Pension Fund Investment Board

21 May 2012

Agenda

The Pension Fund Investment Board will meet at **Shire Hall, Warwick** on **21 May 2012** at **10:00am**

1. General

(1) Election of the Chair and Vice Chair

(2) Apologies

(3) Members' Declarations of Personal and Prejudicial Interests

Members should declare any interests at this point, or as soon as the interest becomes apparent. If the interest is prejudicial, and none of the exceptions apply, you must withdraw from the room. Membership of a district or borough council only needs to be declared (as a personal interest) if you wish to speak in relation to this membership.

(4) Minutes of the previous meeting and matters arising

2. Investment Performance
This report shows the fund value and investment performance for the fourth quarter in 2011/12 to 31 March 2012.

3. Academies and the Local Government Pension Scheme
This report gives the latest position regarding academy schools and the Local Government Pension Scheme.

4. Business Plan Outcome 2011/12
This report sets out the outcome of the annual business plan for 2011/12

5. CIPFA Pension Fund Knowledge and Skills Framework
This report recommends that the Pension Fund Investment Board adopt the CIPFA Knowledge and Skills Framework to identify skills and learning requirements.

6. Clifton-on-Dunsmore Parish Council: Scheduled Body Membership
This report informs the Board that Clifton-on-Dunsmore Parish Council has passed a resolution to become a scheduled body member of the Warwickshire Pension Fund.

7. Directions Order

This report provides information on the Directions Order issued under Section 101 of the Local Government Act 2003 with regards to service outsourcing and LGPS status.

8. Update on the Fund Manager Appointment Process
This report provides an update on the ongoing fund manager appointment process.

9. Future Risks Facing the Warwickshire Pension Fund
This report highlights current risks and pressures to the Warwickshire Pension Fund.

10. SAS70 Fund Manager Control Documents
This report asks members to note and comment on SAS70 Fund Manager Control Documents.

11. Any Other Items
Which the Chair decides are urgent.

JIM GRAHAM
Chief Executive
Shire Hall
Warwick

Membership of the Pension Fund in Investment Board
Councillors John Appleton, Chris Davis (Chair), Jim Foster, Brian Moss, and David Wright

For general enquiries please contact Dave Abbott:
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Minutes of the Pension Fund Investment Board held on 13 February 2012

Present:
Councillors
John Appleton, Chris Davis (Chair), Jim Foster, Brian Moss, and David Wright

Officers
Dave Abbott, Democratic Services Officer
John Betts, Head of Corporate Finance
Neil Buxton, Pensions Services Manager
John Galbraith, Senior Solicitor, Employment Team
Christine Gough, Accountancy Assistant
Andrew Lovegrove, Group Accountant
Phil Triggs, Treasury and Pensions Group Manager

Invitees
Peter Jones, Independent Adviser
Paul Potter, Adviser, Hymans Robertson
Simon Brazier, Head of UK Equities, Threadneedle
Leigh Harrison, Head of Equities, Threadneedle
Andy Wiggins, Client Relationship Director, Threadneedle

1. General

(1) Apologies
None.

(2) Members Declarations of Personal and Prejudicial Interests
Councillor Jim Foster declared a personal interest in relation to item 7 as Governor of a sixth form college in Nuneaton.
Councillor Chris Davis and John Appleton declared personal interests as members of the Local Government Pension Scheme.
Councillor John Appleton declared a personal interest as a resident of Priors Marston.

(3) Minutes of the previous meeting and matters arising
The minutes were agreed as a true record and signed by the Chair.

Matters Arising - Income Contributions (page 1 of 6)
Phil Triggs handed out a sheet that set out income contributions from employers and employees.

The Chair asked for a breakdown of the years 2009/10 and 2010/11 to be brought to the next meeting of the Board.

Matters Arising - Dividend payments (page 4 of 6)

Phil Triggs informed the Board that he has consulted with the Bank of New York Mellon and they have confirmed that the issue is with the collection of overseas dividends.

(4) Chair's Announcements

The Chair, on behalf of the Board, congratulated Phil Triggs for winning Local Government Chronicle Finance Officer of the Year 2011.

2. Investment Performance

Phil Triggs presented the report and noted that the fund value at 31 December 2011 was £1.14bn, showing a slight improvement from the position reported at the previous meeting, due to a small recovery in the markets.

Resolved

That the Board noted the fund value and investment performance for the third quarter in 2011/12 to 31 December 2011.

3. Global Custodian Key Performance Indicators

Phil Triggs presented the report summarising the results of the Fund's custodian, Bank of New York Mellon and noted that all performance indicators were fine, apart from the collection of dividend payments, due to difficulties around collecting overseas dividends.

Following a request from Councillors, Phil Triggs agreed to make further enquiries about the ages of outstanding dividends.

Resolved

That the Board noted the Global Custodian performance for the period 1 October to 31 December 2011.

4. Business Plan for 2012/13

Phil Triggs presented the report of the Business Plan and Actions for 2012/13.

Neil Buxton highlighted the issue of auto-enrollment and said it will be a major administration issue for employers. The Treasury and Pensions department are currently looking at how they can best support employers.

Resolved

That the Board approved the Warwickshire County Council Pension Fund Business Plan for 2012/13 as set out in **Appendix A**.

4.5 Presentation from Threadneedle Investments

Leigh Harrison, Head of Equities at Threadneedle, informed the Board that Simon Brazier, Head of UK Equities at Threadneedle, has taken over as lead manager on the Warwickshire County Council Pension Fund account.

Simon Brazier made a presentation to the Board and the following points were noted:

- Running pension fund money is at the heart of what Threadneedle do.
- Threadneedle aim to outperform the FTSE All Share index by 1.5% per annum over rolling three year periods.
- Over the past 3 years the numbers have been disappointing but the new team is focused on delivering good results.
- Threadneedle have the ability to find good companies to grow in a difficult environment.

The Chair thanked the team from Threadneedle Investments for their presentation.

5. Review of Pension Fund Risk Management

Phil Triggs presented the report about the Register of Risks. Risks that have been upgraded include the risk of falling active payrolls, the risk of structural change, and the risk of legislative change (e.g. Hutton).

Councillors discussed the item and the following points were noted:

- WCC has to encourage people to stay in the pension scheme longer.
- We have to do a better job of reminding employees of the benefits of staying in the scheme.
- The more publicity we give to the scheme the better.

Officers noted that 76% of eligible members at WCC are members of the pension scheme which, compared to the national average, is a good number.
The majority of opt-outs are due to short term financial reasons.

Resolved

Members approved the Register of Risks in **Appendix A**, and approved the process by by which the register was compiled, with the following addition:

The cash-flow element of the fund should be a separate, short-term liquidity risk.

6. The Future of the Local Government Pension Scheme

Phil Triggs presented the report concerning the future of the Local Government Pension Scheme.

Resovled

That the Board noted and approved the report informing members of a recent communication issued by the Secretary of State for the Department for Communities and Local Government, concerning a Heads of Agreement signed jointly by the local government trades unions and the Local Government Association.

7. Academies and the Local Government Pension Scheme

Phil Triggs presented the report regarding the Government's preferred approach as regards to how local authority employers and LGPS administering authorities should deal with the actuarial assessment of the employer contribution rate for academies.

Warwickshire County Council have assumed a deficit recovery period of 19 years, the same as all other bodies.

The Chair requested a follow up report to be brought to the next meeting of the Board.

Resolved

1. That the Board noted the joint release issued by the Secretaries of State for Education and Communities and Local Government reference preferences as to how Local Government Pension Scheme (LGPS) administering authorities and employers should be treating the funding of pensions liabilities for academies.

2. That, pending publication of future academy guidance, the authority continue with its current approach, i.e., allocating the academy's share of assets at date set up and assuming the 2010 actuarial assumptions, setting initial contribution rates at date set up, (again assuming 2010 actuarial assumptions), applying the fund 19-year deficit recovery period, and applying the full employer contribution rate with no stepped phases.

8. Administration Charges

Neil Buxton presented the report and the following points were noted:

- The administration charge for the fund was £1.5m.
- 30 new employers were added to the scheme and that has led to an additional administrative burden.
- The majority of administration for new employers is at the set-up stage.
- New employers aren't having a significant impact day-to-day but if all schools became Academies and joined the scheme there would have to be a re-evaluation.

Resolved

That the Board approved the report, informing members of how administration charges are charged to the Fund and how the additional burden of the increase in scheme employers can be mitigated.

9. Treasury and Pensions: Customer Service Accreditation

Neil Buxton presented the report about how the Treasury & Pensions Group achieved the Customer Service Excellence Accreditation.

Councillor Jim Foster asked if the service receives much feedback from members of the scheme.

Neil Buxton responded:

- There have been 4 complaints this year, mostly due to changes of address that weren't properly updated.
- Treasury and Pensions conduct online surveys and receive good feedback.
- 1 member of staff was shortlisted for the GEM awards (an internal award celebrating excellence).

Resolved
That the Pension Board noted the report and congratulated officers Lisa Webb and Linda Radley for their project management in achieving the accreditation.

10. Reports Containing Confidential or Exempt Information

Resolved
That members of the public be excluded from the meeting for the items mentioned below on the grounds that their presence would involve the disclosure of exempt information as defined in paragraph 1 of Schedule 12A of the Local Government Act 1972.

1(3) Minutes of the Previous Meeting and Matters Arising – Exempt

11. Implementing New Investment Arrangements
Phil Triggs presented the report considering the conclusions from the review of the Fund's investment arrangements approved at the last meeting of the Board on 14 November 2011.

12. Any other Items
None.

The Board rose at 13:20pm

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Chair

Item 2

Pension Fund Investment Board - 21 May 2012

Investment Performance

Report of the Head of Finance

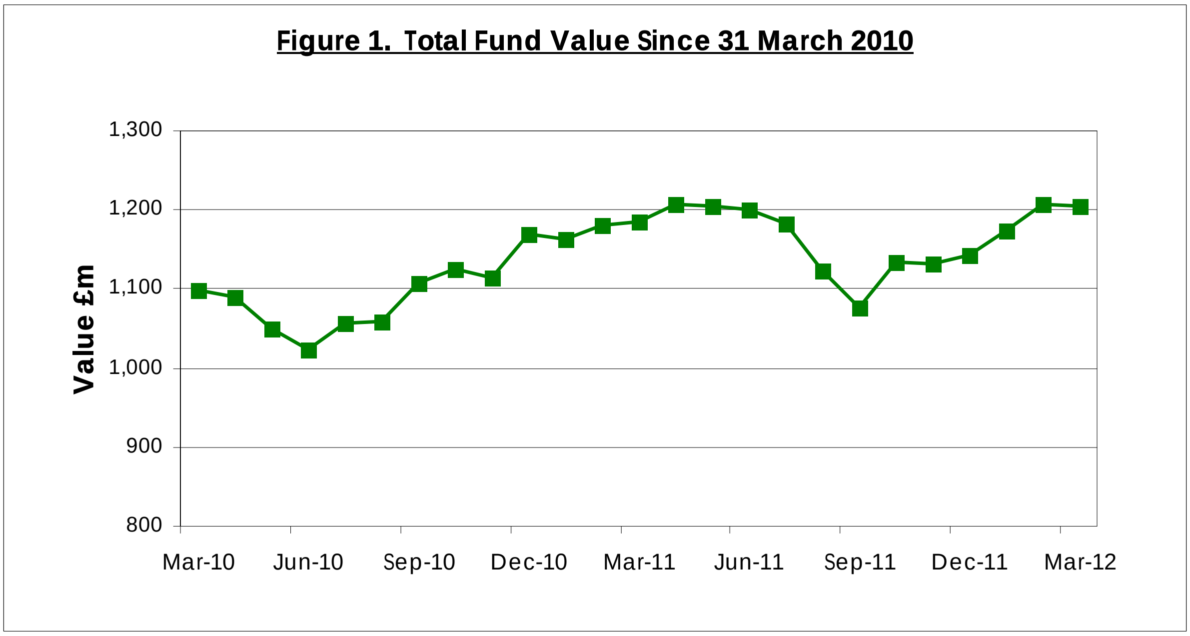
Recommendation

That the Board note the fund value and investment performance for the fourth quarter in 2011/12 to 31 March 2012.

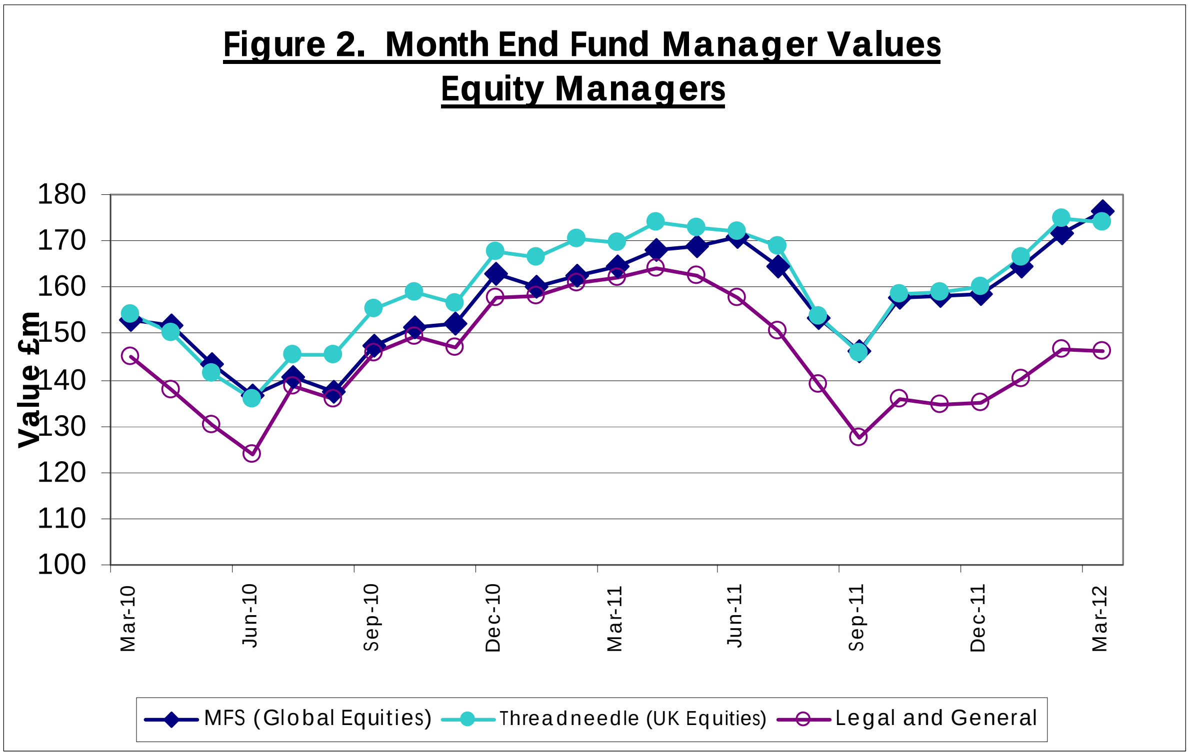
1. Fund Value at 31 March 2012

1.1 The report to the Board's meeting on 13 February 2012 gave the fund position of £1,143.1m at 31 December 2011.

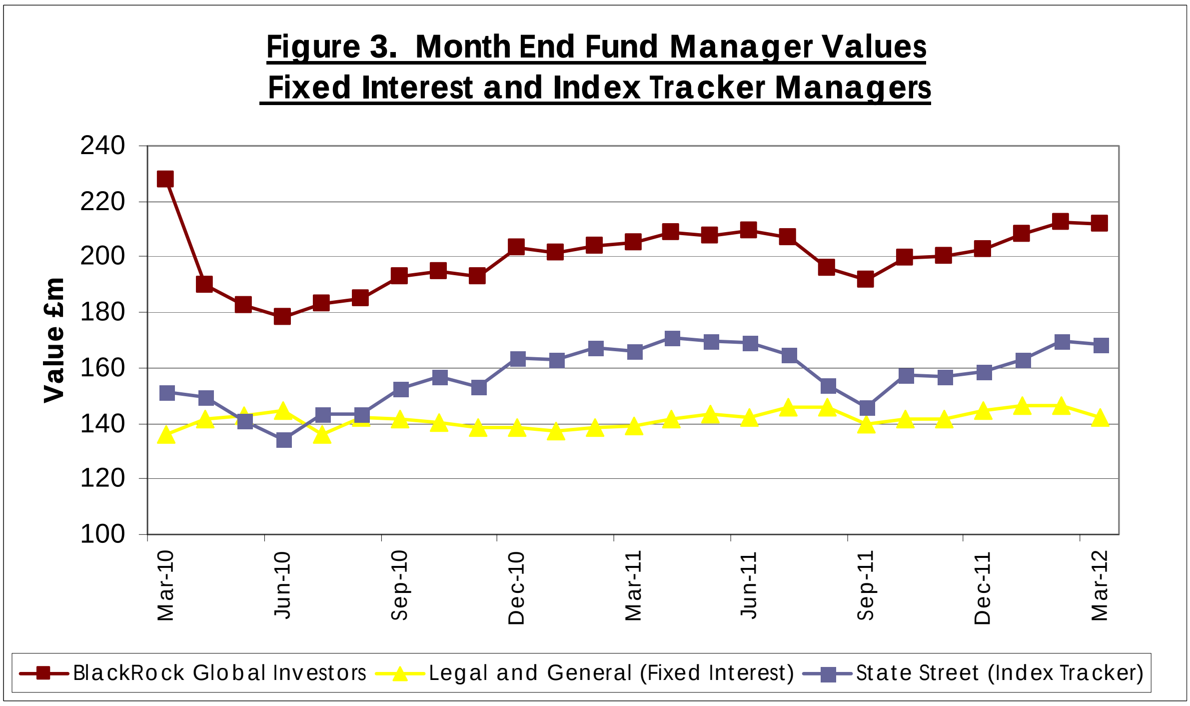
1.2 The fund value was £1,205.3m at 31 March 2012.



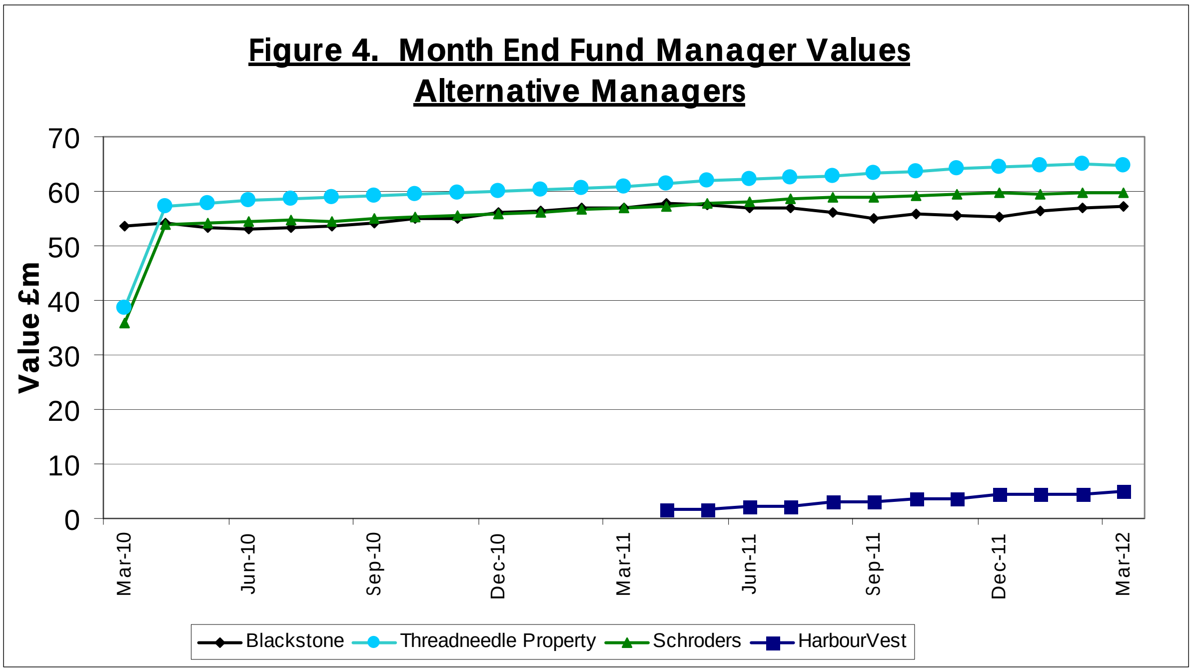
1.3 The values of the portfolios invested with the equity managers are shown in Figure 2.



1.4 The values of the portfolios invested with the Fixed Interest and Index-Tracker Managers are shown in Figure 3.



1.5 The values of the portfolios invested with alternative investment managers are shown in Figure 4.



2. Fund Asset Allocation

2.1 The performance of the Fund against its asset class benchmarks for the quarter ending 31 March 2012 is shown in Table 1 (which is to be distributed at the board meeting).

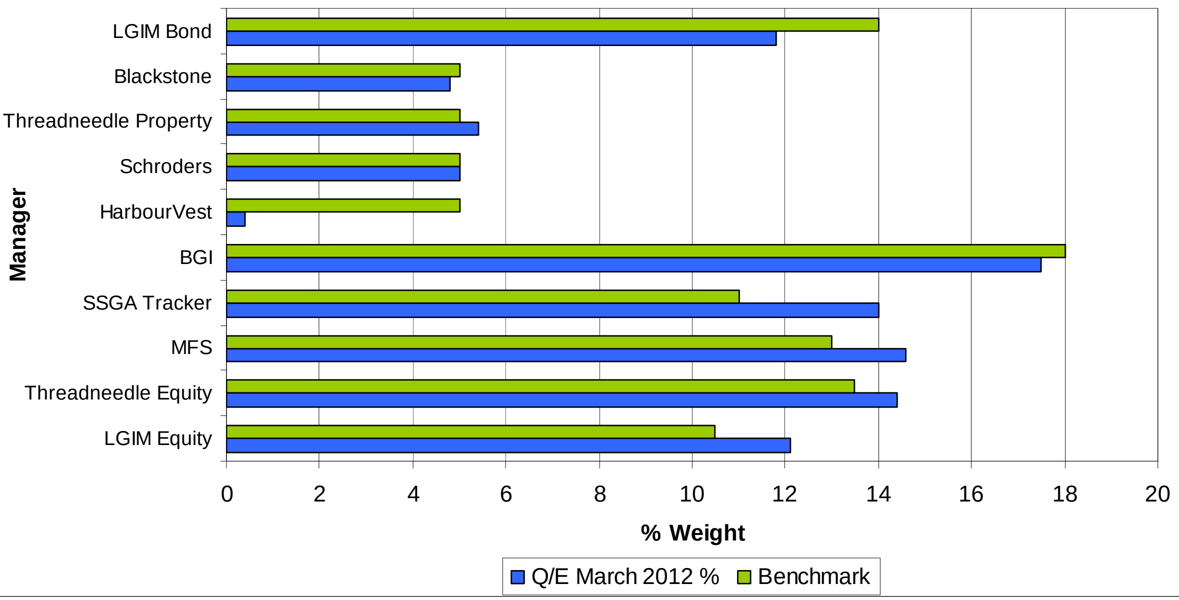
2.2 The fund managers' asset allocation against the benchmark for the quarter ending 31 March 2012 is shown in Table 2.

Table 2: Fund Asset Allocation by Manager

Manager	Benchmark	Q/E March 2012 %	Varience
LGIM Equity	10.5	12.1	1.6
Threadneedle Equity	13.5	14.4	0.9
MFS	13.0	14.6	1.6
SSGA Tracker	11.0	14.0	3.0
BGI	18.0	17.5	-0.5
HarbourVest	5.0	0.4	-4.6
Schroders	5.0	5.0	0.0
Threadneedle Property	5.0	5.4	0.4
Blackstone	5.0	4.8	-0.2
LGIM Bond	14.0	11.8	-2.2
Total	100.0	100.0	0.0

2.4 Fund asset allocation against each manager is shown in Figure 5.

Figure 5. Manager Allocation - Quarter Ending 31 March 2012



2.5 HarbourVest will not be fully subscribed for some time as funds will be drawn down when the manager requests the instalment payments.

3. Fund Performance

3.1 The performance of the Fund against its asset class benchmarks for the quarter ending 31 March 2012 is summarised in the table below.

Table 3: Performance by Asset Type

Asset Type	Benchmark Measure	Q/E Mar 2012	Benchmark %	Variance %
Equity				
United Kingdom	*Total Fund UK Composite*	7.59	6.00	**1.59**
Europe ex UK	*FTSE AW Dev Europe ex UK*	10.87	9.65	**1.22**
North America	*FTSE AW Dev North America*	9.97	9.27	**0.70**
Japan	*FTSE World Japan*	8.75	7.88	**0.87**
Pacific Basin ex Japan	*FTSE AW Developed Asia Pacific (ex Japan)*	9.45	9.75	**-0.30**
Emerging Markets	*Total Fund Emerging Markets Composite*	12.00	10.80	**1.20**
Fixed Income				
UK Corporate Bonds	*iBoxx Sterling Non-Gilts*	2.56	2.67	**-0.11**
UK Government Bonds	*FTSE UK Government All Stocks*	-0.61	-1.74	**1.13**
UK Index Linked Bonds	*FTSE UK Government Linked Gilts*	-1.50	-1.51	**0.01**
Alternatives				
Property	*Property Benchmark*	0.50	3.04	**-2.54**
Hedge Funds	*Hedge Funds Benchmark*	3.23	1.53	**1.70**
Total WCC Fund	***WCC Total Fund Benchmark***	**5.84**	**5.26**	**0.58**

3.2 Overall, the fund out-performed the benchmark by 0.58%. There was out-performance in eight asset classes:

- UK Equities performed 1.59% above the benchmark.
- European Equities performed 1.22% above the benchmark.
- North American Equities performed 0.70% above the benchmark.
- Japanese Equities performed 0.87% above the benchmark.

- Emerging Markets performed 1.20% above the benchmark.
- UK Government Bonds performed 1.13% above the benchmark.
- UK Index Linked Bonds performed 0.01% above the benchmark.
- Hedge Funds performed 1.70% above the benchmark.

3.3 However, three asset classes either equalled or under-performed their benchmarks in the quarter.

- Pacific Basin ex Japan performed 0.30% below the benchmark.
- UK Corporate Bonds performed 0.11% below the benchmark.
- Property performed 2.54% below the benchmark.

3.4 The performances of managers against their benchmarks for the quarter ending 31 March 2012 were:

Table 4: Performance by Fund Manager

Manager	Benchmark Measure	Q/E Mar 2012	Benchmark	Variance
		%	%	%
BlackRock Global Investors		4.55		**-0.25**
	BlackRock Benchmark		4.80	
MFS		11.19		**2.36**
	Global Equity Benchmark		8.83	
State Street Tracker		6.15		**0.04**
	FTSE All-Share		6.11	
Threadneedle		8.69		**2.58**
	FTSE All-Share		6.11	
Legal and General (Global Equities)		9.02		**0.08**
	LGIM Benchmark		8.94	
Legal and General (Fixed Interest)		1.06		**0.61**
	LGIM Benchmark		0.45	
Threadneedle Property		0.63		**-2.41**
	Threadneedle Property Benchmark		3.04	
Schroders Property		0.37		**-2.67**
	Schroders Property Benchmark		3.04	
Blackstone Hedge		3.23		**1.70**
	Blackstone Hedge Benchmark		1.53	
Total		**5.84**		**0.58**
	WCC Total Fund Benchmark		**5.26**	

Source: BNY Mellon

3.5 Overall the fund out-performed its overall benchmark by 0.58%. During the quarter MFS, State Street, Threadneedle (UK Equities) and Legal and General (Global Equities), Legal and General (Fixed Interest), and Blackstone out-performed their benchmarks. All other managers under-performed their benchmarks.

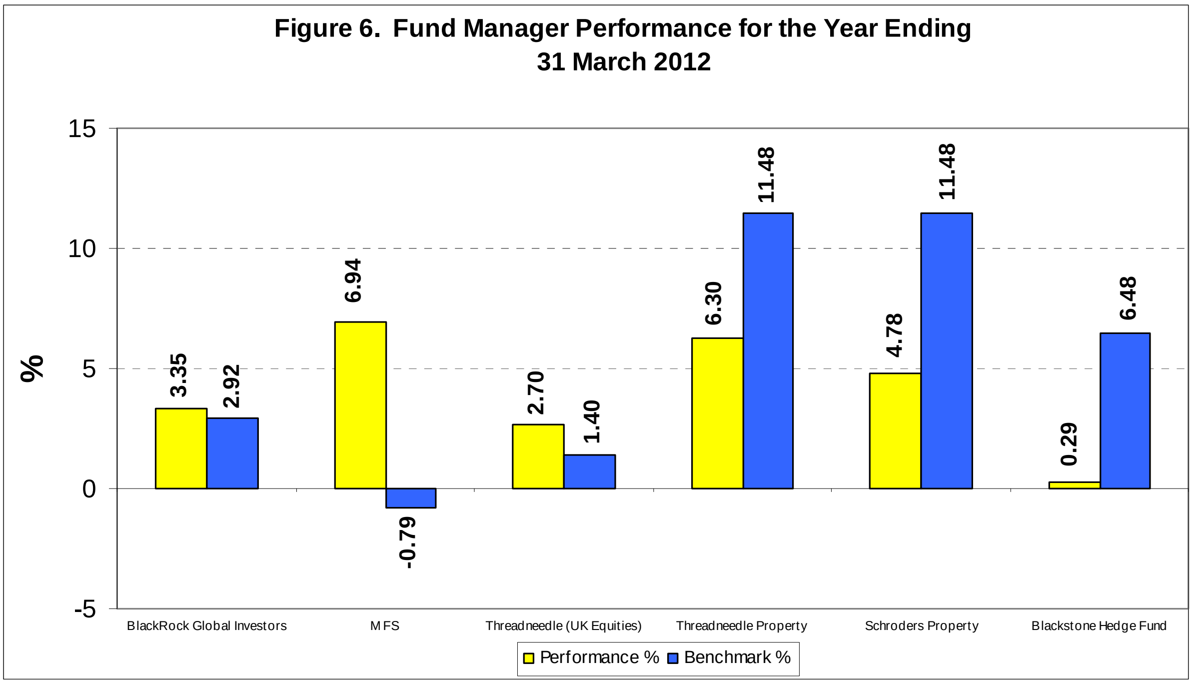
3.6 Twelve months data on the performance of the managers is available. The performance of managers against their benchmark over this period is shown below.

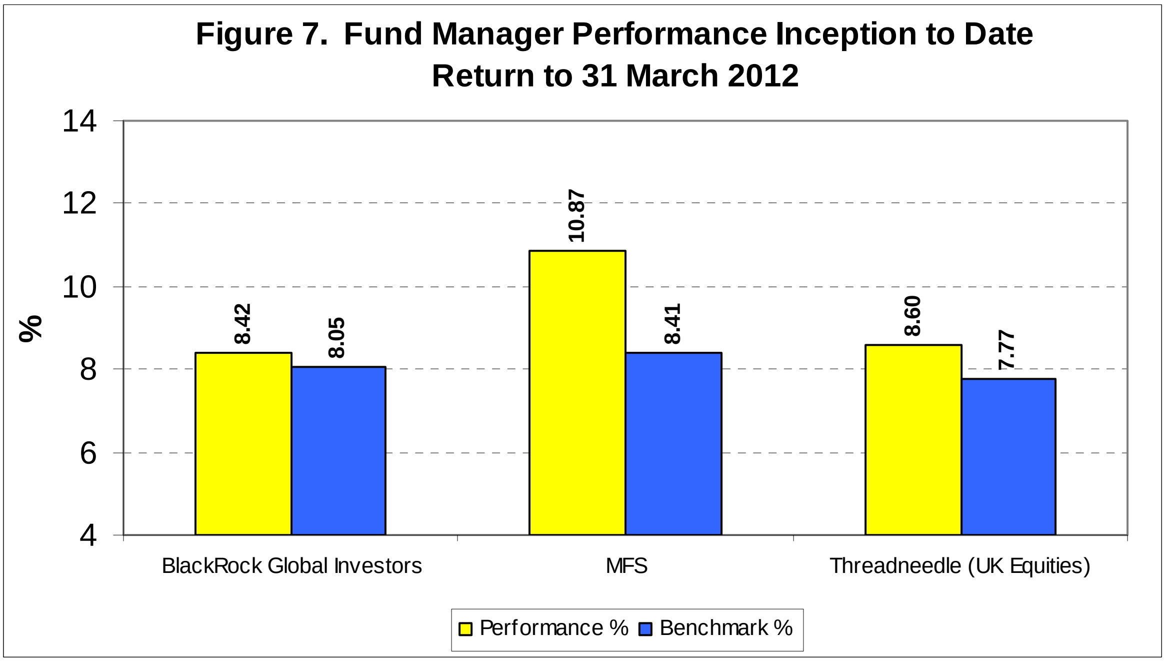
Table 5: Fund Manager Performance to Date

Manager	**Variance Q/E Jun 11 %**	**Variance Q/E Sep 11 %**	**Variance Q/E Dec 11 %**	**Variance Q/E Mar 12 %**
BlackRock Global Investors	**-0.55**	**1.03**	**0.08**	**-0.25**
MFS	**3.14**	**0.23**	**2.16**	**2.36**
State Street	**-0.16**	**0.04**	**0.06**	**0.04**
Threadneedle	**-0.44**	**-1.81**	**1.55**	**2.58**
Legal and General (Global Equities)	**0.58**	**-1.82**	**0.32**	**0.08**
Legal and General (Fixed Interest)	**0.00**	**-0.88**	**-0.29**	**0.61**
Threadneedle Property	**0.26**	**-1.49**	**-1.22**	**-2.41**
Schroders Property	**0.01**	**-1.82**	**-1.85**	**-2.67**
Blackstone Hedge	**-0.20**	**-5.00**	**-0.80**	**1.70**
Total	**0.14**	**-0.66**	**0.16**	**0.58**

Source: BNY Mellon

3.7 The Annualised return for the fund managers to 31 March 2012 is summarised in Figure 6. The Inception to Date return is summarised in Figure 7.





Source: BNY Mellon

3.8 Fund Manager performances against their benchmarks are summarised in Figures 8 and 9.

Figure 8. Fund Manager Out/Under Performance Against Their Benchmark Since March 2010 - Equity Managers

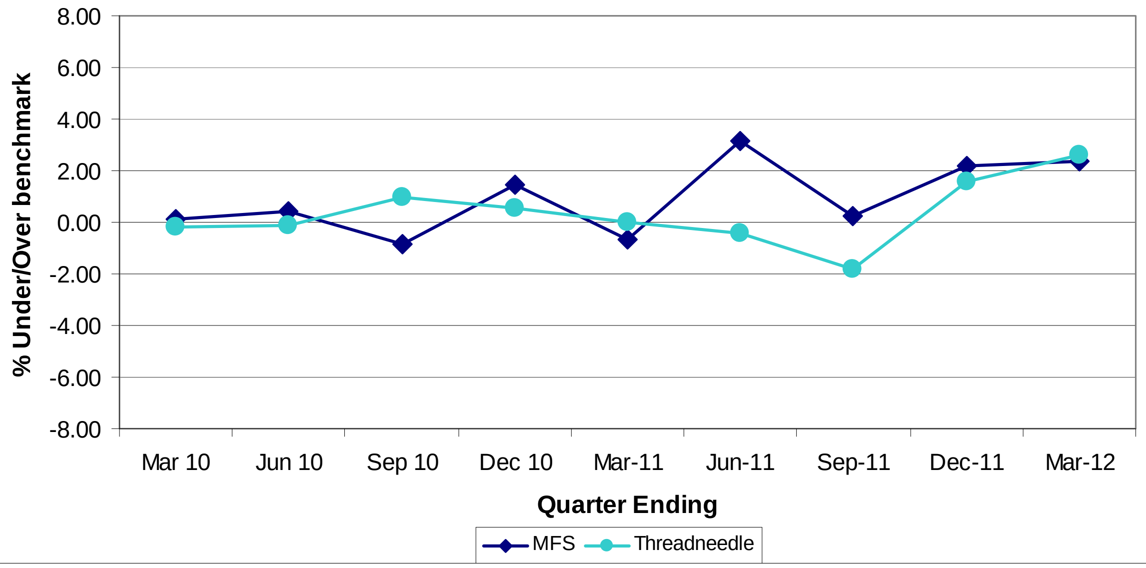
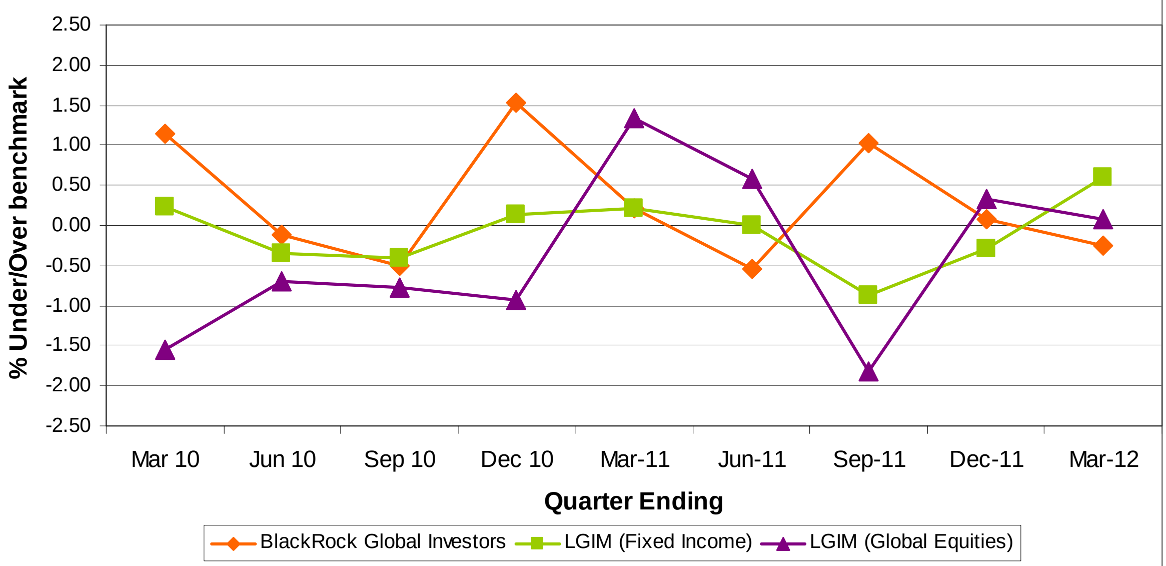


Figure 9. Fund Manager Out/Under Performance Against Their Benchmark Since March 2010 - Passive Managers



Source: BNY Mellon

	Name	Contact Information
Report Author	Phil Triggs, Group Manager Treasury and Pensions	philtriggs@warwickshire.gov.uk
Head of Service	John Betts Head of Finance	johnbetts@warwickshire.gov.uk
Strategic Director	David Carter, Strategic Director	davidcarter@warwickshire.gov.uk
Chair	Cllr Chris Davis	cllrdavis@warwickshire.gov.uk

Item 3

Pension Fund Investment Board

21 May 2012

Academies and the Local Government Pension Scheme

Recommendation

That the Board note the update concerning academies in the Warwickshire Pension Fund.

1.0 Introduction

1.1 Following the Investment Board meeting of 13 February 2012, the Treasury and Pensions Group wrote to all the academies in Warwickshire to confirm the Fund's approach of not pooling academies with maintained schools.

1.2 Two academies responded with the raising of objections to the policy and these have been resolved by the Treasury and Pensions Group. Emphasis has been made to the objectors that it is not currently Board policy to apply varying assumptions to the actuarial calculations to reflect the greater risk associated with academies, a stance that differs from the approach adopted by other administering authorities elsewhere in the country.

2.0 Warwickshire Academies

2.1 There are currently 20 academies and one free school with admitted body membership status in the Warwickshire Fund. Two of these academies have merged as part of the Midlands Academy Trust.

2.2 The average employer rate for academies in the Fund is 17.4% and ranges from 16.2% to 21.9%. The Priors Free School contributes 15.0%, representing a future accrual rate only.

2.3 Currently, 966 LGPS individual members have transferred from the County Council to academies within the Warwickshire Fund.

2.4 The Treasury and Pensions Group has been informed that there are currently a further five schools considering a switch to academy status later this year.

3.0 Further Considerations

3.1 The Secretary of State for the Department for Communities and Local Government has yet to issue any further advice following his joint letter with the Secretary of State for Education and their proposal that academies should be treated as pooled with maintained schools for actuarial purposes.

	Name	Contact Information
Report Author	Neil Buxton, Pension Services Manager	neilbuxton@warwickshire.gov.uk
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Chair	Cllr Chris Davis	cllrdavis@warwickshire.gov.uk

Item 4

Pension Fund Investment Board

21 May 2012

Business Plan Outcome 2011/12

Recommendation

That the Board note the progress made with regard to the Pension Fund Business Plan objectives for 2011/12.

1.0 Introduction

1.1 Following the publication of the Myners Report and the CIPFA Principles, local authority pension funds are recommended to compile an annual business plan.

1.2 This report sets out the outcome of the annual business plan for 2011/12.

2.0 Business Plan 2011/12

2.1 The business plan listed the investment and pension administration tasks to be carried out during 2011/12, and the target date when these should be achieved.

2.2 The Investment Board approved the 2011/12 business plan at its meeting on 14 February 2011. The plan reconciled with the Treasury and Pensions Group's section of the Business Plan 2011-2014 compiled for the Resources Directorate.

3.0 Outcomes in 2011/12: Administration

3.1 Action 1: Head of Corporate Finance to receive a service plan report on a quarterly basis.

Outcome: Achieved. All service plan reports were passed to the Head of Corporate Finance within the stated time limit of five weeks after the quarter end. There were no reported instances of failures to meet any objectives or targets.

3.2 Action 2: PFIB to receive the Pension Fund Annual Report by 30 September 2011.

Outcome: Achieved. The Pension Fund Annual Report was posted onto the Fund’s website in September 2011. It was used as the basis for the Local Government Pension Fund of the Year Award 2011, again being shortlisted into the final selection.

3.3 Action 3: Review of any complaints and how they have been dealt with by the Head of Corporate Finance.

Outcome: Four complaints were received in 2011/12 and were addressed and resolved as follows:

1. A complaint was received by an active member who had to wait several weeks for a reply to an enquiry about their pension entitlement. A letter of apology was sent.

2. A complaint was received by a preserved member who had to wait several weeks for a reply to an enquiry about their pension entitlement. A letter of apology was sent.

3. The daughter of a deceased member complained about information having been sent to an incorrect address. This was because the deceased member had received two pensions from the Pension Fund but only one record had been updated with the amended address. A letter of apology was issued.

4. A complaint was received from an overseas preserved beneficiary member concerning his address not having been amended. A letter of apology was issued.

Complaints 1 and 2 above were due to a member of staff not entering enquiries into the task manager workflow system. Additional training was provided as a result.

3.4 Action 4: Task Manager/AXISe implementation/Document Imaging.

Outcome: Achieved. All major functions are now processed through the Task Manager workflow system. This enables pensions administrators to see exactly at what point within the process a task has reached. Team Leaders have control functions which enable the monitoring of work for their teams.

All files for active members have now been scanned and are accessible electronically. All post received is scanned to the relevant member’s file and the administrator. When dealing with a case, staff no longer require access to a paper file. All information relating to an active member is available online. Files for retired members are scanned as and when it is necessary to recall the file from the archive.

The Group has still to resource the scanning of preserved member benefit files. It is planned for this part of the project to be completed during 2012/13.

3.5 Action 5: Website implementation.

Following a review of the corporate website, Treasury and Pensions has been reviewing the structure of the website and will implement some aesthetic changes.

The Group has yet to develop a bespoke area for employers and retired members. Further discussions with the County ITC section about limited online access for members to perform illustrations of their benefit entitlement are in the pipeline.

3.6 The Treasury and Pensions Group was awarded its Customer Service Excellence accreditation on 3 February 2012.

4.0 Outcomes in 2011/12: Communication

4.1 Action 1: Timely production of at least one pensioners' newsletter.

Outcome: Achieved. In line with the corporate edict on the production of newsletters, the Group has reviewed and limited the production of the Ragged Staff newsletter.

4.2 Action 2: Timely production of benefit statements.

Outcome: Achieved. Benefit statements were issued to all current members, preserved members and councillor members. All benefit statements were issued by our target date of 30 September 2011.

4.3 Review communication material in last twelve months and compare with good practice.

Outcome: Achieved. All standard booklets, information sheets and pro forma documentation are continuously reviewed and updated as appropriate. Members of the Pensions Team continue to host presentations to member groups and to one-to-one sessions for individual members around the County.

The Group has worked closely with several neighbouring administering authorities in the production of newsletters for active members of the LGPS.

The Group has also produced the first bi-monthly newsletter for employers and hosted the inaugural employers' forum in January 2012. Both of these initiatives aim to keep employers informed about the provisions of the LGPS and planned developments to the scheme, including auto-enrolment.

5.0 Outcomes in 2011/12: Actuarial/Funding

5.1 Action 1: Finalise 2010 actuarial valuation outcome.

Outcome: Achieved. The 2010 actuarial valuation was successfully resolved and implemented with all employer member contribution rates communicated within the target deadline.

5.2 Action 2: Receive feedback and agreement from employers.

Outcome: Achieved. Favourable feedback was received from the employer bodies.

The Fund’s actuary presented to all organisational member representatives at the Fund’s annual meeting held on 24 November 2011.

5.3 Action 3: Receive annual funding updates (ongoing and FRS17/IAS19).

Outcome: Achieved. The FRS17/IAS19 valuation of the Fund was successfully carried out in 2011/12.

5.4 Action 4: Receive contribution monitoring schedules from the Treasury Team and monitor.

Outcome: Achieved. Contributing authorities to the Fund are closely monitored as to the accuracy and completeness of their monthly contribution receipts. Late or inaccurate payments were always followed up immediately. There are no outstanding issues with member bodies.

5.5 Action 5: Member training covering funding issues.

Outcome: Partly achieved. Regular quarterly training has been temporarily suspended. Two members attended the NAPF Local Authority Pension Fund conference (16-18 May 2011).

6.0 Outcomes in 2011/12: PFIB Members

6.1 Action 1: Review decision making process to ensure decisions are made effectively.

Outcome: It is suggested that members discuss this item within the forum of the meeting on 21 May 2012.

6.2 Action 2: Review member training requirements and implement training plan as appropriate

Outcome: Pending. It is suggested that members discuss this item within the forum of the meeting on 21 May 2011 in conjunction with the report on the proposed CIPFA framework for member training.

6.3 Action 3: Ensure that meeting papers are issued at least seven days prior to meeting.

Outcome: Achieved. Papers were sent out on a timely basis meeting the seven-day target.

6.4 Action 4: Review the Pension Fund Investment Board meeting structure.

Outcome: Achieved. Official meetings are always held at Shire Hall as a requirement of the Council’s Constitution. Members are asked to consider as to whether current arrangements are satisfactory.

6.5 Action 5: Finalise governance in line with Myners/CIPFA principles.

Outcome: Achieved. Work will be underway shortly to prepare for enhanced governance requirements following publication of the final Hutton governance reforms.

7.0 Outcomes in 2011/12: Financial and Risk Management

7.1 Action 1: Produce the expenses budget for scheme year.

Outcome: Achieved. This is monitored on a regular basis as part of the quarterly review reported to the Head of Corporate Finance.

7.2 Action 2: Produce the Annual Statement of Accounts.

Outcome: Achieved. This was produced on time according to closedown timetable deadlines.

7.3 Action 3: Carry out the risk assessment of financial management of scheme including fraud risk.

Outcome: Achieved. A re-evaluation of the Fund’s risk assessments with risk control procedures was presented and approved by the Investment Board on 13 February 2012.

7.4 Action 4: To implement a system of disaster recovery/business continuity in the event of major disaster.

Outcome: This is currently being assessed in the 2012/13 year.

8 Outcomes in 2011/12: Investment

8.1 Action 1: Ongoing consideration of the CIPFA/Myners principles.

Outcome: Ongoing. Work is now commencing on the United Nations Principles for Responsible Investment.

8.2 Action 2: Review of investment manager arrangements.

Outcome: Achieved. Instalments to HarbourVest as the Fund’s Private Equity Fund of Funds manager were commenced at the start of the year 2011/12. Work is continuing on further diversification possibilities with an absolute return (fixed income and multi-asset) the next current project.

8.3 Action 3: Meet with all investment managers.

Outcome: Achieved. Quarterly meetings have been held with all investment managers.

8.4 Action 4: Review the Statement of Investment Principles

Outcome: Achieved. A revised version will be submitted to the Board for approval at the conclusion of the current manager appointment and transition process.

8.5 Action 5: Investment Board to receive quarterly monitoring reports.

Outcome: Achieved. Performance review reports are considered by the Board every quarter.

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Item 5

Pension Fund Investment Board
21 May 2012

CIPFA Pension Fund Knowledge and Skills Framework

Recommendation

That the Pension Fund Investment Board adopt the CIPFA Knowledge and Skills Framework to identify skills and learning requirements.

1.0 Background

1.1 The 2001 Myners Report recommended that local authority trustees who are making decisions about the investment of pension funds should have sufficient expertise to be able to understand the relevant issues, and to question recommendations put before them by officers and investment consultants. A new ‘Knowledge and Skills Toolkit’ from the Chartered Institute of Public Finance and Accountancy (CIPFA), in collaboration with Hymans Robertson, has been developed in order to facilitate gaining knowledge of the current issues needed for decision making.

2.0 Training Requirement

2.1 Investment opportunities for pension funds continue to grow, and many of the latest opportunities are increasingly complex. Only recently, most local authority funds employed balanced managers who invested only across a range of gilts and equities. Today, most funds employ an increased number of specialist managers who invest in a much wider range of assets. Officers and members need to understand asset allocation, asset classes, governance, benefit/administration, actuarial practice, legislation, accounting and audit requirements, procurement, actuarial practice, and the relationship of assets to fund liabilities.

2.2 It is, therefore, important that the skills and knowledge of Board members are updated regularly. It is worth noting that longevity of service on the Board is a very valuable asset, as it inevitably takes a certain period of time for new members to bring their skills ‘up to speed’.

3.0 CIPFA Knowledge and Skills Framework

3.1 A great deal of work has been done in recent years to address the provision of training to those who serve on decision-making bodies. In an attempt to determine the right skill set for quasi trustees involved in decision making, CIPFA has developed, with the assistance of expert practitioners, a technical knowledge and skills framework. The framework is intended to have two primary uses:

- as a tool for organisations to determine whether they have the right skill mix to meet their scheme financial management needs;

- as an assessment tool for individuals to measure their progress and plan their development.

3.3 The framework is intended to apply to all members of decision-making bodies. It has been designed so that organisations and individuals can tailor it to their own particular circumstances. Members of the Board already have some of the required skills, and the more experienced Board members will already possess many of them.

3.4 In total there are six areas of knowledge and skills that have been identified as the core technical requirements for those working in public sector pensions finance. They are:

- pensions legislative and governance context;
- pensions accounting and auditing standards;
- financial services procurement and relationship management;
- investment performance and risk management;
- financial markets and products knowledge;
- actuarial methods, standards and practices.

3.5 Individual members can be set up within the online framework and will be able to use the toolkit as they see fit. It is anticipated that members will, over a period of time, work towards a full understanding of the relevant issues. There is no current intention of imposing a timescale in which certain targets must be met by individual members. It is not expected that all members of the Board will, at all times, have an expert knowledge of all areas, but the Board as a whole needs a breadth of skills and knowledge to ensure that all relevant issues are scrutinised when making decisions.

3.6 It is suggested that, initially, Board members use the online toolkit to assess their own training needs. Officers can then work with members, both individually and collectively, to identify how best to meet any skills/knowledge gaps (for example, group sessions on specific topics, or a session within a Board meeting from which all members can benefit).

3.7 In order to raise awareness of the issues involved, CIPFA suggests that funds should report on members' progress in gaining the relevant skills and knowledge in their annual report. The 2010/11 annual report reports only on members' attendance record at board meetings.

3.8 It is suggested that there are four main ways in which knowledge and skill levels can be increased:

- Use of the web-based packages and CIPFA repository when developed.
- Manager or actuary led training sessions or specific training as part of the Board meeting agenda.
- An induction training package for new Board members that covers the areas outlined in the CIPFA Framework.
- Courses and seminars organised by managers, actuaries, NAPF and other experts, details of which can be circulated to Board members as they arise.

3.9 It is recommended that the Group Manager draft a questionnaire based on the CIPFA Knowledge and Skills Framework, as a basis for agreeing with members an appropriate training programme.

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Pension Fund Investment Board
21 May 2012

Clifton-on-Dunsmore Parish Council: Scheduled Body Membership

Recommendation

That the Pension Fund Investment Board note that Clifton-on-Dunsmore Parish Council has passed a resolution to become a scheduled body member of the Warwickshire Pension Fund.

1.0 Introduction

1.1 The Fund has been notified that Clifton-on-Dunsmore Parish Council (the Council) has passed a resolution for the parish clerk to have access to the Local Government Pension Scheme (LGPS) administered by Warwickshire County Council.

1.2 The Council will be treated as part of the Parish and Town Council grouping for valuation purposes and will be required to contribute 19.1% of pensionable pay as the appropriate employer contribution rate.

1.3 Membership of the Warwickshire Pension Fund will be effective from 1 June 2012.

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Item 7

Pension Fund Investment Board
21 May 2012

Directions Order

Recommendation

That the Board note that support-staff at academies are not protected with regard to LGPS membership if their service is outsourced to a private contractor.

1.0 Background

1.1 The Directions Order issued under Section 101 of the Local Government Act 2003 applies to Best Value authorities in England. It applies to such bodies when letting/re-letting contracts on or after 1 October 2003.

1.2 Examples of Best Value authorities in the context of the WCC Pension Fund are:

- An English local authority
- A Police Authority
- A Fire and Rescue Authority

2.0 The Directions Order

2.1 Where the Directions Order applies, the transferred staff should be provided with continued access to the LGPS (via an admissions agreement) or access to a broadly comparable pension scheme.

2.2 A broadly comparable pension scheme is usually determined by the Government Actuary's Department or by the Fund's Actuary and will offer transferred LGPS members with a pension scheme with benefits broadly comparable to those in the LGPS.

3.0 Academies

3.1 Academies are not Best Value authorities and therefore, are not covered by the Directions Order.

3.2 Where TUPE applies to a service contract with an academy (or other non-best value authority), the staff transferring will not be covered by the provisions of the Directions Order and will not be afforded the protection of an admission agreement to the LGPS with the WCC Pension Fund, or a broadly comparable pension scheme.

4.0 WCC staff currently working on an service contract with an academy

4.1 Current WCC employees who are members of the LGPS may be employed on a service (catering/cleaning) contract with an academy.

4.2 If the academy tenders for this contract and it is awarded to a private sector contractor, the WCC staff will not be protected by the Directions Order.

4.3 Alternatively, if the contract is awarded in-house to the academy or to WCC, the staff will be employed by either the academy or WCC and have continued access to the LGPS.

4.4 The private sector contractor may apply for membership of the LGPS with the WCC Pension Fund and the Board may consider exercising its discretion to accept an application to protect current members' pension rights. However, it is the view of officers that such an agreement may be ultra vires as the academy as the letting agent cannot be party to the admission agreement and neither can the academy act as ultimate guarantor if there was to be any unfunded liability on the premature closure or cessation of the contract.

5.0 Pensions cover for transferring staff of an academy or non-best value authority

5.1 It is understood that the contractor should offer an occupational pension of either of the following:

- a money purchase scheme with the employer matching employee contributions up to 6% of basic pay; or
- a non-money purchase scheme (generally a final salary or cash balance scheme) providing either:
    - a final salary scheme that meets the "reference scheme test" for contracting out of the state second pension (generally providing a pension of 1/80 of contracted-out earnings for each year plus provisions for spouses); or
    - a scheme that matches employee contributions up to 6% of basic pay; or
    - a scheme that entitles members to benefits worth at least six per cent of pensionable pay (defined in the schemes rules as the pay that is used to determine the amount of contributions and benefits) per annum, plus the value of the employees' own contributions (and, in this case, employees cannot be required to contribute in excess of 6% of pensionable pay per annum).
- a Stakeholder Pension Scheme that matches employee contributions up to 6% of basic pay.

5.2 It is not known how automatic enrolment and NEST will impact on the above although it is assumed NEST will be a minimum requirement once an employer has passed their staging date.

5.3 Although members of the LGPS affected by a transfer to a private sector contractor, who is not providing (or is not permitted to apply for) an admission agreement, has the opportunity to transfer their accrued LGPS pension rights to their new employer's pension scheme, in practice members elect to retain a preserved benefit with the LGPS.

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Item 8

Pension Fund Investment Board
21 May 2012

Update on the Fund Manager Appointment Process

Recommendation

That the Board note the current position with regard to the ongoing fund manager appointment process.

1.0 Introduction

1.1 On 1 August 2011, a formal review of the investment strategy for the Fund was presented to the Investment Board. One of the conclusions was that there was some scope for a modest reduction in investment risk given, the funding position at that time.

1.2 At the Board meeting on 14 November 2011, further specific recommendations regarding the detailed asset allocation and investment manager structure were submitted to the Investment Board. These included recommendations to establish two new mandates, namely, investments in a multi asset absolute return fund and a fixed income absolute return fund. Each new investment is to be funded from the Fund's existing equity investments.

1.3 Following the Board meeting of 13 February 2012, the Treasury and Pensions Group proceeded with the appointment process with regard to absolute return (fixed income and multi-asset) pooled funds.

1.3 Since the February meeting, there has been a deterioration in the funding position of all LGPS funds as a result of falls in UK Government bond yields. Although the Hymans analysis has not been rerun, the scope for reductions in investment risk is likely to have reduced as a result. For that reason, Hymans would be wary of reducing the expected return on the Fund's assets by any significant extent.

2.0 New Mandates

2.1 It remains as Hymans' stance that they recommend that the Fund's exposure to volatile equity investments should be reduced. The multi-asset absolute return investment will have the objective of delivering broadly equity-like returns but with a lower level of volatility. Therefore, Hymans would not expect this new investment to reduce the expected long term returns from the Fund at all.

2.2 In terms of bond funds, there are a wide range of 'absolute return' and 'target return' bond funds available. Some lower risk funds have the objective of providing a modest premium over cash (LIBOR), which would currently equate to an absolute return target in the region of 2-3% p.a. (with little prospect of higher cash rates in the near future). Such an investment would provide some protection against sharp rises in gilt yields (and consequent falls in prices), though the absolute level of return targeted is low when set against the requirement for the Fund to earn an attractive real rate of return over the long term.

2.3 Other bond funds are more focused on delivering an attractive rate of return with less sensitivity to the level of bond yields. They may have, for example, a strong bias towards relatively short-dated bonds and/or have a focus on lower quality bonds where returns are more dependent on income receipts. The advantage of these funds is that they offer the potential of more attractive returns without the same volatility as equity markets. They also tend to have less duration risk and therefore offer more protection against rises in yields than is the case with the Fund's existing bond investments.

2.4 This will be discussed in more detail as part of the selection exercise for an absolute return bond fund investment and will take into account the background of a weaker funding position compared with that of last year.

2.5 Officers and advisors will report at the Board meeting.

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Item 9

Pension Fund Investment Board
21 May 2012

Future Risks Facing the Warwickshire Pension Fund

Recommendation

That the Board note the report and consider any measures conducive to relieving the current risks and pressures pertaining to the Pension Fund.

1.0 Introduction

1.1 Risk is the potential that a chosen action or activity (including the choice of inaction) will lead to a loss (an undesirable outcome). The notion implies that a choice having an influence on the outcome exists (or existed). Potential losses themselves may also be called "risks".

1.2 Discussions at previous Investment Board meetings have highlighted some of the issues and associated risks, and a report has been requested.

1.3 Current risks facing the fund consist of longevity, member opt and fund maturity, inflation, poor investment return, investment volatility, low gilt yield, employer default and future unknown events.

2.0 Longevity Risk

2.1 Longevity is regarded as directly resulting from major medical advances, better health, increased income, rising prosperity and healthier life style choices by the population. Conversely, lifestyle choices that have led to a significant increase in rates of obesity and sedentary life styles have also impacted on the population's wellbeing and survival prospects. However, these negative by products of the 21st century are regarded as springing from our growing prosperity and it is this that is the overriding drive to us living longer. Western civilized populations are prospering and living longer as a result.

2.2 Some quarters are taking a relaxed view on longevity, saying that a fund that is cash flow positive in the long term should not need to worry too much on longevity, given that future natural events could alleviate pressures. Conversely, other forecasters warn that the first person to reach 150 years has been already born and a third of new born babies today will reach 100 years. Current longevity improvements show no sign of reversal and pension funds need to be aware of these pressures.

2.3 The use of longevity swaps is one option. The drawing of longevity swaps has two benefits: firstly, it is a form of insurance against an age stampede by future retired LGPS pensioners achieving ages of 100 years and beyond. Secondly, and more importantly, with longevity swaps, a degree of certainty can be applied to the extent and limits of future fund liabilities.

2.4 The prosperous and therefore longer living county of Berkshire was the first LGPS fund to venture into longevity swaps with regard to its pensioner class of membership. Application to actives and the preserved benefit classes would be the next step. Traditionally, the active and preserved classes are very difficult to ensure because of the longer time horizon and less degree of certainty taken on by the insurer who are generally unwilling to take this further risk, and will generally hedge the pensioner class only.

2.5 With regard to the longevity risk, the Hutton reforms have helped out considerably. Hutton has proposed a later retirement culture with the retirement age to be linked to the State Pension Age (SPA). The linking of the SPA to the LGPS will constitute a major factor in limiting costs with the new scheme that will come into effect from 1 April 2014. As the SPA rises, so will the LGPS retirement age and this will take a significant amount of pressure from future liabilities and costs.

2.6 Moreover, costs will also reduce as a result of the Hutton recommended cost ceiling mechanism, known as the cap and collar. As LGPS longevity runs ahead of the SPA, and this really applies only to individual prosperous areas, then the cap and collar cost mechanism will switch the cost onus onto employee contributions, thus taking some of the risk and cost pressures away from the funds. It should be noted that this applies to future service only: accrued rights earned to 2014 are guaranteed within current LGPS rules.

2.7 The Hutton reforms have therefore taken some of the pressure from the need to insure against longevity increases and subsequent further costs. Although insurance might be applicable to small elements of the fund’s liability, certainty must come at a fair price if any insurance is taken. It should be remembered that cap and collar is two way. If longevity is reversed or other factors come into play, resulting in cost reductions, then the employee will benefit in terms of pressure on their contribution rates.

3.0 Fund Maturity Risk Including Opt-outs and Outsourcing

3.1 The LGPS continues to benefit from a very strong employer covenant with little risk of default (academies and smaller organisations aside). The scheme remains open and attractive, even after Hutton’s final recommendations come into force. The LGPS will remain with Defined Benefit status, albeit Career Average Revalued Earnings, and individual LGPS schemes are generally well funded.

3.2 In terms of where we want to get to, the picture is starting to become clear as to the proposed new regime and its future liabilities, but there are still many unknowns as central detailed negotiations come to fruition. The demands of Hutton alone will be sufficient to increase the pressure on the LGPS but, even with Hutton's fairness, it is not unreasonable to assume an increased potential for member opt outs from the LGPS and the resultant increasing maturity issues. Conversely, member opt out could be countered by the pending auto-enrolment regime with deliberate Government encouraged inertia applied, designed to keep people in their organisation pension schemes.

3.3 Hutton originally recommended that external private companies should be denied LGPS membership but it appears this proposal will not be adopted. However, with many local services outsourced to private sector companies who then become admitted bodies to the LGPS, deliberate company policy decisions to close membership to new employees will be a factor in the drop in future active member numbers.

3.4 The cost of the LGPS not winning the opt-out battle is scheme maturity, cash flow negative status and therefore significant changes to investment strategy. The fact that these pressures are being felt in the midst of significant local cutbacks, lay offs, early retirements, and involving significant numbers of highly paid senior staff, has not helped matters. LGPS communications are currently geared to move into positive publicity mode as soon as negotiations are concluded, and the Government will hopefully soon be in a position to announce the final new scheme details and Regulations shortly.

3.5 The 2013 actuarial valuation will be a vital stepping stone in planning for the future. Traditionally, the valuation takes account of the current scenario but there will now be more pressure on planning for future projected scenarios and contribution rates can be set according to the future projected position. The double whammy of poor future funding levels and negative cash flows could be countered at 2014 with compensating higher contribution rates. LGPS Funds will need to engage with their consultants and undertake scenario planning.

3.6 As part of the triennial valuation exercise, we need to assess our future cash income levels (contributions and dividend/interest receipts), the likely advance to future fund maturity, how long this will take and what the future investment strategy will be, with the assumption that it will be a significant de-risking strategy. Pitched against this is the need to invest in growth assets to reduce the fund's deficit.

3.7 The most likely outcome is that, over the long term, the LGPS will move towards the characteristics of the private sector. There will be similarities of average member age and less risky assets within fund portfolios.

4.0 Inflation Risk

4.1 Inflation is an issue and will continue to be so while the current low interest rate environment persists. The economic volatility that has been the catalyst for so many of today's challenges will also be with us for the foreseeable future. The Consumer Price Index (CPI) has been on a reducing trend after reaching record highs over the end of 2011 and early 2012. However, rising food prices have stopped the downward trend with the announcement of the March 2012 CPI index creeping up once again.

4.2 Inter-valuation monitoring gives early prior warning and further diversification into inflation hedged assets has taken place such as increased exposure to property. The buying of index-linked bonds also assists the mitigation of this risk. However, index-linked bonds have become very expensive though as a result of the low interest rate environment. The focus of the actuarial valuation process due to start next on 1 April 2013 will be on the real returns on growth assets, net of price and pay increases.

4.3 Some form of insurance for high inflation scenarios could be considered by the Fund in the future.

5.0 Investment Risk

5.1 The risk here is that Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long term. The LGPS is still able to anticipate a long term return on a relatively prudent basis and the triennial valuations will reset the roadmap when necessary. However, the risk of an inappropriate long term investment strategy and wrong decisions taken as to the overall risk budget will result in severe impact. Regular monitoring is required by advisors with an independent advisor able and willing to question accepted thinking.

5.2 Of course, a cataclysmic fall in equity markets, coupled with long term, low interest rates will impact significantly on the LGPS, leading to significant deterioration in funding levels. Significant proportions of funds allocated to bonds, property, hedge funds and absolute return strategies will alleviate such a fall in equities to some extent and we continue to hold the continued belief that equities are the best asset class, proven over the long term. Conversely, there is the risk that switching too much away from equities will result in losing out from the eventual bounce in equity markets, whenever that may be in the short/medium term future.

5.3 Where funding levels are poor (and Warwickshire's is one of the best within the LGPS), growth assets are needed to recover, but we must expect the accompanying volatility. Once the funding level has improved, we can take some of the risk away from the overall portfolio. It has become known as the flight path strategy where investment risk is reduced as the funding level improves, or when market conditions are such that the potential upside no longer justifies the risk.

5.4 Risks relating to individual manager choice and investment under-performance seem to be well addressed within the LGPS. There is an optimum source of endurance over the long term for results to be achieved by fund managers, and the expediting of contract termination where patience has been exhausted.

6.0 Volatility Risk

6.1 The LGPS has looked to the strength of the employer covenant, the positive cash flows and the long term performance of equities with a view to riding out the volatile times. Yet equities have not been the star performer since 2000. The hierarchy of returns, according to the magnitude of the risk that is taken, is challenged by the experience of the last twelve years.

6.2 There is still a strong pre-disposition towards traditional assets. Equities still feature very highly in LGPS portfolios, despite the risk averse times. There is an opportunity for the LGPS to take the lead, showing imagination and dynamism and challenging the current thinking. Funds should look regularly at the benchmarks set and assess their suitability for the objectives. And the asset classes: local or global; developed or emerging; passive or active. It must be remembered that passive strategies still hold a substantial element of risk.

6.3 There is the substantial risk of missing out on the upturn when it eventually emerges. The timing of asset allocation decisions to alternatives, while taken in good faith, can lock in losses. An overactive approach to asset allocation and manager change can damage returns, particularly when the additional costs associated with these actions are taken into account. A solution is to generate equity type returns from other sources and we are currently engaging with our consultant to appoint managers to manage absolute return multi-strategy portfolios, an alternative to straight equity investing.

6.4 By adhering to a clear strategy, managed with conviction, through focused governance, the Warwickshire Fund aims to perform well into the future.

7.0 Gilt Yield Risk

7.1 A fall in risk free returns on gilts leads to an automatic rise in the value placed on liabilities. The ten-year gilt rate paid 1.96% in 1897. The UK's status as a safe haven has led to record recent gilt yield lows with the yield on ten-year gilts dropping to a record low of 1.92% on 19 January 2012, the lowest level since Bank of England records started in 1703.

7.2 Gilt allocation within the portfolio helps to mitigate this risk. But the bigger concern and therefore risk is that low gilt yields reflect a headlong rush from riskier assets, in the expectation that growth is slowing fast. 2012 and beyond could be stall years as far as UK growth recovery is concerned.

7.3 The Fund's actuary could look at stabilising contributions for the most secure employers to counteract the effect of current market conditions that lead to extreme valuation outcomes. Early consultation/negotiation with the actuary will take place in readiness for the 2013 valuation. Bond yields could remain stubbornly low and discussions with the actuary need to take place at an early stage in order to assess if contribution rates need to reflect the current and continuing low interest rate environment.

8.0 Risk of Employers Ceasing to Exist

8.1 The risk of an employer ceasing to exist with insufficient funding or the adequacy of a bond is far more prevalent now than in previous years, especially with the advent of academies and the absence of any guarantee by the Government in the event of any of them folding.

8.2 Moreover, the increase in number of admitted bodies such as charities who are closing down and employers who have closed their scheme membership, thus resulting in termination penalties, will require special attention from LGPS managers.

8.3 LGPS managers now need to plan for possible exits and engage in dialogue with bodies in order to fully understand their circumstances. This needs to be monitored frequently and the security arrangements need the same monitoring emphasis.

8.4 If a body departing the scheme is regarded as likely over the short or medium term, a gradual switching to gilts funding can take place, thereby reducing the shock of moving in one fell swoop from a uniform funding assumption to termination status.

8.5 As detailed in the Fund's risk management plan, the employer risk to LGPS funds can be mitigated by:

- Seeking a funding guarantee from another scheme employer, or external body, wherever possible. If not possible, the Fund is at risk from default and financial loss. Some LGPS schemes have managed to secure rights to a member organisation's HQ property should it fold, resulting in outstanding liability.
- Politely alerting the employer to its obligations.

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- Vetting prospective employers before admission.
- Where permitted under the regulations, requiring a bond to protect the scheme from the extra cost of early retirements or redundancy if the employer failed.

8.6 The one size fits all investment strategy for all employer bodies may not be appropriate in the future. For example, different strategies might be appropriate for:

  - more mature employers or;
  - well funded employers who might prefer to de-risk or;
  - short term employers like contractors who do not want volatility or;
  - employers closer to cessation who don't want to risk a market fall before they cease.

8.7 Assets could be divided into low risk and general risk buckets with a division amongst the employers as considered necessary. Hymans are currently advising officers on this possibility.

9.0 Event Risk

9.1 These risks consist of unforeseen events associated with a country, company or asset class, for example, the re-nationalisation of the Argentine oil fields, the BP oil disaster, or events in general, such as the Iranian missile crisis, the uneasy situation in North Korea or tsunamis. They are difficult to anticipate and hedge against.

9.2 We have seen the use of various financial instruments being used for the management of risk. There are solutions by various providers designed to cover inflation risk, interest rate risk, longevity risk, fat tail and event risks. Most of these forms of insurance are regarded as being currently very expensive, but should not be ruled out in the future.

10.0 Effective Governance

10.1 A key approach is that effective governance is essential, making sure that time is spent on the right things, according to their impact. Understanding the long term nature of the risks and setting the investment strategy accordingly is the important thing to focus on.

10.2 And within that investment strategy, also addressing the need for tactical nimbleness, sometimes achieved by the timing of meetings to enable this additional speed. This can also be achieved by delegation of wider, more diversified portfolios to a manager who can adapt to changing markets, such as the pending absolute return, multi-asset strategy.

10.3 There is no unique recipe, but addressing the issue of focused governance is of paramount importance. Scheme management will be harder for officers and trustees, the Hutton reforms will place more demand on trustees, and decision making will get more involved and complicated.

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Item 10

Pension Fund Investment Board
21 May 2012

SAS70 Fund Manager Control Documents

Recommendation

That the Board note the requirement for trustees to be aware of and comment on SAS70 Fund Manager Control Documents.

1.0 Introduction

1.1 The Statement on Auditing Standards No.70: Service Organizations, commonly abbreviated as SAS70 is an auditing statement issued by the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA).

1.2 SAS70 provides guidance to auditors when assessing the internal controls of a service organisation and issuing a service auditor's report. SAS70 also provides guidance to auditors of financial statements of an entity that uses one or more service organisations. Service organisations are typically entities that provide outsourcing services that impact the control environment of their customers. Examples of service organisations are fund managers and clearing houses.

1.3 There are two types of service auditor reports. A Type I service auditor's report includes the service auditor's opinion on the fairness of the presentation of the service organisation's description of controls that had been placed in operation and the suitability of the design of the controls to achieve the specified control objectives. A Type II service auditor's report includes the information contained in a Type I service auditor's report and also includes the service auditor's opinion on whether the specific controls were operating effectively during the period under review.

2.0 Warwickshire Fund Managers

2.1 Electronic versions of the current versions of SAS70 reports were sent to Board members on 20 March 2012. The substantial content of the documents makes it unfeasible to attach these documents as hard copy report appendices.

2.2 Relevant issues will be reported verbally at the 21 May 2012 meeting.

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