
0.0	~ Transfers out	0.0
0.6		**0.8**
99.5	**Total**	**73.2**

Pensions paid out (including lump sums) was £67.9 million (£66.3 million in 2014/2015) and transfers out (including refunds) was £5.3 million (£33.2 million in 2014/2015).

7 Statement of Investment Principles

The Investment Board approved a statement of investment principles in March 2016.

You can get a copy by writing to the Resources Group, PO Box 3, Shire Hall, Warwick CV34 4RH or from our website: www.warwickshire.gov.uk/pensions.

8. Organisations Contributing to the Fund

Scheduled Bodies

- Alcester Grammar Academy
- Alcester High Academy
- Alcester St Nicholas Academy
- Alcester Town Council
- Ash Green Academy
- Ashlawn Academy
- Atherstone Town Council
- Aylesford School Academy
- Bilton High Academy
- Bishops Itchington Parish Council
- Bidford-on-Avon Parish Council
- Burton Green Parish Council
- Campion School Academy
- Cawston Grange Primary Academy
- Central Multiple Academy Trust Admin Centre
- Clifton on Dunsmore Parish Council
- Coleshill School Academy
- Coleshill Town Council
- Community Academies Trust Admin Centre
- Community Academies Trust Birchwood
- Community Academies Trust Budbrooke
- Community Academies Trust Dordon
- Community Academies Trust Polesworth
- Community Academies Trust Stratford Primary
- Community Academies Trust Wood End
- Community Academy Trust Woodloes Primary
- Coventry Diocese - St Michaels
- Coventry Diocese - St Nicolas
- Coventry Diocese - St Oswalds
- Coventry Diocese - Leamington Hastings CoE Academy
- Coventry Diocese - Harris High
- Coventry Diocese - St James
- Coventry Diocese - Queens Middle School
- Coventry Diocese - Studley St Mary's
- Curdworth Parish Council
- Discovery Academy, Nuneaton
- Erudition (Kingsbury)
- Erudition (Queen Elizabeth)
- Ettington Parish Council
- Griffin Trust (Nich Chamb)
- Griffin Trust (Park Lane)
- Griffin Trust (Race Leys)
- Heartwood AT Austrey
- Heartwood AT Newton Regis
- Heartwood AT Warton Nethersole
- Heartwood AT Woodside
- Henley High Academy
- Henley Primary Academy
- Henry Hinde Academy (Infants)
- Higham Lane Academy
- Holy Spirit Academy Trust St Anne's Catholic Primary School
- Holy Spirit Academy Trust St Benedicts Catholic Primary School
- Holy Spirit Academy Trust St Francis Catholic Primary School
- Holy Spirit Academy Trust St Joseph's Catholic Junior School
- Holy Spirit Academy Trust St Thomas More Catholic School
- Holy Spirit Academy Trust Our Lady of the Angels
- King Edward VI College, Nuneaton
- Kingsbury Parish Council
- Lawrence Sheriff Academy
- Long Itchington Parish Council
- Long Lawford Parish Council
- Mancetter Parish Council
- Matrix Academy Trust – Etone
- The Midland Academies Trust (Nuneaton)
- Midland Academies Trust (George Eliot)
- Midland Academies Trust (Hartshill)
- Midland Academies Trust (Studio College)
- Myton Academy
- Napton Parish Council
- National Education Trust (Henry Hinde Junior School)
- National education Trust (Keresley Newland)
- North Warwickshire and Hinckley College
- North Warwickshire Borough Council
- Nuneaton and Bedworth Borough Council
- Oakwood Primary & Secondary Academy
- Polesworth Nethersole Academy
- The Priors Free School Academy
- Reach2 Academy (Oakfield)
- Reach2 (RaceMeadow)
- Reach2 (Newbold Riverside)
- Rugby Borough Council
- Royal Leamington Spa Town Council
- Rugby Free Primary School
- Rugby High Academy
- Ryton on Dunsmore Parish Council
- Shipston on Stour High School Academy
- Shipston Town Council
- Southam Town Council
- Stour Federation (Shipston Primary)
- Stour Federation (Acorns)
- Stratford upon Avon College
- Stratford on Avon District Council
- Stratford on Avon Girls Grammar Academy
- Stratford on Avon Girls King Edward VI Academy
- Stratford upon Avon School
- Stratford upon Avon Town Council
- Studley High Academy
- Studley Parish Council
- Tanworth in Arden Academy
- Tanworth in Arden Parish Council
- Tudor Grange Academy Trust (Haselor)
- Warwick District Council
- Warwickshire College

- Warwickshire County Council
- Warwickshire Police and Crime Commission
- Wellesbourne Parish Council
- Whitnash Town Council
- Wolvey Parish Council
- Studley Parish Council

Admitted Bodies

- ABM Catering North Leam School
- Alliance in Partnership St Edwards RC
- Alliance in Partnership Oakfield Academy
- Alliance in Partnership Henley Primary Academy
- Alliance in Partnership Mappleborough
- Balfour Beatty
- Barnardo's Bedworth
- Barnardo's Kenilworth
- Barnardo's North Warks
- Barnardo's Nuneaton
- Barnardo's Rugby
- Barnardo's Warwick
- Bedworth, Rugby and Nuneaton Citizens Advice Bureau
- Chartwells
- CLASS Catering (SoA Primary School)
- CLASS Catering (The Willows)
- CLASS Catering (Thomas Jolyfee)
- CLASS Catering (St Marys Immaculate)
- Cleanspace
- Coventry Mind
- Heart of England MENCAP
- Lawrence Cleaning
- Mid Warwickshire MENCAP
- NSL
- North Warwickshire Citizens Advice Bureau
- Nuneaton Leisure (SLM)
- Nuneaton Mencap
- Orbit Housing and Care Group (Sanctuary Housing)
- People in Action
- Rugby Town Centre Company Limited
- Shipston Leisure (SLM)
- 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
- Stratford Artshouse Trust
- Superclean Services
- Taylor Shaw (Myton)
- Taylor Shaw (Park Lane)
- Taylor Shaw (St Pauls)
- The Brandon Trust (North Warwicks)
- The Brandon Trust (Rugby)
- The Parenting Project
- The Rowan Organisation
- Warwick District Citizens Advice Bureau
- Warwick Schools
- Warwickshire Association for the Blind
- Warwickshire Care Services Ltd
- Warwickshire Day Care Centres
- Warwickshire Welfare Rights Service
- Westfield Community Development Association

Other bodies with pensioners but no pensionable employees

- Beaudesert and Henley-in-Arden Parish Council
- Lapworth Parish Council
- Camphill Community Project
- CLASS Catering (Bishopton & Bridgetown)
- CLASS Catering (Round Oak)
- North Warwickshire Council for Voluntary Service
- Nuneaton and Bedworth Leisure Trust
- Nuneaton and Bedworth Council for Voluntary Service
- Orbit Housing Group
- 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)

9. Transfers

2014/2015 £ m	Transfers in from other Pension Funds	2015/2016 £ m
-0.7	Group transfers	-0.7
-5.0	Individual transfers	-6.0
-5.7		**-6.7**

2014/2015 £ m	Transfers Out of The Scheme	2015/2016 £ m
29.3	Group transfers	1.0
3.7	Individual transfers	4.2
33.0		**5.2**

In January 2015 there was a group transfer of £29.3m paid out to Greater Manchester Pension Fund in respect of Warwickshire Probation Trust.

10. Additional Voluntary Contributions

Some members of the pension scheme choose to purchase extra pension benefits via the payment of additional voluntary contributions to our AVC providers; Equitable Life and Standard Life. 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 these assets. As at 31 March 2016, £0.34 million was invested with Equitable Life, and £2.7 million with Standard Life; during the year employees contributed £0.3 million to Standard Life and £3,000 to Equitable Life.

In accordance with Regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 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 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 sub-committee in receipt of a pension and one active member of the pension fund. Each member is required to declare their interests at each meeting. Three members of the Local Pension Board are active members of the pension fund and one is eligible for a refund. 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 2015 £	Accrued pension as at 31 March 2016 £
Head of Finance	577,607	645,558
Head of Corporate Financial Services	231,865	265,895
Pensions Manager	387,070	422,402
Treasury and Pension Fund Manager	135,037	153,395
Principal Accountant	27,861	34,261

12. Investment Performance

Investment Performance	Our pension fund %	Our benchmark %	Local Authority Average %
Yearly return on investments for 2015/2016	1.87%	-0.35%	0.20%

Overall in the financial year 2015/2016, the fund had a return of 1.87% compared with the fund's specific benchmark of -0.35%.

Investment Performance	Our pension fund %	Our benchmark %	Local Authority Average %
Yearly return on investments for 2014/2015	12.89%	11.83%	13.20%

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

CIPFA's Code of Practice on Local Authority Accounting 2015/16 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

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

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

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

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

Balance Sheet

Year ended	31 Mar 2015 £ m	31 Mar 2016 £ m
Present value of Promised Retirement Benefits	2,542.0	2,382.0

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. The estimated liability at 31 March 2016 comprises £1,236m in respect of employee members, £384m in respect of deferred pensioners and £762m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. 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 only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or 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.
I estimate that the impact of the change of assumptions to 31 March 2016 is to decrease the actuarial present value by £240m.

Financial assumptions

The financial assumptions are summarised below:

Year ended	31 Mar 2015 % p.a.	31 Mar 2016 % p.a.
Inflation/Pension Increase Rate	2.40%	2.20%
Salary Increase Rate	4.30%	4.20%
Discount Rate	3.20%	3.50%

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_2012 model, assuming the current rate of improvements has reached a peak and will converge to 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 at the most recent formal valuation as at 31 March 2013.

Please note that the assumptions are identical to last year's 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.

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:

Change in assumptions for the year ended 31 March 2016	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% decrease in discount rate	11%	258
1 year increase in member life expectancy	3%	71
0.5% increase in salary increase rate	4%	88
0.5% increase in pensions increase rate	7%	165

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2016 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

Robert Bilton FFA
14 April 2016
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 £2,382 million, this figure is used for statutory accounting purposes by the Warwickshire 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 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.

14. 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 to a maximum of 25% of the total market value of the stock held within the Fund.

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 Bank plc, which holds a Fitch A+ 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

Liquidity risk

The Pension Fund holds a working cash balance 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 non-sterling assets. In order to calculate this, a currency basket based on the fund's foreign currency mix has been created. The currency is then multiplied by the change in its exchange rate (relative to GBP). Together this sums to the aggregate currency change of the 'basket'.

2015/16

Currency	Value £ m	% Change	Value on Increase £ m	Value on Decrease £ m
Czech Republic Koruna	1	8.5%	1	1
Danish Krone	3	7.8%	3	3
EURO	74	7.7%	79	68
Japanese Yen	2	9.8%	3	2
Mexican Peso	1	10.8%	1	1
Swedish Krona	5	9.2%	5	5
Swiss Franc	25	12.0%	27	22
Thai Baht	1	7.7%	1	1
US Dollar	205	7.5%	220	190
Hong Kong Dollar	1	8.1%	1	1
Total	**316**	**7.9%**	**341**	**291**

2014/15

Currency	Value £ millions	% Change	Value on Increase £ m	Value on Decrease £ m
Brazilian Real	3	11.7%	3	2
Canadian Dollar	5	6.7%	6	5
Czech Rep. Koruna	1	7.5%	1	1
Danish Krone	2	6.2%	2	2
EURO	91	6.1%	97	86
Israeli Shekel	1	7.4%	1	1
Japanese Yen	5	11.0%	5	4
Mexican Peso	1	9.4%	1	1
South Korean Won	2	6.6%	2	2
Swedish Krona	4	7.3%	4	3
Swiss Franc	30	9.3%	32	27
Thai Baht	1	8.1%	1	1
US Dollar	167	7.8%	180	154
Global ex UK Basket	5	6.1%	5	5
Asia Pacific Basket	23	7.3%	25	21
Asia Pacific ex Japan Basket	27	6.4%	29	25
Total	**367**	**7.4%**	**395**	**340**

Price risk is the risk of losses associated with the adverse 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 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.

2015/16

Asset Type	Value £m	% Change	Value on Increase £m	Value on Decrease £m
UK Equities	679.1	18.4%	804.0	554.1
Overseas Equities	262.6	14.6%	300.9	224.2
Total Bonds & IL	295.2	8.0%	318.8	271.5
Cash	14.3	0.0%	14.3	14.3
Alternatives	221.2	10.0%	243.3	199.1
Property	186.3	5.8%	197.2	175.5
Total Assets	**1,658.7**		**1,878.5**	**1,438.8**

2014/15

Asset Type	Value £m	% Change	Value on Increase £m	Value on Decrease £m
UK Equities	591.6	10.3%	652.7	530.5
Overseas Equities	382.6	10.1%	421.3	343.9
Total Bonds & IL	280.1	6.1%	297.1	263.1
Cash	24.5	0.0%	24.5	24.5
Alternatives	187.4	2.3%	191.7	183.1
Property	165.1	3.2%	170.3	159.9
Total Assets	**1,631.3**		**1,757.6**	**1,505.0**

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

15. Other Disclosures

At 31 March 2016, the fund had stock valued at £13.1 million (£2.5 million at 31 March 2015) which was lent out to other organisations. The collateral held against this stock was valued at £13.9 million (£2.7m at 31 March 2015). This generated a total income of £0.023 million up to 31 March 2016 (£0.1m at 31 March 2015).

Collateral for loaned stock is obtained at 102% market value for sterling denominated equities and 105% market value in all other currencies. The fund has full beneficial ownership of the collateral during the loan duration. The full amount of collateral at 31 March 2016 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 2015/2016 we did not draw down any interest earned from fixed interest securities held in pooled units.

During the year 2015/2016, the pension fund paid refunds of contributions to employees of £0.1m after tax has been deducted.

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

The external audit fee for 2015/16 was £0.024 million, this was unchanged from 2014/15.

16. Management Expenses

2014/2015 £ m	Management Expenses	2015/2016 £ m
1.1	Administration costs	1.2
6.0	Investment management expenses	6.6
0.3	Oversight and governance costs	0.4
7.4		**8.2**

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 5 and Note 19). This includes transaction costs which totalled £0.3 million in 2015/16 (£0.5million in 2014/15).

17. Investment Income

2014/2015 £000	Investment Income	2015/2016 £000
0.5	Cash - UK - From administration of the Fund	0.0
697.5	Cash & Other Investments - UK - Fund Managers	55.6
-8.9	Cash & Other Investments - Overseas	-0.7
8,468.4	Equities - UK	9,347.2
2,385.1	Equities - North America	2,528.1
2,469.5	Equities - Europe	2,666.6
84.8	Equities - Japan	57.2
32.9	Equities - Pacific (Ex Japan)	46.7
403.0	Equities - Emerging Markets	124.2
96.0	Stock Lending	23.1
4,037.6	Pooled Property Investments	3,234.8
3,559.9	Pooled Investments - Unit Trusts and Other Managed Funds	3,989.9
22,226.3		**22,072.7**

18. Analysis of Debtors and Creditors

2014/2015 £ m	Current Assets	2015/2016 £ m
2.5	Contributions due from Employers	3.1
1.3	Contributions due from Employees	1.2
0.0	Deficit Recovery Contributions due from Employers	0.0
0.0	Debtors - Strain on Fund	0.1
4.3	Sales to Cash (Invoiced Debtors)	4.0
1.3	Other Debtors	0.6
1.0	Cash balances	1.0
10.4		**10.0**

2014/2015 £ m	Current Liabilities	2015/2016 £ m
1.2	Owed to Administrating Authority	1.3
1.6	Creditors - Suppliers	1.6
0.1	Creditors - Income Received in Advance	0.0
0.7	Creditors - Retirements	0.7
3.6		**3.6**

19. Financial Instruments

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

Financial Instruments 2015/16	Fair Value Through Profit and Loss £ m	Loans and Receivables £ m	Financial Liabilities (current) £ m	Total £ m
Fixed interest securities	84.3	0.0	0.0	84.3
Equities	544.8	0.0	0.0	544.8
Managed funds	1,013.2	0.0	0.0	1,013.2
Cash and deposits	0.0	13.5	0.0	13.5
Other Investments	0.0	15.5	-12.6	2.9
Debtors	0.0	9.0	0.0	9.0
Cash balances	0.0	1.0	0.0	1.0
Creditors	0.0	0.0	-3.6	-3.6
Net assets at the end of the year	**1,642.3**	**39.0**	**-16.2**	**1,665.1**

Financial Instruments 2014/15 (Restated)	Fair Value Through Profit and Loss £ m	Loans and Receivables £ m	Financial Liabilities (current) £ m	Total £ m
Fixed interest securities	7.7	0.0	0.0	7.7
Equities	530.5	0.0	0.0	530.5
Managed funds	1,066.7	0.0	0.0	1,066.7
Cash and deposits	0.0	24.1	0.0	24.1
Other Investments	0.0	2.5	-0.2	2.3
Debtors	0.0	9.4	0.0	9.4
Cash balances	0.0	1.0	0.0	1.0
Creditors	0.0	0.0	-3.6	-3.6
Net assets at the end of the year	**1,604.9**	**37.0**	**-3.8**	**1,638.1**

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

2014/2015 £ m		2015/2016 £ m
-169.4	Fair Value through profit and loss	-11.6
0.0	Loans and Receivables	0.0
0.0	Financial Liabilites (current)	0.0
-169.4		**-11.6**

The following tables categorise the assets that are held at fair value 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 in active market.

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

Valuation at 31 March 2016	Quoted market price Level 1 £ m	Using observable inputs Level 2 £ m	With significant unobservable inputs Level 3 £ m	Total £ m
Financial Assets				
Fair Value through P&L	620.4	874.7	147.2	1,642.3
Financial Liabilities				
Fair Value through P&L	0.0	0.0	0.0	0.0
Net assets at the end of the year	**620.4**	**874.7**	**147.2**	**1,642.3**

Valuation at 31 March 2015	Quoted market price Level 1 £ m	Using observable inputs Level 2 £ m	With significant unobservable inputs Level 3 £ m	Total £ m
Financial Assets				
Fair Value through P&L	610.1	884.0	110.8	1,604.9
Financial Liabilities				
Fair Value through P&L	0.0	0.0	0.0	0.0
Net assets at the end of the year	**610.1**	**884.0**	**110.8**	**1,604.9**

	Value 1 April 2015 £ m	Purchases at cost £ m	Sales proceeds £ m	Realised profit or loss (-) £ m	Unrealised profit or loss (-) £ m	Value 31 March 2016 £ m
Fund of Hedge Funds	79.7	0	0	0	-0.8	78.9
Private Equity	31.1	14.8	-6.2	2.9	5.7	48.3
Infrastructure	0	20.8	-1.1	0.0	0.3	20.0
Total	**110.8**	**35.6**	**-7.3**	**2.9**	**5.2**	**147.2**

	Value 1 April 2014 £ m	Purchases at cost £ m	Sales proceeds £ m	Realised profit or loss (-) £ m	Unrealised profit or loss (-) £ m	Value 31 March 2015 £ m
Fund of Hedge Funds	66.9	8.1	0	0	4.7	79.7
Private Equity	16.5	12.4	-3.5	1	4.7	31.1
Total	**83.4**	**20.5**	**-3.5**	**1**	**9.4**	**110.8**

Hedge Funds held by the fund are held within a fund of funds, the fund does not hold hedge funds directly.

20. 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 31/03/2016	% of Total Fund
L&G GRADE CP BOND ALL STOCKS IND	171.2	10.3%
L&G - UK EQUITY INDEX	132.4	8.0%
THREADNEEDLE TPN PROPERTY A	100.1	6.0%
L&G EUROPE (EX UK) EQUITY INDEX FD	100.1	6.0%
L&G ALL STOCKS INDEX-LINKED GILTS	84.3	5.1%
	588.1	

Security Description	Market Value £m 31/03/2015	% of Total Fund
L&G GRADE CP BOND ALL STOCKS	141.5	8.7%
THREADNEEDLE TPN PROPERTY A	88.5	5.4%
	230.0	

21. Authorisation for Issue

These accounts have taken into account all known events up to 22 September 2016. On that date the accounts were authorised for issue by the Head of Finance.

John Betts
Head of Finance

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 and Cambridgeshire and Northamptonshire (LGSS).
- 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.
- Staff are available to discuss general enquiries from 8am to 5:30pm at our office either by telephone or to visit. In exceptional circumstances we are available for home visits.
- Quarterly bulletins on the investment performance of the fund are distributed to all members of the Pension Fund Sub-Committee.
- An annual report is produced.
- The report is produced on our website and hard copies are available on request.

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Glossary

An A to Z of Investment terms used

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

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

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

Actuarial valuation
A review of the assets and ***liabilities*** of a pension fund to determine the surplus or deficit, and the future rate of contributions required.

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

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

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

Corporate governance
Issues relating to the way in which a company ensures that it is attaching maximum importance to the interests of its shareholders and how shareholders can influence management. Governance issues include executive pay levels and how institutional investors use their votes.

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

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

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

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

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

FRS 17/IAS19
An accounting standard which requires companies to incorporate their pension funds into their balance sheets and specifically that all pension fund ***liabilities*** should be valued using an AA corporate bond yield. Any mismatch between assets and liabilities is effectively brought on to the company's balance sheet, and can potentially increase the ***volatility*** of a company's share price.

FTSE All-Share Index
An arithmetically weighted index of leading UK shares (by market capitalisation) listed on the *London Stock Exchange*, the UK's main exchange for trading in shares. Updated daily. The FTSE 100 Index (or "Footsie") covers only the largest 100 companies.

Fund of hedge funds
See *hedge funds*.

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

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

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

LIBOR
London Inter-Bank Offer Rate. Interest rate at which prime banks will offer to lend money in the London Inter-Bank market.

Myners Report
Paul Myners published a review of issues affecting the pension fund industry on behalf of the government in 2001. His report and subsequent documents have undergone consultation and the Myners' Principles established. These are in the process of being implemented in the industry.

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

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

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

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

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

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

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

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

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

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

WARWICKSHIRE
pension fund

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