



# Warwickshire Pension Fund Statement of Accounts 2015/2016

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

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You can also leave your comments on our website at [www.warwickshire.gov.uk](http://www.warwickshire.gov.uk)

If this information is difficult to understand, we can provide it in another format, for example, in Braille, in large print, on audiotape, in another language or by talking with you.

## **INDEPENDENT AUDITOR'S REPORT**



## Statement of responsibilities for the statement of accounts

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

**Date: 22 September 2016**

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

**Councillor Bob Stevens**  
Chair of the Council

**Date: 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.

Please note tables may not sum due to rounding.

2014/2015 (Restated) £ m	Fund account – Dealings with members, employers and other people directly involved	2015/2016 £ m
	<b>Income to the fund</b>	
	<b>Contributions receivable</b>	
-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
<b>-74.9</b>	<b>Income to the fund</b>	<b>-75.6</b>
	<b>Spending by the fund</b>	
	<b>Benefits to be paid (Note 6)</b>	
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
	<b>Payments to and on behalf of leavers (Note 6)</b>	
0.2	Refunds of contributions to people who leave the scheme	0.1
33.0	Transfers out of the scheme	5.2
7.4	<b>Management expenses (Note 16)</b>	8.2
<b>106.9</b>	<b>Spending by the fund</b>	<b>81.4</b>
<b>32.0</b>	<b>Net additions from dealing with members</b>	<b>5.8</b>
	<b>Return on investments (Note 17):</b>	
-13.9	Dividends from equities	-14.8
-7.6	Income from pooled investment vehicles	-7.2
-0.7	Interest on cash deposits	-0.1
	<b>Change in market value of investments (Note 5):</b>	
-96.4	Realised profit (-) or loss on sales	-167.0
-73.0	Unrealised profit (-) or loss on investments	155.4
	<b>Taxes on Income</b>	
0.7	Tax we cannot claim back	0.9
<b>-190.9</b>	<b>Net returns on investments</b>	<b>-32.8</b>
<b>-158.9</b>	<b>Net increase (-) / decrease in fund during the year</b>	<b>-27.0</b>

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
<b>1,638.1</b>	<b>Net assets at the end of the year</b>	<b>1,665.1</b>

As at 31 March 2015 (Restated) £ m	Net assets statement	As at 31 March 2016 £ m
	<b>Investment assets</b> (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
<b>1,631.3</b>		<b>1,658.7</b>
	<b>Current assets</b>	
9.4	Debtors (Note 18)	9.0
1.0	Cash balances (Note 19)	1.0
	<b>Current liabilities</b>	
-3.6	Creditors (Note 18)	-3.6
0.0	Cash balances (Note 19)	0.0
6.8		6.4
<b>1,638.1</b>	<b>Net assets at the end of the year</b>	<b>1,665.1</b>

## Notes

### 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 1/49<sup>th</sup> 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 1/80<sup>th</sup> pensionable pay provides an annual pension and a tax free lump sum based on 3/80<sup>th</sup>

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

Membership from 1 April 2014 provides an annual pension of 1/49<sup>th</sup> 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 deferred 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.

<b>Fund manager</b>	<b>Mandate</b>	<b>Negotiated fee</b>
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 the value of the fund, and the future liability to pay pensions to current and former employees. The difference between projected assets and liabilities sets the amount employers must contribute. The fund aims to set employers' contributions rates so that the projected assets equal at least 100% of the projected liabilities.

The actuarial valuation as at 31 March 2013 calculated a funding level of 77%. A revised schedule of employers' contribution rates came into force for the 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 statement on the Warwickshire Pension Fund website.

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

<b>Actuarial Valuation</b>	<b>Nominal %</b>	<b>Real %</b>
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 succeeding triennial valuation, as at 31 March 2016, is now underway. As a result the employers within the 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 (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
<b>1,631.3</b>	<b>100.0</b>	<b>Total</b>	<b>1,658.7</b>	<b>100.0</b>

#### 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
<b>Total</b>	<b>1,631.3</b>	<b>771.8</b>	<b>-756.0</b>	<b>167.0</b>	<b>-155.4</b>	<b>0.0</b>	<b>1,658.7</b>

<b>(Restated)</b>	<b>Value 1 April 2014</b>	<b>Purchases at cost</b>	<b>Sales proceeds</b>	<b>Realised profit or loss (-)</b>	<b>Unrealised profit or loss (-)</b>	<b>Increase in debtors or (creditors)</b>	<b>Value 31 March 2015</b>
	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>
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
<b>Total</b>	<b>1,477.7</b>	<b>520.4</b>	<b>-536.2</b>	<b>96.4</b>	<b>73.0</b>	<b>0.0</b>	<b>1,631.3</b>

<b>2014/2015 (Restated) £ m</b>		<b>2015/2016 £ m</b>
	<b>Fixed interest securities</b>	
7.7	UK quoted	84.3
<b>7.7</b>		<b>84.3</b>
	<b>Equities</b>	
263.0	UK quoted	261.0
267.5	Overseas quoted	283.8
<b>530.5</b>		<b>544.8</b>
	<b>Managed funds</b>	
1,066.7	Managed funds	1,013.2
<b>1066.7</b>		<b>1013.2</b>
	<b>Cash and deposits</b>	
18.7	Sterling	10.2
5.4	Foreign currency	3.3
<b>24.1</b>		<b>13.5</b>
	<b>Other investments</b>	
2.5	Debtors	15.5
-0.2	Creditors	-12.6
<b>2.3</b>		<b>2.9</b>

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

## 6 Contributions and Benefits

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

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 £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	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 contributions - normal, rechargeable and early retirement strain	42.0
9.5	Employers deficit funding Contributions	10.5
<b>69.2</b>	<b>Total</b>	<b>68.9</b>

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

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 revised 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](http://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
- Champion 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
- 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

- 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
- Stratford on Avon Girls Grammar Academy
- Stratford on Avon Girls King Edward VI Academy
- Stratford on Avon School Academy
- Stratford upon Avon Town Council
- Studley High Academy
- 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
- 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

- Lawrence Cleaning
- Mid Warwickshire MENCAP
- NSL
- North Warwickshire Citizens Advice Bureau
- Nuneaton Leisure (SLM)

- Warwickshire Association for the Blind
- Warwickshire Care Services Ltd
- Warwickshire Day Care Centres
- Warwickshire Welfare Rights Service
- Westfield Community Development Association

### Other admitted bodies with pensioners but no pensionable employees

- Beaudesert and Henley-in-Arden 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
<b>-5.7</b>		<b>-6.7</b>

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

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	577,607.34	645,558.00
Head of Corporate Financial Services	231,864.99	265,895.00
Pensions Manager	387,070.30	422,401.98
Treasury and Pension Fund Manager	135,036.89	153,395.00
Principal Accountant	27,860.65	34,261.00

## 12 Investment Performance

<b>Investment performance</b>	<b>Our pension fund</b> %	<b>Our benchmark</b> %	<b>Local Authority Average</b> %
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%.

<b>Investment performance</b>	<b>Our pension fund</b> %	<b>Our benchmark</b> %	<b>Local Authority Average</b> %
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/Pensions 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:

	<b>Males</b>	<b>Females</b>
Current Pensioners	22.4 years	24.4 years
Future Pensioners*	24.3 years	26.6 years

\*Future pensioners are assumed to be 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:

<b>Change in assumptions for the year ended 31 March 2016</b>	<b>Approximate % increase to liabilities</b>	<b>Approximate monetary amount (£m)</b>
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 and limits on the amount that can be placed with any one of those counterparties.

### **Liquidity risk**

The Pension Fund holds a working cash balance 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**

<b>Currency</b>	<b>Value £m</b>	<b>% Change</b>	<b>Value on Increase £m</b>	<b>Value on Decrease £m</b>
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%	1.0	1
<b>Total</b>	<b>316</b>	<b>7.94%</b>	<b>341</b>	<b>291</b>

2014/15

Currency	Value £m	% 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
<b>Total</b>	<b>367</b>	<b>7.4%</b>	<b>395</b>	<b>340</b>

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**

<b>Asset Type</b>	<b>Value £m</b>	<b>% Change</b>	<b>Value on Increase £m</b>	<b>Value on Decrease £m</b>
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
<b>Total Assets</b>	<b>1,658.7</b>		<b>1,878.5</b>	<b>1,438.8</b>

**2014/15**

<b>Asset Type</b>	<b>Value £m</b>	<b>% Change</b>	<b>Value on Increase £m</b>	<b>Value on Decrease £m</b>
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
<b>Total Assets</b>	<b>1,631.3</b>		<b>1,757.6</b>	<b>1,505.0</b>

**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 £millions	Management Expenses	2015/2016 £millions
1.1	Administration costs	1.2
6.0	Investment management expenses	6.6
0.3	Oversight and governance costs	0.4
<b>7.4</b>		<b>8.2</b>

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	3234.83
3,559.9	Pooled Investments - Unit Trusts and Other Managed Funds	3,989.9
<b>22,226.3</b>		<b>22,072.7</b>

## 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
<b>10.4</b>		<b>10.0</b>

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
<b>3.6</b>		<b>3.6</b>

## 19 Financial Instruments

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

Financial Instruments 2015/2016	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
<b>Net assets at the end of the year</b>	<b>1,642.3</b>	<b>39.0</b>	<b>-16.2</b>	<b>1,665.1</b>

<b>Financial Instruments 2014/2015 (Restated)</b>	<b>Fair Value Through Profit and Loss £ m</b>	<b>Loans and Receivables £ m</b>	<b>Financial Liabilities (current) £ m</b>	<b>Total £ m</b>
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
<b>Net assets at the end of the year</b>	<b>1,604.9</b>	<b>37.0</b>	<b>-3.8</b>	<b>1,638.1</b>

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

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

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 active market.

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

<b>Valuation at 31 March 2016</b>				
	<b>Quoted market price Level 1</b>	<b>Using observable inputs Level 2</b>	<b>With significant unobservable inputs Level 3</b>	<b>Total</b>
	<b>£ millions</b>	<b>£ millions</b>	<b>£ millions</b>	<b>£ millions</b>
<b>Financial Assets</b> Fair Value through P&L	620.4	874.7	147.2	1642.3
<b>Financial Liabilities</b> Fair Value through P&L	0.0	0.0	0.0	0.0
<b>Net assets at the end of the year</b>	<b>620.4</b>	<b>874.7</b>	<b>147.2</b>	<b>1,642.3</b>

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

	<b>Value 01-Apr</b>	<b>Purchases at cost</b>	<b>Sales proceeds</b>	<b>Realised profit or loss (-)</b>	<b>Unrealised profit or loss (-)</b>	<b>Value 31-Mar</b>
	<b>2015 £ m</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>	<b>2016 £ m</b>
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
<b>Total</b>	<b>110.8</b>	<b>35.6</b>	<b>-7.3</b>	<b>2.9</b>	<b>5.2</b>	<b>147.2</b>



	Value 01-Apr 2014 £ m	Purchases at cost £ m	Sales proceeds £ m	Realised profit or loss (-) £ m	Unrealised profit or loss (-) £ m	Value 31-Mar 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
<b>Total</b>	<b>83.4</b>	<b>20.5</b>	<b>-3.5</b>	<b>1</b>	<b>9.4</b>	<b>110.8</b>

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%
	<b>588.1</b>	

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%
	<b>230.0</b>	

## 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

# Glossary

## An A to Z of Investment terms

### A

#### **Absolute Return**

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

#### **Active management**

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

#### **Active risk**

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

#### **Actuarial valuation**

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

#### **Alpha**

The excess return of the fund relative to the return of the benchmark index is a fund's alpha. Consistently high alpha can indicate skilful management.

#### **Alternative investments**

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

#### **Asset allocation**

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

#### **Asset/liability modelling**

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

### B

#### **Benchmark**

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

#### **Beta**

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

#### **British Venture Capital Association**

The British Private Equity & Venture Capital Association (BVCA) is the industry body and public policy advocate for the private equity and venture capital industry in the UK.

### C

#### **Class action**

A class action arises when a group of investors initiates a legal action against a company or its directors in respect of

alleged negligence or illegal behaviour. The majority of class actions are initiated in the US. The case usually involves a claim for compensation in respect of share price losses in a specified period.

#### **Combined Code**

A code of *corporate governance* principles for UK companies. So called because it combines the recommendations of several key reports on corporate governance issues including those of the committees chaired by Cadbury, Greenbury, Hampel and Higgs.

#### **Commission recapture**

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

#### **Corporate governance**

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

#### **Currency risk**

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

## **D**

#### **Debt Security**

Any debt instrument that can be bought or sold between two Parties and has basic terms defined, such as notional amount (amount borrowed), interest rate and maturity/renewal date.

#### **Defined benefit scheme**

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

#### **Defined contribution scheme**

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

#### **Derivatives**

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

#### **Diversification**

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

#### **Dow Jones Industrial Average**

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

#### **Duration**

The duration of a *bond* is the sum of the present value of the

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

## **F**

### **FRAG 21**

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

### **FRS 17/IAS19**

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

### **FTSE All-Share Index**

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

### **Fund of hedge funds**

See *hedge funds*.

## **G**

### **Growth manager**

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

## **H**

### **Hedge Funds**

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

### **Hedging**

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

## **I**

### **IMA**

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

### **IFRS**

A set of international accounting standards stating how

Particular types of transactions and other events should be reported in financial statements.

**Infrastructure**

Investment in assets that provide sustainable services that are essential for a functioning economy.

**Index Tracker**

An index fund that tracks a broad market index or a segment thereof. Such a fund invests in all, or a representative number of the securities within the index.

## L

**LIBID**

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

**LIBOR**

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

**London Stock Exchange (LSE)**

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

**Limited Partnership**

Two or more partners united to conduct a business jointly, and in which one or more of the partners is liable only to the extent of the amount of money that partner has invested.

## M

**Momentum Manager**

A system of buying equities or other securities that have had high returns over the past three to twelve months, and selling those that have had poor returns over the same period.

**Multi-Asset Management**

Multi-asset management increase the diversification of an overall portfolio by distributing investments throughout several classes.

## N

**NAPF**

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

## P

**Passive Management**

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

**PRAG**

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

**Pooled Funds**

Funds from many individual investors that are aggregated for the purposes of investment, as in the case of a mutual or pension fund.

**Private equity**

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

## R

**Risk**

In its simplest sense, risk is the variability of *returns*. Investments with greater inherent *risk* must promise higher expected returns if investors are to invest in them. Risk

management is an important aspect of portfolio management and involves the use of complex statistical models. See also *active risk*.

**Risk-free asset/rate**

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

**Risk premium**

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

## S

**SORP**

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

**Specialist management**

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

**Statement of Investment Principles (SIP)**

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

**Stocklending**

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

**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.

## T

**Tactical Asset Allocation**

Tactical asset allocation (TAA) is a dynamic investment strategy that actively adjusts a portfolio's **asset allocation**. The goal of a TAA strategy is to improve the risk-adjusted returns of passive management investing.

**Transaction costs**

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

**Transition**

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

## V

**Value Asset Allocation**

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

## **W**

### **Withholding Tax**

A tax deducted at source, especially one levied by some countries on interest or dividends paid to a person resident outside that country.

