Pension Fund Investment Sub-Committee

15 June 2015

Agenda

The Pension Fund Investment Sub-Committee will meet in **CR2**, **Shire Hall**, **Warwick** on **15 June 2015** at **10a.m.**

1. General

(1) Apologies

(2) Members' Disclosures of Pecuniary and Non-Pecuniary Interests.

Members are required to register their disclosable pecuniary interests within 28 days of their election or appointment to the Council. A member attending a meeting where a matter arises in which s/he has a disclosable pecuniary interest must (unless s/he has a dispensation):

- Declare the interest if s/he has not already registered it
- Not participate in any discussion or vote
- Must leave the meeting room until the matter has been dealt with (Standing Order 42).
- Give written notice of any unregistered interest to the Monitoring Officer within 28 days of the meeting

Non-pecuniary interests must still be declared in accordance with the new Code of Conduct. These should be declared at the commencement of the meeting.

(3) Minutes of the previous meeting held on 16 February 2015, and County Council held on 19 May 2015.

2. Global Custodian – FCA fine.

3. Outcome of Transition – Fundamental Index Tracking

4. Investment Performance

5. Audit Plan 2014/15

6. Business Plan 2015/16

7. Employer Asset Tracking

8. Listed Infrastructure

EXEMPT ITEMS

9. Reports Containing Confidential or Exempt Information

To consider passing the following resolution:
'That members of the public be excluded from the meeting for the item mentioned below on the grounds that their presence would involve the disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972'.

10. (EXEMPT) Minutes of the meeting held on 16 February 2014.

11. Any other items

Which the Chair decides are urgent.

JIM GRAHAM
Chief Executive
Shire Hall
Warwick

Membership of the Pension Fund Investment Sub-Committee

Councillors John Appleton (Chair), Bill Gifford (Vice Chair), John Horner, Brian Moss and Alan Webb

For general enquiries please contact Sally Baxter:
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Minutes of the Pension Fund Investment Sub-Committee meeting held on 16 February 2015

Present:

Members
Councillors John Appleton (Chair), Sara Doughty, John Horner (Vice Chair) and Matt Western (replacing Brian Moss for this meeting).

Officers
Sally Baxter, Democratic Services Officer
John Betts, Head of Finance
Sanwinder Chandla, Principal Accountant
Mathew Dawson, Treasury and Pension Fund Manager
John Galbraith, Senior Solicitor, Pension Fund Services
Andrew Lovegrove, Head of Corporate Financial Services

Invitees

Robert Bilton, Hymans Robertson LLP
Peter Jones, Independent Investment Adviser
Victoria Higley, MFS Global Equity
David Holding, MFS Global Equity

1 member of the public attended.

1. General

(1) Apologies

Councillor Brian Moss and Neil Buxton

(2) Disclosures

i) Councillor Sara Doughty declared a non-pecuniary interest in relation to Item 10 contained in the exempt minutes of 17 November 2014 in so far she was a member of Nuneaton and Bedworth Borough Council.

(3) Minutes of the previous meeting

The minutes of the meeting held on 17 November 2014 were agreed as a true record.

2. Fund Suspense Bank Account

2.1 Andrew Lovegrove, Head of Corporate Financial Services introduced the report and gave a précis of the rationale for the establishment of a separate Fund Suspense bank account. It was acknowledged that HM Revenues & Customs would penalise authorities that did not have one in place. It was also agreed that a separate bank account would be more suitable than using the Pension Fund account which was the approach being taken by some authorities.

2.2 The Sub-committee agreed that the creation of a separate account was a logical step and would lead to better practice.

2.3 John Galbraith, Solicitor, provided further background explanation and context as to why on some occasions, cases cannot be resolved within the 2 year time restriction.

2.3 Resolved

That the Pension Fund Investment Sub-Committee agreed that a separate Fund Suspense bank account be created for the Pension Fund.

3. HEAT Valuation

3.1 Robert Bilton, Hymans Robertson LLP, provided the sub-committee with a comparison and contrast with the ‘analysis of surplus’ (AOS) existing model of fund valuation and the proposed Hymans Robertson Employer Asset Tracker (HEAT).

3.2 The current model was considered to be limited and unsatisfactory in light of the changing nature of the membership of the Fund and other characteristics. It would be more suitable and accurate to use a HEAT based model which would involve the sub-division of the fund’s assets into units. The units could then be more accurately tracked for each individual employer.

3.3 Whilst the sub-committee agreed that the unitisation approach was a better model in terms of accuracy, they commented that no information had been provided as to the limitations of the approach. Furthermore, information as to other providers who were using other models for fund valuation and their approaches had not been considered. Peter Jones, Independent Adviser, agreed that the HEAT model would provide a mechanism for the calculation of assets but echoed the concerns of the sub-committee.

3.4 The sub-committee received clarification on a number of points contained within Appendix A to the report in so far how the assets and liabilities are allocated to each employer by using the information on membership as of April 2013 and then track the data on a monthly basis. It was reported that this would lead to better transparency. An ongoing licence fee would be payable if the HEAT model was adopted.

3.5 Members noted that the information would only be more accurate if the baseline data was correct at the time it was identified. It was reported that the model had been in operation for 12 months with approximately five other Funds using the model and discussions were being held with others. To date, there had been no reported problems.

3.6 A discussion ensued regarding the cost implication of adopting the HEAT model. It was noted that the current contract with Hymans Robertson ended in approximately 12 months and if following the tender process another Actuary was appointed, the possibility of the tender process being affected by reducing the numbers of other providers that could provide a similar system or one that is compatible with HEAT. It was confirmed that HEAT could be used alongside other providers’ models.

3.7 Whilst it was understood that the fees associated with the HEAT model were more than the AOS model, the amount of work associated with the approach would reduce thus the cost would be offset at other stages of the Funds valuation. Furthermore, it would also negate the need for additional work when employers request a mid-term valuation therefore decreasing costs because additional work would not need to be undertaken to provide this information.

3.8 Whilst the sub-committee agreed that the HEAT model was a better approach and had many benefits, it required more information about different approaches and their associated costs to fund valuations including alternative providers. In light of this, a decision to the recommendation would be deferred to allow officers time to compile the required information.

3.5 Resolved

i) That the Pension Fund Investment Sub- Committee notes the revised methodology for future fund valuation detailed in Appendix A and;
ii) Receives further information about other methodologies to include effectiveness and cost implications.

4. MFS Investment Management

4.1 Victoria Higley and David Holding of MFS Global Equity, provided the sub-committee with information including the mandate and strategy overview, investment overview, attribution and portfolio positioning. The Executive summary highlighted performance issues with the early part of 2014 (3.5% deviation from benchmark) yet the longer term investment remained strong. It was noted that MFS had outperformed 8 out of 10 years.

4.2 The sub-committee noted the GBP Market overview and performance drivers. Following discussion and questions it was noted:

- The importance of considering risk and long term perspective when identifying potential stocks for investment.
- Challenges to a certain business area ie. Technology and the ability of the proposed stock company to support it, was taken into consideration when assessing investment.

4.3 The top 10 holdings had remained stable and purchases and sales had performed as expected. With regard to portfolio positioning, sorted into sector position, utilities and telecommunications, energy and mining and financial companies, were underweight areas.

4.4 Clarification was provided with regard to stock balancing. It was noted that company balance sheets were especially important and should be considered when a market is dropping.

4.5 The Chairman thanked Victoria and David for attending the meeting.

5. 5. Exempt Items – Reports containing Confidential or Exempt Information

5.1 The Pension Fund Investment Sub-Committee passed the following resolution:

That members of the public be excluded from the meeting for the item mentioned below on the grounds that their presence would involve the disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

6. (EXEMPT) Minutes of the meeting held on 17 November 2014

6.1 The exempt minutes of the meeting held on 17 November 2014 were agreed as a true record. Updates were provided on issues raised and discussed as recorded in the exempt minutes to this meeting.

7. Any other items

7.1 John Betts, Head of Finance, provided an update regarding establishment of the Local Pension Board. Following changes to Government issued guidelines, the proposed terms of reference and composition of the Board, had been amended to reflect the changes and were considered at the meeting of Council on 5 February 2015.

7.2 Following amendments, the Independent person of the Local Pension Board could still chair the Board however they did not have voting rights. Changes had also been made with regard to Elected Members in so far, they could not be the Independent Representative but they could be the Employer or Scheme Member Representative.

7.3 Next steps would include writing to the District and Borough Councils within Warwickshire for information, identify an Elected Member to represent Warwickshire County Council as an employer and the recruitment of an Independent Person will include advertisement on the Pension Fund website and noting interest from individuals. Consideration had been given to establishing a Recruitment Panel which could include a member of the Pension Fund Investment Sub-Committee.

7.4 The sub-committee noted the update.

The sub- committee rose at 12 p.m

……………………………………….
Chair

Minutes of a meeting of Pension Fund Investment Sub-Committee held on 19 May 2015

Present:

<u>Members of the Sub Committee</u>
(Appointed by the Staff and Pensions Committee on 19 May 2015)

Councillors John Appleton, Bill Gifford, John Horner, Brian Moss and Alan Webb.

<u>Others present</u>: Councillors John Beaumont, Sarah Boad, Mike Brain, Peter Butlin, Richard Chattaway, Jonathan Chilvers, Chris Clark, Jeff Clarke, Alan Cockburn, Jose Compton, Yousef Dahmash, Corinne Davies, Nicola Davies, Neil Dirveiks, Richard Dodd, Sara Doughty, Peter Fowler, Jenny Fradgley, Mike Gittus, Brian Hawkes, Colin Hayfield, Bob Hicks, John Holland, Julie Jackson, Philip Johnson, Keith Kondakor, Joan Lea, Keith Lloyd, Phillip Morris-Jones, Peter Morson, Bill Olner, Maggie O'Rourke, Dave Parsons, Mike Perry, Caroline Phillips, Wallace Redford, Clive Rickhards, Kate Rolfe, Jerry Roodhouse, Chris Saint, Dave Shilton, Izzi Seccombe, Jenny St. John, Bob Stevens, June Tandy, Angela Warner, Mary Webb, Matt Western, John Whitehouse and Chris Williams.

1. General

(1) Apologies for absence

None

(2) Members' Disclosures of pecuniary and non-pecuniary interests

None

2. Election of Chair

Councillor John Appleton was nominated to be Chair of the Sub Committee and was seconded.

There were no other nominations.

Resolved

That Councillor John Appleton be Chair of the Pension Fund Investment Sub-Committee for the ensuing municipal year.

3. Election of Vice Chair

Councillor John Appleton nominated Councillor Bill Gifford to the position of Vice Chair of the Sub-Committee and was seconded.

There were no other nominations.

Resolved

That Councillor Bill Gifford be Vice Chair of the Pension Fund Investment Sub-Committee for the ensuing municipal year.

The meeting rose at 3.19 p.m.

……………………….
Chair

Pension Fund Investment Sub Committee

15 June 2015

Outcome of Transition - Fundamental Index Tracking

Recommendation

That the Pension Fund Investment sub-committee note the report.

1 Introduction

1.1 At the sub-committee meeting of 17 November 2014, a report was presented which gave a progress report on the decision to move assets from State Street passive UK equity to Legal and General fundamental index tracking product FTSE RAFI 3000 Eq. The transition has now taken place and this report details the transactions that took place and the costs incurred.

2. Transition

2.1 On March 18 2015 an amount of £80.0m was redeemed from the State Street passive UK equity mandate (£79.0m stock and £1.0m cash) and placed with Legal and General. This leaves State Street with residual assets of £36.4m

2.2 The amount of £80.0m was allocated to equivalent pooled product until 25 March when the allocation to the Legal and General's RAFI 3000 fund was purchased. The value of the units purchased was £79.9m.

2.3 Total costs involved in the transfer of these assets totalled £191k.

2.4 BlackRock did not act as transition manager. It was decided in discussion with BlackRock, Hymans Robertson, and officers that Legal and General were best placed to manage the transactions in terms of simplicity and to minimise cost.

Background Papers

1) Legal and General Portfolio Transfer Report

Warwickshire County Council

	Name	Contact Information
Report Author	Mathew Dawson, Treasury and Pension Fund Manager	01926 412227 mathewdawson@warwickshire.gov.uk
Head of Service	John Betts, Head of Finance	01926 412441 johnbetts@warwickshire.gov.uk
Strategic Director	David Carter, Strategic Director, Resources Group	01926 412564 davidcarter@warwickshire.gov.uk

Item 4

Pension Fund Investment Sub Committee

15 June 2015

Investment Performance

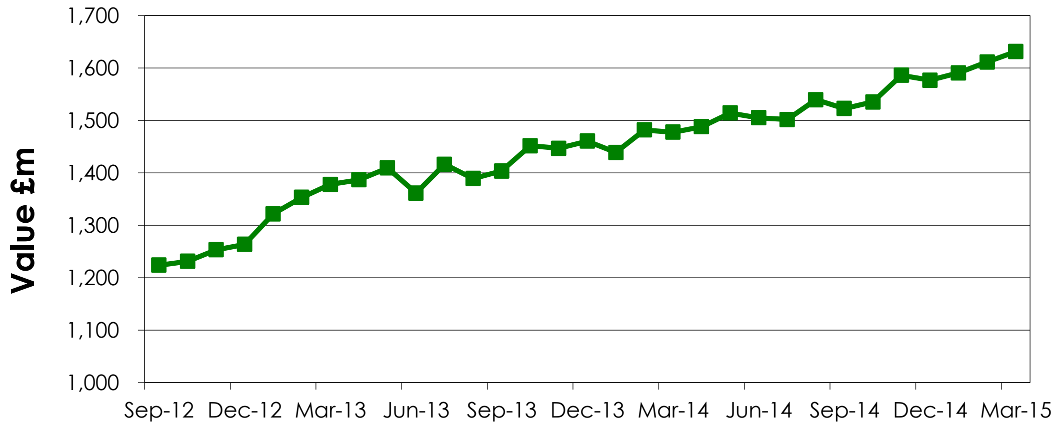
Recommendation

That the Pension Fund Investment Sub- Committee note the fund value and investment performance for the fourth quarter in 2014/15 to 31 March 2015.

1. Fund Value at 31 March 2015

1.1 The fund value was £1,631.3m at 31 March 2015 an increase of 5.5% on the previous quarter as shown in Figure 1.

Figure 1. Total Fund Value Since 30 September 2012



2. Fund Asset Allocation

2.1 The performance of the Fund against its asset class benchmarks for the quarter ending 31 March 2015 is shown in Table 1.

Table 1: Fund Asset Allocation

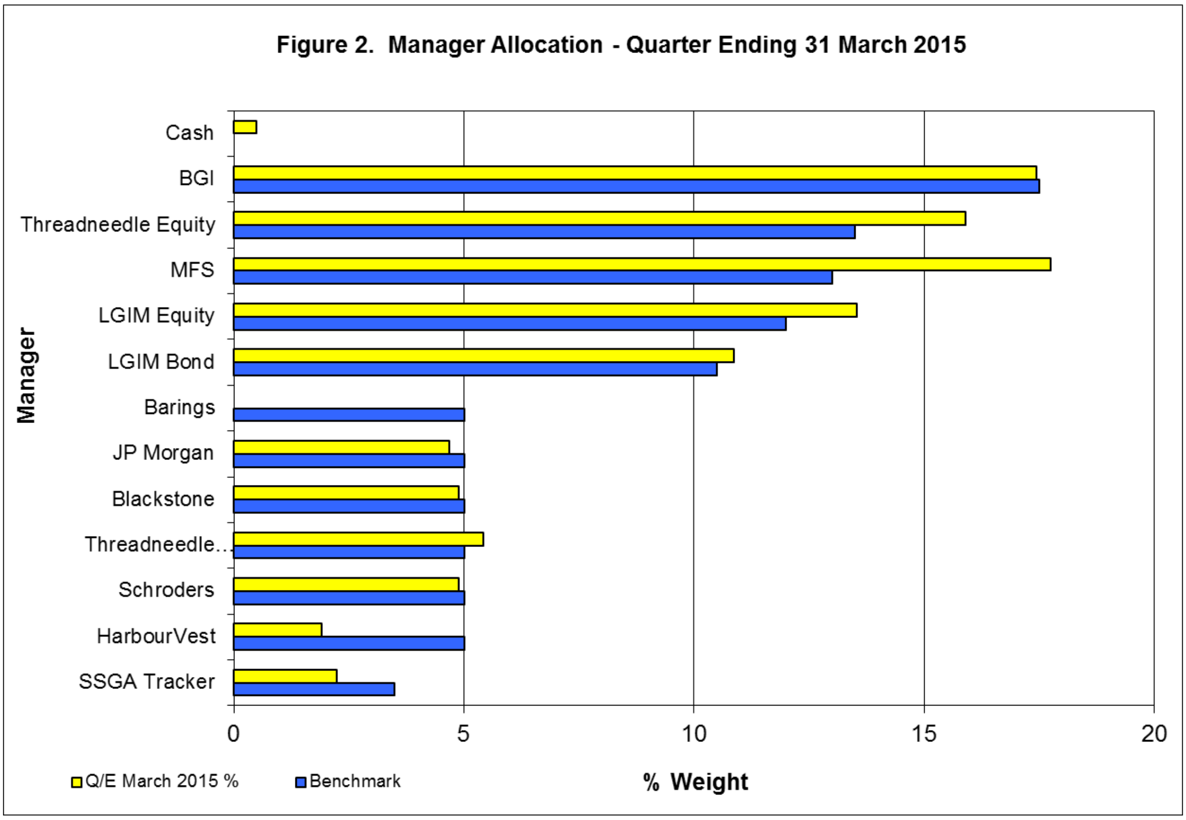
Asset Class		Q/E Mar 2015	Fund policy	Over/under weight
		%	%	%
Equity		**59.3**	**52.5**	**6.8**
	UK	31.4	22.5	8.9
	Overseas	27.9	30.0	-2.2
Fixed Income		**17.7**	**17.5**	**0.2**
	UK corporate bonds	10.1	10.0	0.1
	UK government bonds	2.2	2.5	-0.3
	UK index linked bonds	5.4	5.0	0.4
Hedge Funds		**4.9**	**5.0**	**-0.1**
Private Equity		**1.9**	**5.0**	**-3.1**
Property		**10.1**	**10.0**	**0.1**
Multi Asset Absolute Return		**0.0**	**5.0**	**-5.0**
Absolute Return Bonds		**4.7**	**5.0**	**-0.3**
Cash		**1.5**	**0.0**	**1.5**
Total		**100.0**	**100.0**	**0.0**

2.2 The fund managers' asset allocation against the benchmark for the quarter ending 31 March 2015 is shown in Table 2.

Table 2: Fund Asset Allocation by Manager

Manager	Q/E March 2015 %	Benchmark	Variance
SSGA Tracker	2.24	3.5	-1.3
HarbourVest	1.90	5.0	-3.1
Schroders	4.89	5.0	-0.1
Threadneedle Property	5.42	5.0	0.4
Blackstone	4.89	5.0	-0.1
JP Morgan	4.69	5.0	-0.3
Barings	0.00	5.0	-5.0
LGIM Bond	10.86	10.5	0.4
LGIM Equity	13.54	12.0	1.5
MFS	17.74	13.0	4.7
Threadneedle Equity	15.89	13.5	2.4
BGI	17.43	17.5	-0.1
Cash	0.49	0.0	0.5
Total	100.0	100.0	0.0

2.2 Fund asset allocation against each manager is shown in Figure 2.



3. Fund Performance

3.1 Overall the fund over-performed its overall benchmark by 0.35%. The performances of managers against their benchmarks for the quarter ending 31 March 2015 were:

Table 3: Performance by Fund Manager

Manager	Benchmark Measure	Q/E Mar 2015 %	Benchmark %	Variance %
BlackRock Global Investors		6.63		**0.19**
	BlackRock Benchmark		6.44	
MFS		8.19		**0.73**
	Global Equity Benchmark		7.46	
State Street Tracker		4.74		**0.07**
	FTSE All-Share		4.67	
Threadneedle		5.20		**0.53**
	FTSE All-Share		4.67	
Legal and General (Global Equities)		8.77		**-0.08**
	LGIM Benchmark		8.85	
Legal and General (Fixed Interest)		3.00		**-0.01**
	LGIM Benchmark		3.01	
Threadneedle Property		2.77		**0.25**
	Customised Benchmark		2.52	
Schroders Property		5.35		**2.55**
	Customised Benchmark		2.80	
Blackstone Hedge		2.37		**2.28**
	Customised Benchmark		0.09	
JP Morgan Strategic Bond		1.31		**1.18**
	Customised Benchmark		0.13	
Total		**5.50**		**0.35**
	WCC Total Fund Benchmark		**5.15**	

3.2 Annualised return for the fund managers to 31 March 2015 is summarised in Figure 3. The three year annualised return is summarised in Figure 4.

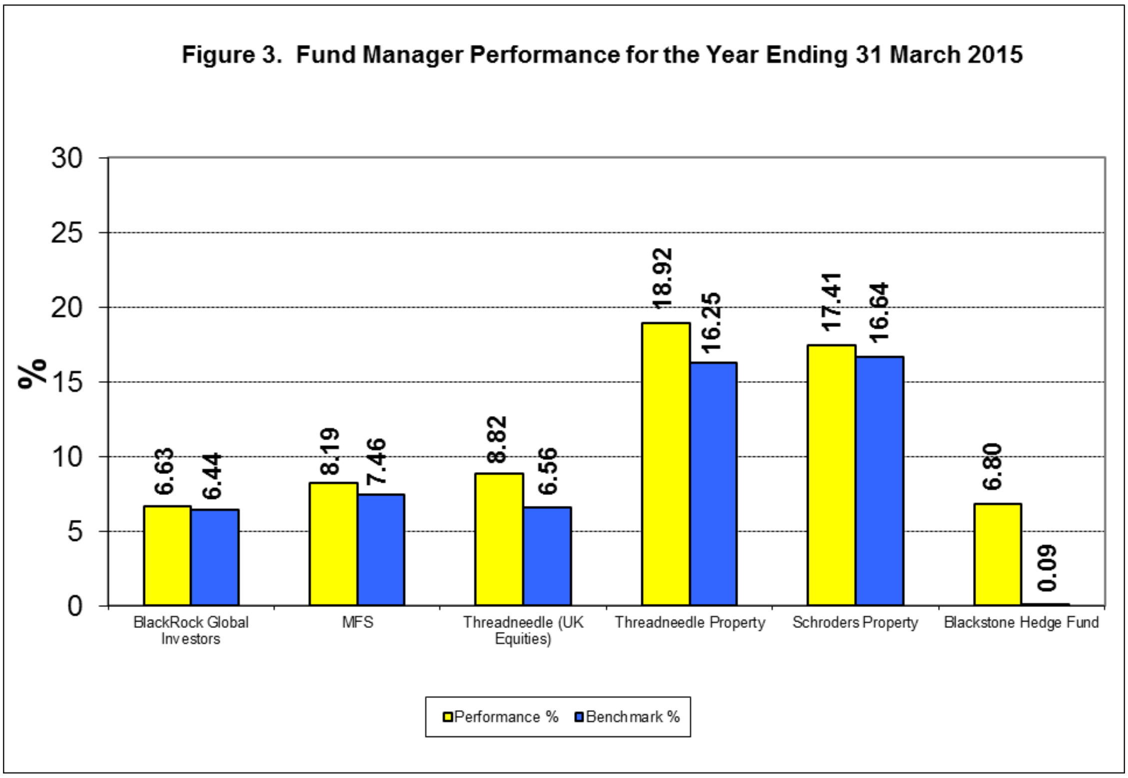
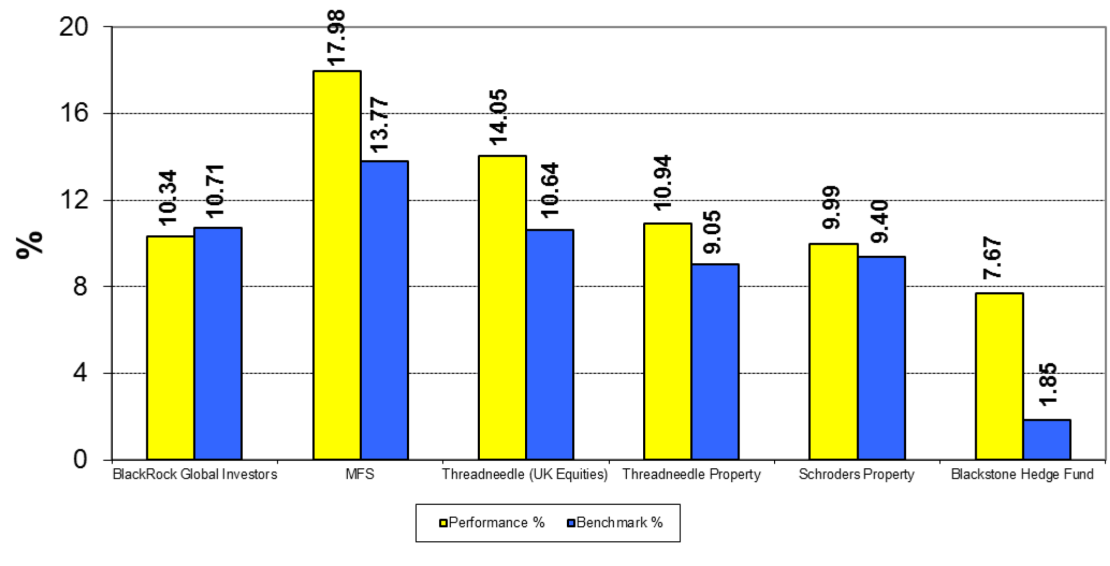
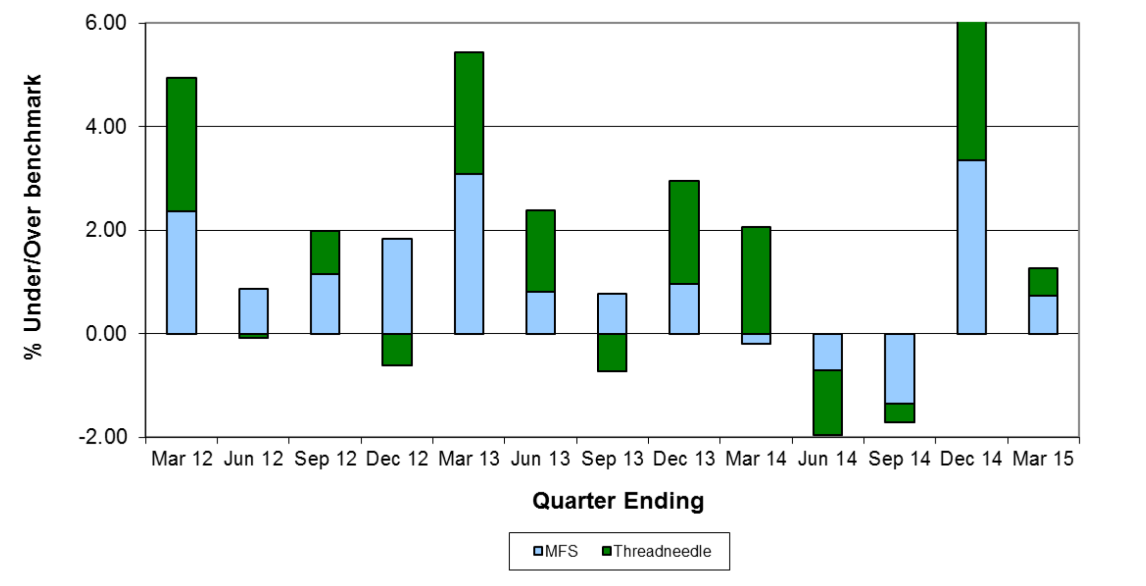


Figure 4. Fund Manager Performance for Three Years Ending 31 March 2015



3.3 Equity Manager performance against their benchmarks are summarised in Figures 5.

Figure 5. Fund Manager Out/(Under) Performance Against Benchmark Since March 2012- Equity Managers



Background Papers

Bank of New York Mellon Quarterly Attribution Report - March 2015

Background Papers:

None????

	Name	Contact Information
Report Author	Sukhdev Singh, Senior Finance Officer.	01926 412671 sukhdevsingh@warwickshire.gov.uk
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Strategic Director	David Carter, Strategic Director, Resources Group	01926 412564 davidcarter@warwickshire.gov.uk

Pension Fund Investment Sub-Committee

15 June 2015

Audit Plan 2014/15

Recommendation

The Pension Fund Investment Sub -committee is asked to consider the report and make any comments, if necessary.

1. Purpose of the Report

1.1 The County Council's external auditor – Grant Thornton – is required to advise those charged with governance its plan for the audit of the Pension Fund for the financial year 2014/15.

1.2 A full copy of the Plan is attached at **Appendix A**.

1.3 The Committee may wish to consider future reports on the funds external audit process being presented to Staff and Pensions Committee or the Local Pension Board.

Background Papers

None

	Name	**Contact Information**
Report Author	Mathew Dawson, Treasury and Pension Fund Manager	01926 412227 mathewdawson@warwickshire.gov.uk
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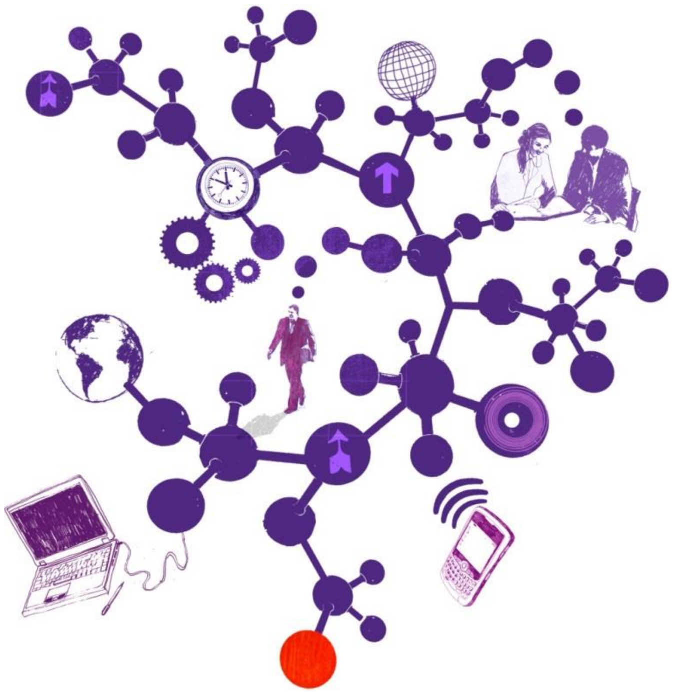
The Audit Plan
for Warwickshire Pension Fund

Year ended 31 March 2015

23 March 2015



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Pension Fund is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. New governance arrangements

- The new governance regulations have introduced further changes for LGPS which take effect from April 2015. These introduce a Local Pension Board for each fund. These boards will work with the administering authority to help ensure compliance, effective governance and administration of the scheme. In addition the regulations also establish a National Scheme Advisory Board and a funding cap.
- There is a potential for overlap for many schemes between existing Pension Committees and the new Local Pension Boards, with a real challenge for administering authorities to meet the statutory requirements, but in a way which delivers visible improvements in the governance of the funds.

2. Pensions Regulator

- The Public Services Pension Act also provides for the extension of the work of The Pensions Regulator to the LGPS from 1 April 2015.
- The Fund will need to monitor compliance with requirements set by the regulator.

3. Future structural reform

- In May 2014 DCLG consulted on the opportunities for collaboration, cost savings and efficiencies in the management of LGPS funds. While the outcome of this is still awaited there is clearly a growing momentum for structural change.
- In the meantime the growing use of shared arrangements is delivering real benefits to funds through reduced costs, increasing access to relevant expertise and improved quality.

4. Local government outsourcing

- As many councils look to outsourcing and the set up of external companies as a more cost effective way to provide services, the impact on the LGPS fund needs to be considered.
- Funds need to carefully consider requests for admission to the scheme and where possible mitigate any risks to the fund.
- An increased number of admitted bodies may increase the risks for the fund in the event of those bodies failing. It is also likely to increase the administration costs of the scheme overall.

Our response

1. New governance arrangements

- We will continue our on-going dialogue with officers around their governance arrangements.
- We will share good practice that is emerging with officers.

2. Pensions Regulator

- We will share our experience of working with The Pensions Regulator.
- We will discuss with officers any changes that have been made to existing practices for the fund to demonstrate compliance.

3. Future structural reform

- We will share good practice in reducing administration costs through collaboration or other initiatives.
- We will discuss any proposals for structural change and their impact on the Pension Fund with officers.

4. Local government outsourcing

- Through our regular liaison with officers we will consider the impact of any planned large scale TUPE transfers of staff and the effect on the Pension Fund.

Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

Developments and other requirements

1. LGPS 2014

- During 2013/14 funds have implemented LGPS 2014. This has moved LGPS from a final salary scheme to a career average scheme one year ahead of other public sector schemes.
- Under this new scheme, the calculations of benefits are likely to be more complex, as are the arrangements for ensuring the correct payment of contributions.
- LGPS 2014 has put a greater emphasis on the employer providing detailed information to the scheme administrator, while also requiring the scheme to have enhanced information systems in place to maintain and report on this data.

2. Financial Reporting

- There are no significant changes to the Pension Fund financial reporting framework as set out in the CIPFA Code of Practice for Local Authority Accounting (the Code) for the year ending 31 March 2015, however the Pension Fund needs to ensure on-going compliance with the Code .

3. Financial Pressures

- Pension funds are increasingly disinvesting from investment assets to fund cash flow demands on benefit and leaver payments that are not covered by contributions and investment income.
- Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of the investment markets.

4. Accounting for Fund management costs

- The Code's only requirement for the disclosure of the costs of managing the pension fund is that management costs in relation to a retirement benefit plan are disclosed on the face of the fund account.
- CIPFA have recently produced guidance aimed at improving the transparency of management cost data and have suggested that funds should include in the notes to the accounts a breakdown of those management costs across the areas of investment management expenses, administration expenses and oversight and governance costs.

Our response

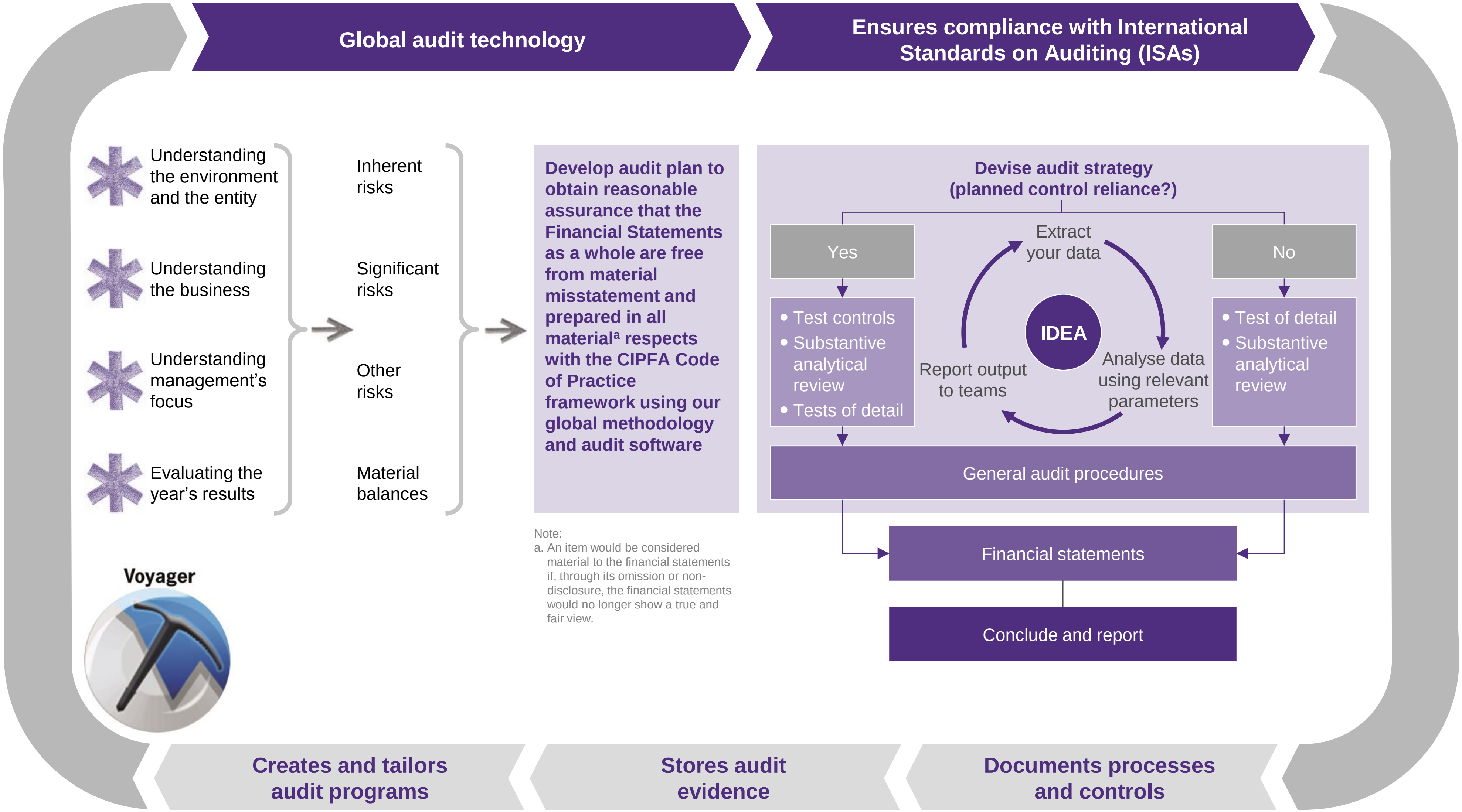
1. LGPS 2014:
- We will consider changes made to the pensions administration control environment in response to LGPS data requirements.

2. Financial Reporting:
- We will ensure that the Pension Fund financial statements comply with the requirements of the Code through our substantive testing.

3. Financial Pressures:
- We will monitor any changes to the Pension Fund investment strategy through our regular meetings with management.
- We will consider the impact of changes on the nature of investments held by the Pension Fund and adjust our testing strategy as appropriate.

4. Accounting for Fund management costs:
- We will discuss with officers any planned changes to the financial statements in response to this guidance.

Our audit approach



Note:
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Warwickshire Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition. • opportunities to manipulate revenue recognition are very limited. • the culture and ethical frameworks of local authorities, including Warwickshire County Council who act as the administrators of the pension fund, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.	**Work completed to date:** • Review of the journal control environment. **Further work planned:** • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries. • Review of unusual significant transactions.

Significant risks identified cont'd

Significant risk	Description	Substantive audit procedures
Level 3 Investments – Valuation is incorrect. A level 3 investment is one where at least one input that could have a significant effect on the value of the investment is not based on observable market data. The most common example of which are investments in private equity, which are valued using various estimation techniques.	Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	**Work completed to date:** • Obtained details of the fund managers and written to them asking for external confirmation of the year end balance, and their control report. • We have updated our understanding and discussed the cycle with relevant personnel from the team during the interim audit. • We have performed walkthrough tests of the controls identified in the cycle. **Further work planned:** • For a sample of investments, test valuations by obtaining and reviewing audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31st March with reference to known movements in the intervening period. • Review the qualifications of the fund managers as experts to value the level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached. • To review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments.

Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
Investment Income	Investment activity not valid. Investment income not accurate. (Accuracy)	**Work completed to date:** • We have updated our understanding and discussed the cycle with relevant personnel from the team during the interim audit. • We have performed walkthrough tests of the controls identified in the cycle. **Further work planned:** • We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances.
Investment values – Level 2 investments	Valuation is incorrect. (Valuation net)	**Work completed to date:** • We have updated our understanding and discussed the cycle with relevant personnel from the team during the interim audit. • We have performed walkthrough tests of the controls identified in the cycle. **Further work planned:** • We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances.

Other risks identified continued

Other risks	Description	Audit Approach
Contributions	Recorded contributions not correct (Occurrence)	**Work completed to date:** • We have updated our understanding and discussed the cycle with relevant personnel from the team during the interim audit. • We have performed walkthrough tests of the controls identified in the cycle. **Further work planned:** • Controls testing over the contributions made to the fund. • Test a sample of contributions to source data to gain assurance over their accuracy and occurrence. • Rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	**Work completed to date:** • We have updated our understanding and discussed the cycle with relevant personnel from the team during the interim audit. • We have performed walkthrough tests of the controls identified in the cycle. • We have undertaken control testing over the arrangements for members to be enrolled into the scheme, up until the end of January 2015. **Further work planned:** • Confirm that controls for members to be enrolled in the scheme are in place at year end. • Test a sample of individual pensions in payment by reference to member files. • We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained.

Other risks identified continued

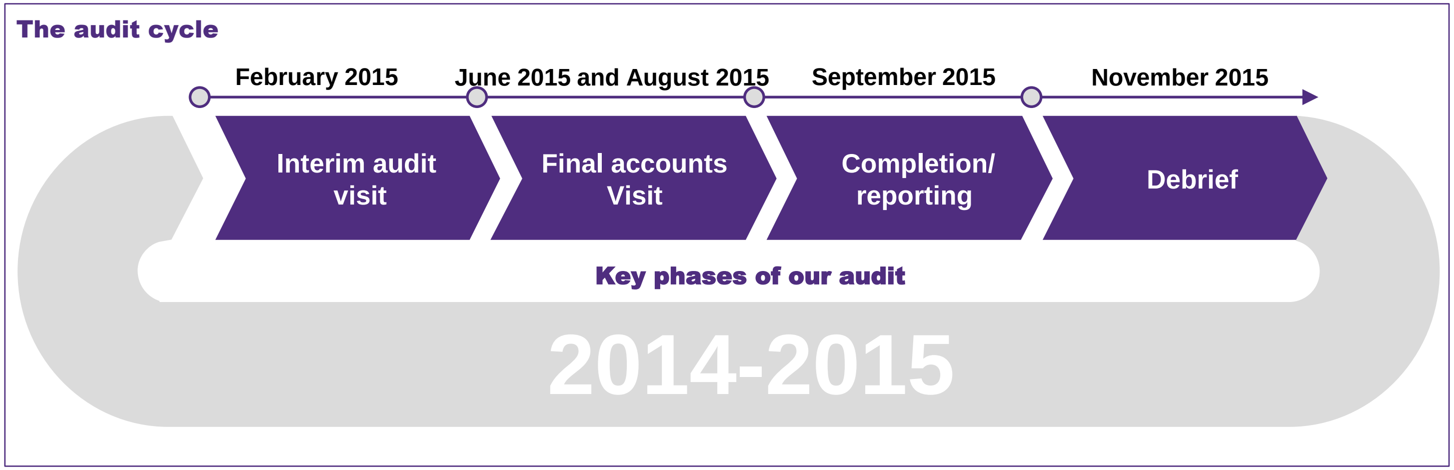
Other risks	Description	Audit Approach
Member Data	Member data not correct. (Rights and Obligations)	**Work completed to date:** • We have updated our understanding and discussed the cycle with relevant personnel from the team during the interim audit. • We have performed walkthrough tests of the controls identified in the cycle. • Controls testing over starters, leavers and amendments to the pension fund data for payrolls that are provided by Warwickshire County Council, up until the end of January 2015 **Further work planned:** • Confirm that controls over changes to the pension scheme are in place at year end. • Controls testing over starters, leavers and amendments to the pension fund data for external payrolls. • Sample testing of changes to member data made during the year to source documentation.

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Walkthrough testing	We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. Internal controls have been implemented in accordance with our documented understanding, however we note that no changes have been made to the control environment since the introduction of LGPS 2014 particularly in respect of ensuring the correct payment on contributions.	Our work has not identified any weaknesses which impact on our audit approach.
Internal audit	We have completed a high level review of internal audit's overall arrangements. We note that no specific internal audit work is planned for the pension fund for the current year. Given the introduction of both LGPS 2014 and the pension regulator members will need to ensure that appropriate alternative assurance is sought, particularly around the quality of member data.	Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
Entity level controls	We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including: • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices	Our work has identified no material weaknesses which are likely to adversely impact on the Fund's financial statements
Journal entry controls	We have reviewed the Fund's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Fund's control environment or financial statements.	No issues have been identified that we wish to highlight for your attention.

Key dates



Date	**Activity**
February 2015	Planning
February 2015	Interim site visit
June 2015	Presentation of audit plan to Audit Committee
June 2015 and August 2015	Year end fieldwork
September 2015	Audit findings clearance meeting
September 2015	Report audit findings to those charged with governance
September 2015	Sign financial statements opinion

Fees and independence

Fees

	£	£
	2014/15	**2013/14**
Pension Fund Scale Fee	23,892	23,892
Proposed fee variation – IAS 19 Assurances	1,328	1,328
Total fees (excluding VAT)	**25,220**	**25,220**

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, the Fund, and its activities, have not changed significantly
- The Fund will make available management and accounting staff to help us locate information and to provide explanations
- The proposed fee variation for IAS 19 above takes account of the work we are required to undertake for admitted bodies within the Audit Commission regime and is consistent with that requested in prior years.

Fees for other services

Service	Fees £
None	Nil

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Communication of audit matters with those charged with governance

In addition to the areas covered on the previous page, we are required to consider the following in our discussions with those charged with governance (the Audit and Standards Committee)

Area of consideration	Current understanding based on planning and interim work to date
Awareness of fraud or suspected fraud	There are no material instances of fraud that have been identified during the year. Any significant suspected or alleged fraud are investigated by Internal Audit and reported to the Audit Committee on a regular basis.
Views about the risks of fraud	Although there is an on-going risk of fraud being committed against the fund arrangements are in place to both prevent and detect fraud. These include the regular review of arrangements and work carried out by Internal Audit as part of their annual plan. The risk of material misstatement of the accounts due to undetected fraud is low and this is consistent with the risk management processes that are in place within the Fund and administering authority.
Awareness of whistleblower tips or complaints	Internal Audit are involved in the investigation of whistleblower referrals or complaints with a potential financial impact. There are no material instances of fraud that have been identified during the year arising from whistleblower tips or complaints.
How the Audit & Standards Committee provide oversight of management's fraud risk assessment process	The Annual Governance Statement and Head of Internal Audit Opinion are formally presented to the Audit Committee on an annual basis. The system of internal control is reviewed annually as part of the annual governance statement. The work plan of Internal Audit includes reviewing the operation of internal controls and appropriate segregation of duties. Internal Audit include fraud risk in their planning process.

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Item 6

Pension Fund Investment Sub-Committee

15 June 2015

Business Plan 2015/16

Recommendation

The Pension Fund Investment sub-committee is asked to approve the report and make any comments.

1. Purpose of the Report

1.1 Local authority pension funds are recommended by best practice principles to compile an annual business plan. This report sets out the annual business plan for 2015/16.

2. Business Plan 2014/15

2.1 **Appendix A** sets out a draft recommended business plan for the 2015/16 financial year. The plan lists the investment and pension administration tasks, which should be carried out during 2015/16, the target date when these should be achieved, and the responsible officer.

3. Recommendation

3.1 The Sub-Committee is asked to approve the Warwickshire County Council Pension Fund Business Plan for 2015/16 as set out in **Appendix A**.

Background Papers

None

	Name	Contact Information
Report Author	Mathew Dawson, Treasury and Pension Fund Manager	01926 412227 mathewdawson@warwickshire.gov.uk
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Strategic Director	David Carter, Strategic Director, Resources Group	01926 412564 davidcarter@warwickshire.gov.uk

Item 7

Pension Fund Investment Sub-Committee

15 June 2015

Employer Asset Tracking

Recommendation

That the Pension Fund Investment Sub-committee is asked to approve the adoption of an employer asset tracking model by the fund.

Note: The information in **Appendix A** is not for publication because as it contains information classified as exempt under Schedule 12A of the Local Government Act in that it contains information relating to the business or financial affairs of any particular person (including the Authority holding the information).

1. Purpose of the Report

1.1 At the sub-committee meeting on 16 February 2015 a proposal was presented by the fund actuary that looked at the direct apportionment of fund assets amongst individual employers in order to best assess an accurate surplus/deficit per employer. This approach is known as "employer asset tracking" and works by allocating cash flows and investment returns to employers in a similar way that units in pooled funds are allocated to various investors.

1.2 The method currently adopted by the fund is known as the "analysis of surplus" whereby the actuary predicts cash flows that are expected to be paid out by the fund on behalf of each employer and when these outflows are likely to take place. These assumptions are then, at the next actuarial valuation, compared to what was actually paid out, and these results form the basis for the analysis of surplus/deficit.

1.3 The current method as highlighted in 1.2, whilst fit for purpose, can be bettered by an employer asset tracking method. This is because there are a growing number of complexities that the fund is exposed to including a greater and more diverse employer base, more technical benefit calculations, and the fact that assets are only re-distributed every three years to employers at each actuarial valuation.

1.4 Sub-Committee members agreed in principal to a revised method but asked for further research. Officers have undertaken further work around employer asset tracking including an alternative provider and the indirect benefits from the system if implemented.

2. In-house

2.1 As discussed at the February meeting the analysis of surplus method is showing limitations due to the greater number of employers, the varying nature of employer groups, and the greater degree of scrutiny around Local Government Pension (LGPS) schemes, particularly with the Funds Local Pension Board now in existence which will look at scheme governance. There is a need for a system that gives a granulated depiction of an employer's share of assets when the actuary calculates the various figures needed for each employer's financial statements, employer cessation figures, and most importantly when undertaking an actuarial valuation.

2.2 Whilst the fund has qualified accounting staff we do not hold any in-house actuarial resource and to hold such a resource internally would not be cost effective. Nevertheless, even if the fund did have an internal actuary the underlying assumptions used in work carried out would still need to be undertaken by a third party to ensure total independence and impartiality.

3. Alternative Provider

3.1 Because the issue of asset tracking is so integrated in the Fund's actuarial service provision it is difficult to source an alternative provider without looking at a full tender process. However officers visited KPMG who have a system that can track fund assets and liabilities to give a funding level. The system is called FUSION and is being looked at by some LGPS funds. We are not aware of any other stand-alone products that provide this service.

3.2 The system is a robust tool giving users a snapshot funding position which can use daily pricing for up to date accuracy. There is also the ability to customise assumptions to look at projections in the future and the implications on assets and liabilities given varying conditions.

3.3 However the FUSION system cannot be utilised at an individual employer level. There is an option to segregate the employer base into rough risk groups but not to an individual level. This means it could not be an alternative to HEAT as there would still need to be an actuarial method to calculate employer assets on an individual basis.

3.4 Whilst not "best-fit" in this instance, the FUSION system may be useful for the Local Pension Board in their future discussions around funding levels, liability profiles and risk. The costs though are broadly in line with HEAT and would need to be proposed and voted on by the Board.

4.0 Fund Actuary

4.1 The 2016 Actuarial Valuation will be underway in the near future, and a considerable amount of lead time is needed to make the transition to the

HEAT system. Therefore if unitisation of assets is to be in place for the process we would need to use our current actuarial relationship with Hymans Robertson.

4.2 There is likely to be a considerable level of scrutiny amongst employers, auditors and the Local Pension Board on the revised contribution rates and overall funding level at the 2016 valuation. The HEAT system will provide an additional layer of transparency in that the output will be employer specific and there will be clear evidence that no cross subsidy has taken place. This will assist us in the event of mergers and cessations amongst employers. Members of the committee will be aware that there have been reports at prior meetings where employers have faced financial difficulty or insolvency. Therefore with the adoption of an employer tracker system there would be more detailed and current information that is employer specific will be available for discussion at committee level.

4.3 Combined with the COMPASS employer contribution rate stabilisation mechanism in place, the HEAT system will ensure whilst the fund is making efforts to remain affordable and prudent. Also that the Fund has recognised that assets are better assessed in isolation when setting employer contribution rates. Particularly with the fund employers an asset tracking solution increases the degree of engagement from the underlying employers and through regular monitoring can allow better planning in certain events.

5.0 Further benefits

5.1 The costs of HEAT, if implemented will be partially off-set by a reduced cost in most other work that Hymans Robertson provide for the fund. The Actuarial Valuation data collection will be a less cumbersome process due to current information being held by the actuary. It has also been estimated that the cost of the next valuation will be around 20% less in terms of fees.

5.2 The cost to fund employers would be reduced. Accounting returns and cessation figures will be discounted by £100/£250 respectively.

5.3 The total amount recharged to employers for accounting and cessation work for the last two financial years totalled around £170k.

6.0 Implications for the Administration Team

6.1 The introduction of an employer asset tracking process will add an increased level of administration for the pension administration team to deliver. The more precise method of analysing the funding position for employers will require the calculation of transfer values between employers within the Warwickshire Pension Fund. Currently assets and liabilities for such internal transfers are pro-rated by the Actuary at the time of the triennial valuation.

6.2 The additional process will involve such internal transfers being calculated on (what is known as) inter-fund transfer basis which is the process applied to transfers between LGPS pension funds. This entails the calculation of a cash equivalent value in respect of the pension rights in accordance with guidance issued by the Government Actuary's Department. Over a two year period (April 2013 to March 2015) the team processed 261 inter-fund transfers.

6.3 Ignoring transfers from WCC to academies (where the Actuary calculates the opening position and allocates funds for the new employer at commencement), the administration team has identified that had HEAT been in place since April 2013, a further 122 transfers would have had to be calculated; an increase of 47%.

Background Papers

None

	Name	**Contact Information**
Report Author	Mathew Dawson, Treasury and Pension Fund Manager	01926 412227 mathewdawson@warwickshire.gov.uk
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Pension Fund Investment Sub-Committee

15 June 2015

Listed Infrastructure

Recommendation

That the Pension Fund Investment Sub-Committee approves an increase of £5m to the existing £55m commitment to private infrastructure.

Note: The information in **Appendix A** is not for publication because as it contains information classified as exempt under Schedule 12A of the Local Government Act in that it contains information relating to the business or financial affairs of any particular person (including the Authority holding the information).

1. Introduction

1.1 In March 2014, the Sub-Committee agreed to invest with two infrastructure managers, Standard Life Capital Partners (SLCP) and Partners Group (PG), following interviews with a short list of five managers. This decision was part of an overall objective to increase exposure to alternative assets. The target allocation represents 4% of total Fund assets, now equivalent to approximately £65m based on the Fund's current valuation.

1.2 Since March 2014, the Fund has committed £20m to SLCP, though the manager has not yet drawn down any of the commitment to fund investments. A further £35m commitment was planned for the next PG global programme, investing in infrastructure through primary funds, secondary investments and directly. PG had expected to launch its next fund in late 2014 but this was delayed as the investment programme for its previous fund (which had closed to commitments) was taking longer than anticipated. The documentation for the new PG fund has now been issued and new commitments can now be made.

1.3 However, the increase in value of the total Fund since March 2014 suggests that a larger commitment than £35m is now appropriate, and a commitment of £40m is recommended for the PG fund.

1.4 The Fund retains 2% of assets invested in the State Street UK equity index fund. As the infrastructure allocation is due to be built up at the expense of UK equities, Hymans Robertson have explored what options might exist for using these assets to accelerate the Fund's allocation to infrastructure.

2. Accessing the Asset Class Promptly

2.1 The delay in getting money invested in underlying infrastructure assets has been frustrating, though it is the nature of the investment that the timing of investment is delegated to a degree to the managers themselves. Many sectors of the infrastructure market place are competitive at the moment and managers should not be under pressure to overpay for assets by getting cash invested quickly.

2.2 If the Sub-committee wish to access infrastructure assets in the short term whilst the funds in 1.1 and 1.2 are accessed then there are two main options:

Option A) Consider investing in a third pooled infrastructure fund that can offer more immediate, diversified exposure by already being close to fully invested.

Option B) Consider investing in listed infrastructure securities.

2.3 In regard to Option A Hymans Robertson do not believe there are any attractive funds available at present which offer this option.

2.4 PG does have an alternative fund available that invests only in direct assets. However, there is likely to be significant overlap between the investments made for the direct fund and the direct investments included in their main Global fund in which investment is already planned. This fund is also in early stages and has a very high fee level. Therefore Hymans Robertson researched Option B.

3. Listed Infrastructure

3.1 Hymans Robertson considered using an exposure to listed infrastructure as the "parking allocation" while capital is called from closed-end funds and later, where capital is paid back from closed-ended funds as they disinvest of assets. An initial allocation of 2% could have been made using the assets currently with State Street. The holding would ultimately wind down in future years but might still be retained at a low level to handle cash flows.

3.2 There are four listed infrastructure options available to the Fund without introducing a new fund manager. It would be preferable to consider an existing manager since this would have to be a temporary arrangement. State Street (SSGA) have recently launched a passive vehicle, L&G offer 2 pooled fund options and PG manage an active fund separately from the more illiquid direct approach to which the Fund plans to commit now it is available. Each of these funds satisfied the initial criteria of daily dealing in underlying listed securities.

3.3 **Appendix A** details the four available funds within the existing manager structure along with recommendations from Hymans Robertson.

Background Papers

None

	Name	Contact Information
Report Author	Mathew Dawson, Treasury and Pension Fund Manager	01926 412227 mathewdawson@warwickshire.gov.uk
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