Pension Fund Investment Sub-Committee

Agenda

14 September 2015

The Pension Fund Investment Sub-Committee will meet in **CR2**, **Shire Hall**, **Warwick** on **14 September 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 43).
- 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 15 June 2015.

2. Investment Performance

3. Statement of Investment Principles

4. Infrastructure Update

5. Business Plan 2015/16

6. Governance Compliance Statement

7. Cashflow Analysis

8. Additional Independent Adviser

9. Passive Investment – Collaborative Working

EXEMPT ITEMS

10. 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'.

11. Exempt Minutes of the previous meeting held on 15 June 2015.

12. 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

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Minutes of the Pension Fund Investment Sub-Committee meeting held on 15 June 2015

Present:

Members
Councillors John Appleton (Chair), Bill Gifford (Vice Chair), John Horner, Alan Webb and Mary Webb (replacing Brian Moss for this meeting).

Officers
Sally Baxter, Democratic Services Officer
John Betts, Head of Finance
John Galbraith, Senior Solicitor, Pension Fund Services
Andrew Lovegrove, Head of Corporate Financial Services

Invitees
Hugh Braddock, Relationship Manager, BNY Mellon (London)
Steve Beale, Relationship Manager, BNY Mellon (London)
Peter Jones, Independent Investment Adviser
Paul Potter, Hymans Robertson

2 members of the public attended.

1. General

(1) Apologies

Councillor Brian Moss, Neil Buxton and Mathew Dawson.

(2) Disclosures

None.

(3) Minutes of the previous meeting

The minutes of the meeting held on 16 February 2015 were agreed as a true record subject to the correction that Councillor Bill Gifford was in attendance at the meeting. Minutes of the County Council meeting held on19 May 2015 were agreed as a true and correct record.

2. Global Custodian - FCA fine

2.1 The Chairman reminded the sub-committee that the Fund’s global custodian, BNY Melon, had been fined by the Financial Conduct Authority for using practices that were not in compliance with the Client Asset Handbook, for a period of time. In light of this, BNY Mellon was in attendance to explain why they had been fined and what action had been taken and what mechanisms are now in place to ensure that they comply with best practice. Information was distributed at the meeting.

2.2 Mr Braddock assured the sub-committee that the fund’s assets were, and remain safe. The FCA found that practices were not in place to allow for the linking of assets with the relevant client's contract which could be problematic in recovering assets (in the unlikely event of a liquidation).

2.3 Resolved

That the Pension Fund Investment Sub-Committee notes the information provided and await an update from officers as to whether the contract with BNY Mellon includes explicit use of omnibus accounts.

3. Outcome of Transition – Fundamental Index Tracking

3.1 Andrew Lovegrove, Head of Corporate Financial Services, provided an update to the sub-committee regarding its decision to move assets from State Street passive UK equity to Legal and General fundamental index tracking product FTSE RAFI 3000 Eq.

3.2 The transfer had taken longer than anticipated but had been completed. Paul Potter, Hymans Robertson, commented that the process for tracking index would be more accurate in future. Furthermore, the cost associated with the transfer was for the fundamental index mandate and if Black Rock had been employed, the transfer would have attracted a fixed fee. He also clarified that the fee was to cover the cost of moving the asset from the UK market to global market but it was anticipated that the cost would be offset by investments into the fund.

3.3 In response to a question, Paul Potter explained that the stock would not have been detrimentally affected during the transfer period because market exposure was maintained whilst it was being restructured into the New World Equity Fund.

3.4 Resolved

That the Pension Fund Investment Sub - Committee notes the report.

4. Investment Performance

4.1 Andrew Lovegrove, Head of Corporate Financial Services, gave a precis of the investment performance report for the fourth quarter in 2014/15. In particular, the sub-committee noted that there had been a 5% increase on the fourth quarter valued at £1.6 billion.

4.2 Paul Potter, Hymans Robertson, highlighted that the investment had globally outperformed by 3.5%. Peter Jones, Independent Investment Adviser, and the sub-committee agreed that performance had been good.

4.3 Resolved

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

5. Audit Plan 2014/15

5.1 John Betts, Head of Finance, explained that the Audit Plan would be considered by the Local Pension Board and not the sub-committee in future but would still be considered by the Staff and Pensions Committee. He introduced the report and plan, and advised that no concerns had been raised.

5.2 Following a discussion, the sub-committee highlighted the importance of ensuring the responsibilities of the Local Pension Board and Pension Fund Investment Sub-Committee are defined. John Betts reported that the Board's term of reference would be considered at its first meeting in July and the sub-committee would receive the agreed terms of reference for information.

5.3 Resolved

That the Pension Fund Investment Sub-Committee notes the report and will receive the agreed Terms of Reference of the Local Pension Board at a future meeting.

6. Business Plan 2015/16

6.1 The Chairman explained that hard copies of the Business Plan 2015/16 were distributed to the sub-committee this morning; a link to access the plan had been emailed to all Councillors on 10 June 2015.

6.2 The sub-committee discussed the importance of responsibilities and that there is a clear distinction between the role of the Local Pension Board and the Pension Fund Investment sub-committee. With this in mind, it was suggested that the Business Plan be revised with consideration of the different roles and then it would be considered at a future meeting.

6.3 **Resolved**

That the Pension Fund Investment Sub-committee agrees that the Business Plan 2015/16 be reviewed and amended to identify whether the sub-committee or Board, is responsible for each area of the Business Plan.

7. Employer Asset Tracking

7.1 It was explained that the appendix to the report was classified as exempt under schedule 12 A of the Local Government Act 1972 and the sub-committee would be required to pass a resolution to discuss the appendix in private session, if required.

7.2 The sub-committee considered a proposal on 16 February 2015 by Hymans Robertson for the Fund to adopt an 'employer asset tracking' approach to allocating cash flows and investment returns to employers in the Fund, as opposed to the current method used 'analysis of surplus'.

Exempt Items – Reports containing Confidential or Exempt Information

7.3 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.

7.4 The sub-committee referred to the information contained in Appendix A, in particular they discussed other models available and the fees associated.

7.5 Resolved

That the Pension Fund Investment Sub-Committee approves the adoption of an employer asset tracking model by the Fund.

8. Listed Infrastructure

8.1 Following the sub-committee decision in May 2014 to invest in with two infrastructure managers (Standard Life Capital Partners and Partners group), the value of the Fund has increased and as such, it is for the sub-committee to agree if it's appropriate to increase the amount to be invested by £5million.

8.2 A discussion ensued about the length of time taken to invest funds into infrastructure and the importance of ensuring the investment was usefully being employed. In reaching its decision the sub-committee was reminded that a rebalance of risks across the Fund was the aim.

8.3 Resolved

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

10. (EXEMPT) Minutes of the meeting held on 16 February 2015

10.1 The exempt minutes of the meeting held on 16 February 2015 were agreed as a true record.

11. Any other items

None.

The sub- committee rose at 11.25 a.m

……………………………………….
Chair

Item 2

Pension Fund Investment Sub - Committee

14 September 2015

Investment Performance

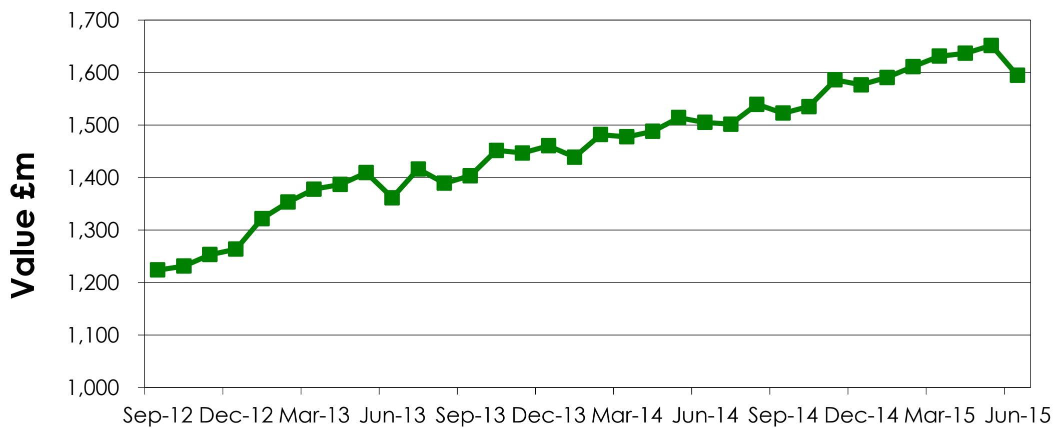
Recommendation

That the Pension Fund Investment Sub- Committee note the fund value and investment performance for the first quarter in 2015/16 to 30 Jun 2015.

1. Fund Value at 30 June 2015

1.1 The fund value was £1,631.3m at 30 June 2015 a decrease of 2.2% 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 30 June 2015 is shown in Table 1.

Table 1: Fund Asset Allocation

Asset Class		Q/E Jun 2015	Fund policy	Over/under weight
		%	%	%
Equity		**57.9**	**54.5**	**3.4**
	UK	26.8	23.0	3.8
	Overseas	26.5	26.5	0.0
	Fundamental Indexation	4.7	5.0	-0.3
Fixed Income		**17.8**	**17.5**	**0.3**
	UK corporate bonds	10.0	10.0	0.0
	UK government bonds	2.5	2.5	0.0
	UK index linked bonds	5.3	5.0	0.3
Hedge Funds		**5.0**	**5.0**	**0.0**
Private Equity		**2.3**	**4.0**	**-1.8**
Property		**10.6**	**10.0**	**0.6**
Absolute Return Bonds		**4.7**	**5.0**	**-0.3**
Infrastructure		**0.9**	**4.0**	**-3.1**
Cash		**0.7**	**0.0**	**0.7**
Total		**100.0**	**100.0**	**0.0**

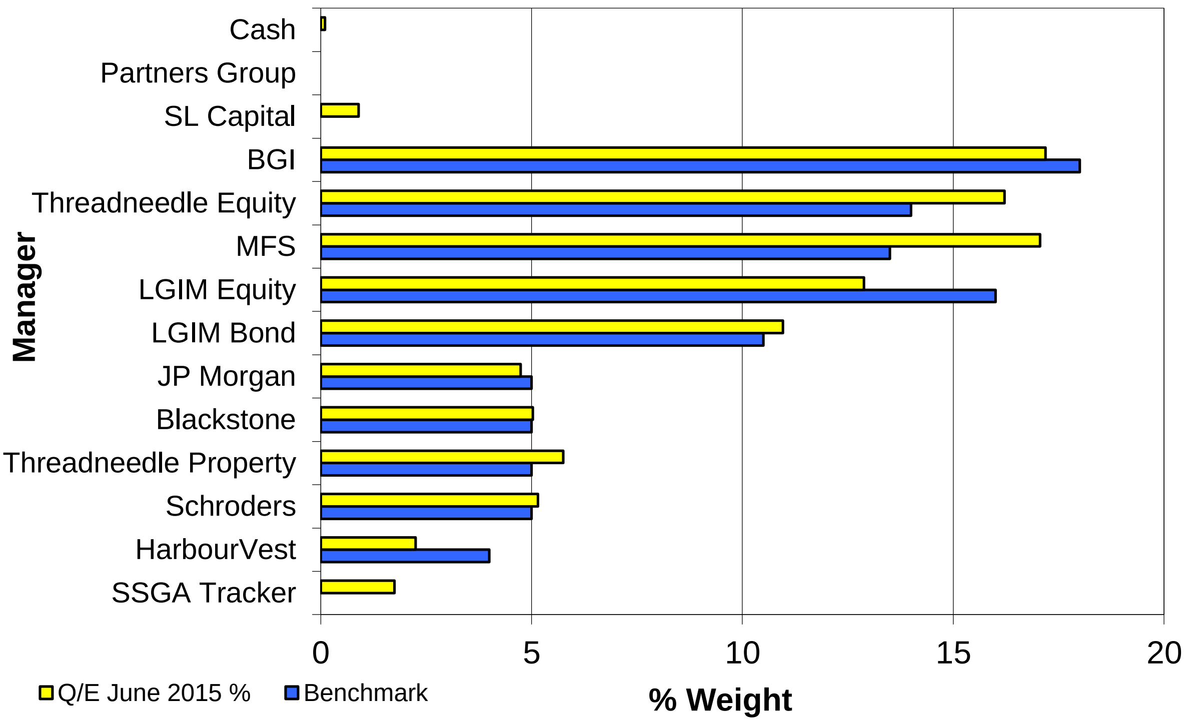
2.2 The fund managers' asset allocation against the benchmark for the quarter ending 30 June 2015 is shown in Table 2.

Table 2: Fund Asset Allocation by Manager

Manager	Q/E June 2015 %	Benchmark	Variance
SSGA Tracker	1.8	0.0	1.8
HarbourVest	2.3	4.0	-1.8
Schroders	5.2	5.0	0.2
Threadneedle Property	5.8	5.0	0.8
Blackstone	5.0	5.0	0.0
JP Morgan	4.7	5.0	-0.3
LGIM Bond	11.0	10.5	0.5
LGIM Equity	12.9	16.0	-3.1
MFS	17.1	13.5	3.6
Threadneedle Equity	16.2	14.0	2.2
BGI	17.2	18.0	-0.8
SL Capital	0.9	2.5	-1.6
Partners Group	0.0	1.5	-1.5
Cash	0.1	0.0	0.1
Total	100.0	100.0	0.0

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

Figure 2. Manager Allocation - Quarter Ending 30 June 2015



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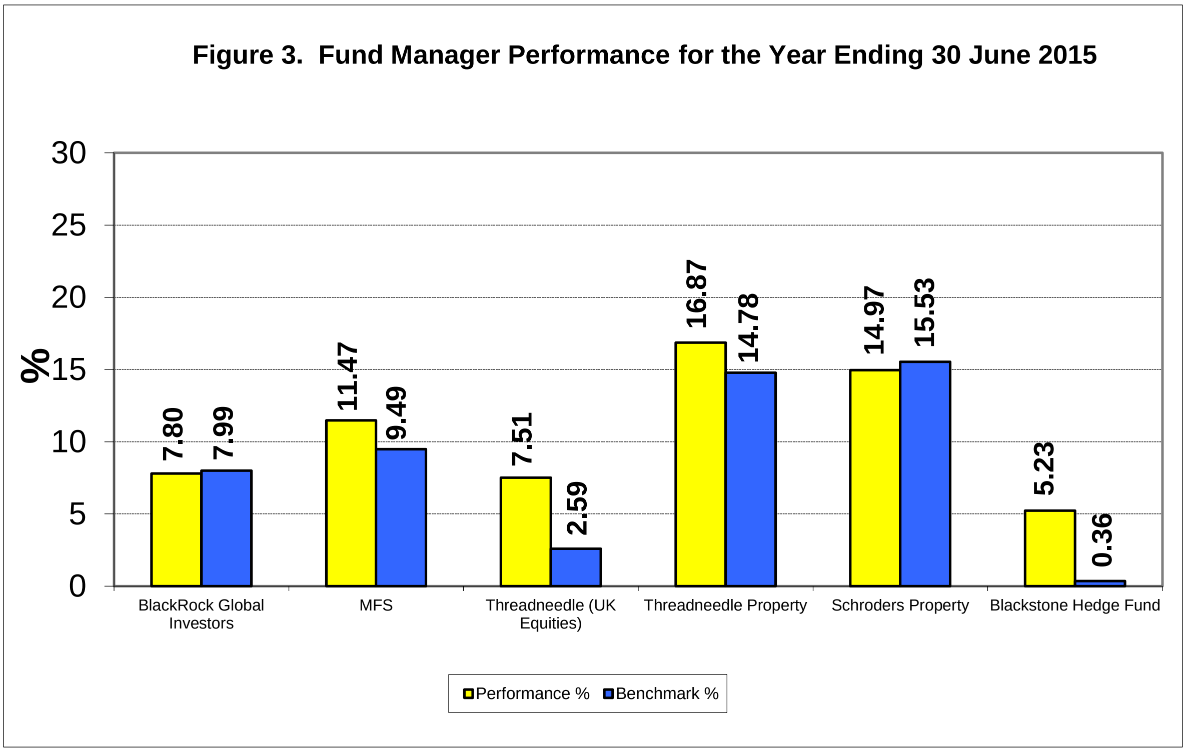
3. Fund Performance

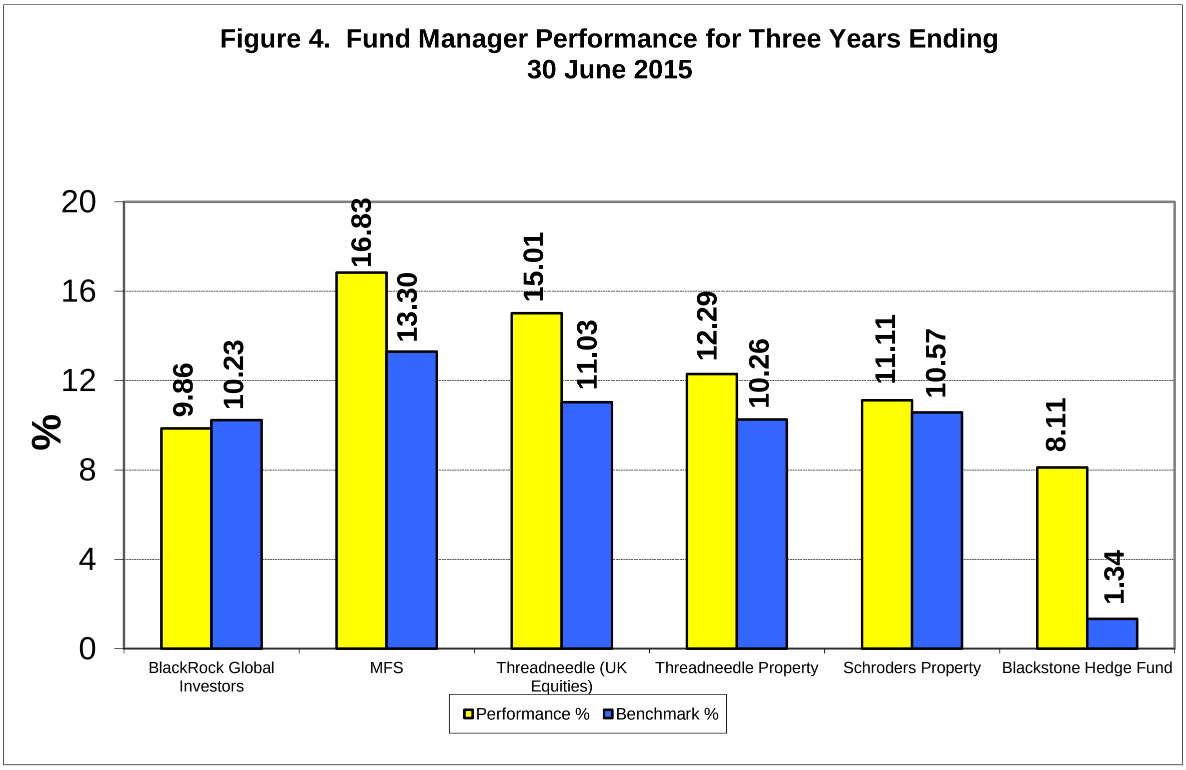
3.1 Overall the fund out-performed its overall benchmark by 0.06%. The performances of managers against their benchmarks for the quarter ending 30 June 2015 were:

Table 3: Performance by Fund Manager

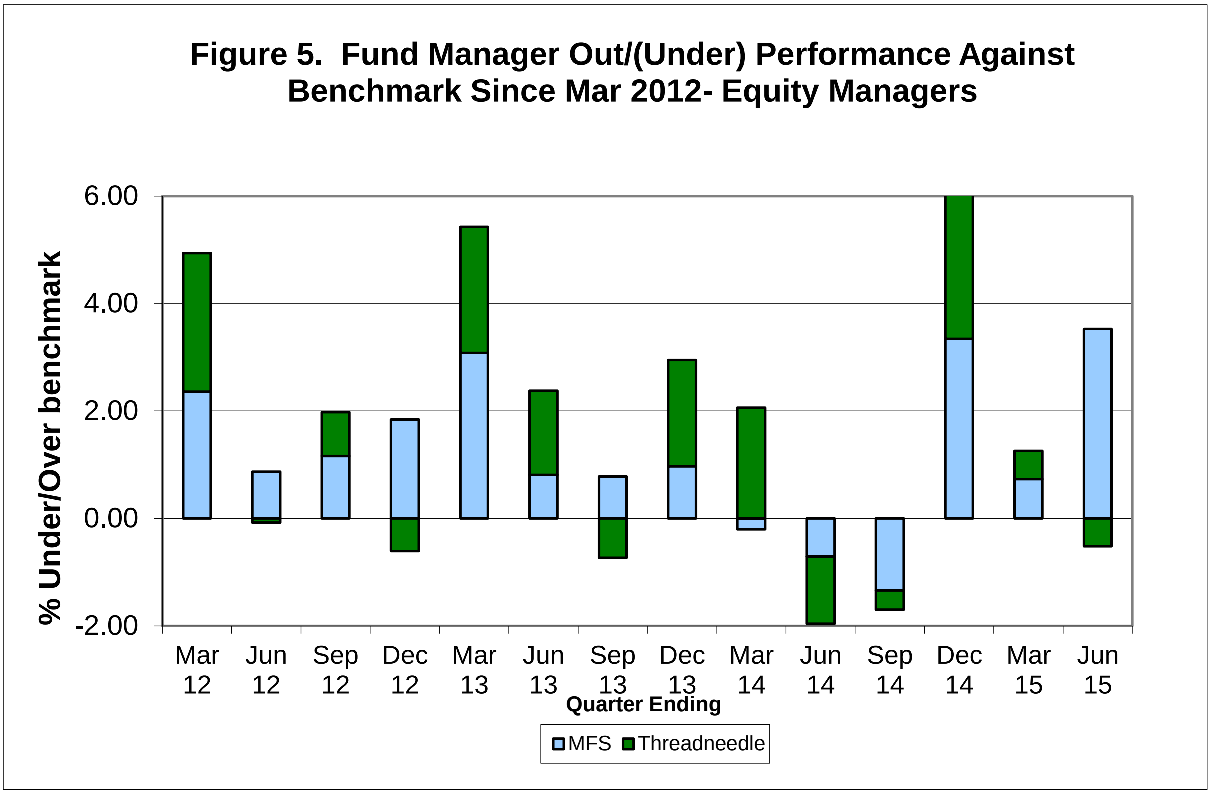
Manager	Benchmark Measure	Q/E Jun 2015 %	Benchmark %	Variance %
BlackRock Global Investors		-3.59		**0.01**
	BlackRock Benchmark		-3.60	
MFS		-6.02		**-0.74**
	Global Equity Benchmark		-5.28	
State Street Tracker		-1.52		**0.06**
	FTSE All-Share		-1.58	
Threadneedle		-0.23		**1.35**
	FTSE All-Share		-1.58	
Legal and General (Global Equities)		-4.20		**-0.29**
	LGIM Benchmark		-3.91	
Legal and General (Fixed Interest)		-3.70		**0.05**
	LGIM Benchmark		-3.75	
Threadneedle Property		3.64		**0.33**
	Customised Benchmark		3.31	
Schroders Property		3.02		**-0.30**
	Customised Benchmark		3.32	
Blackstone Hedge		0.53		**0.44**
	Customised Benchmark		0.09	
JP Morgan Strategic Bond		-0.25		**-0.38**
	Customised Benchmark		0.13	
Total		**-0.20**		**0.06**
	WCC Total Fund Benchmark		**-0.26**	

3.2 Annualised return for the fund managers to 30 June 2015 is summarised in Figure 3. The three year annualised return is summarised in Figure 4.





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



Background Papers

1) Bank of New York Mellon Quarterly Attribution Report - June 2015.

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Report Author	Sukhdev Singh, Senior Finance Officer.	01926 412671 sukhdevsingh@warwickshire.gov.uk
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Item 3

Pension Fund Investment Sub Committee

14 September 2015

Statement of Investment Principles

Recommendation

That the Pension Fund Investment Sub-Committee approve the Statement and make any comments.

1 Introduction

1.1 Following the appointment of Partners Group and Standard Life Capital Partners to invest in infrastructure, further work is required to update the Fund's documentation. The Statement of Investment Principles has been amended to reflect the change in asset allocation.

1.2 Further amendments have been made to reflect the changes made to the Legal and General mandate into fundamental indexation.

2 Revised Edition of the Statement of Investment Principles

2.1 The revised SIP is shown 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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Warwickshire Pension Fund

Statement of Investment Principles

1 Introduction

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

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

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

Annex 2 sets out the role of the investment consultant.

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

2 Overall Responsibility

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

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

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

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

Warwickshire County Council

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

3 Investment Objectives and Risk

3.1 Investment Objectives

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

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

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

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

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

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

3.2 Risk

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

Funding Risks

- Financial mismatch –
    - The risk that Fund assets fail to grow in line with the developing cost of meeting liabilities.
    - The risk that unexpected inflation increases the pension and benefit payments and the Fund assets do not grow fast enough to meet the increased cost.
- Changing demographics –The risk that longevity improves and other demographic factors change increasing the cost of benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the liabilities.

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

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

The Authority seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

- Concentration - The risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates

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

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

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

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.
- When carrying out significant transitions, the Authority takes professional advice and considers the appointment of specialist transition managers.

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

3.3 Investment Strategy

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

Asset Class	**Index-Tracking**	**Active Managers**	**Alternative Assets**	**Total (%)**
UK Equities	8.00	15.00		23.00
Overseas Equities	11.50	15.00		26.50
European	*6.50*	*2.50*		*9.00*
North American	*0.00*	*9.00*		*9.00*
Far East/Emerging Markets	*5.00*	*3.50*		*8.50*
Fundamental Global Equity	5.00			5.00
Property			10.00	10.00
Hedge Funds			5.00	5.00
Private Equity			4.00	4.00
Infrastructure			4.00	4.00
UK Corporate Bonds	10.00			10.00
UK Fixed Interest	2.50			2.50
UK Index-Linked	5.00			5.00
Absolute Return Bonds		5.00		5.00
Total	42.00	35.00	23.00	100.00

4 Management of the Assets

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

4. 1 Investment Restrictions

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

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

4.2 Realisation of Investments

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

4.3 Expected Return

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

4.4 Monitoring and Review

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

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

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

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

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

5 Social, Environmental and Ethically Responsible Investment

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

6 Exercise of voting rights

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

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

7 Stocklending

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

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

The manager(s) of pooled funds may undertake a certain amount of stock lending on behalf of unitholders in the fund. If a pooled fund engages in this activity, the extent to which it does so is disclosed by the manager. The Authority has no direct control over stock lending in pooled funds. The Authority is comfortable that the extent and nature of this activity is appropriate to the circumstances of the Fund.

8 Fee Structures

8.1 Rationale for Fee Structure

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

8.2 Investment Consultant Fees

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

8.3 Manager Fees

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

9 Compliance with this Statement

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

10 Review of this Statement

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

Annex 1

PRINCIPLES FOR INVESTMENT DECISION MAKING

The Myners report on Institutional Investment in the UK was published in 2001, and included ten principles of good investment practice. The Local Government (Management and Investment of Funds) Regulations 2002 required Administering Authorities to publish the extent to which they complied with these principles.
In 2007 a review was conducted, and the outcome was that the ten principles were updated to reflect the findings of the review.
Six (modified) principles replaced the original ten and the LGPS regulations 2009 require the Administering Authority to publish the extent to which they comply with these six principles.

Principle 1: Effective Decision-Making

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

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

Best Principle Guidance

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

Evaluation of Compliance

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

Principle 2: Clear Objectives

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

Best Practice Guidance

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

Evaluation of Compliance

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

Principle 3: Risk and Liabilities

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

Best Practice Guidance

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

Evaluation of Compliance

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

Principle 4: Performance Assessment

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

Best Practice Guidance

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

Evaluation of Compliance

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

Principle 5: Responsible Ownership

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

Best Practice Guidance

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

Evaluation of Compliance

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

Principle 6: Transparency and Reporting

Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.
Trustees should provide regular communication to members in the form they consider most appropriate.

Best Practice Guidance:

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

Evaluation of Compliance

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

Role of Investment Consultant

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

i. assistance in helping the Authority formulate investment objectives;

ii. advice on Investment Strategy;

iii. advice on devising an appropriate investment manager structure;

iv. assistance in selecting and monitoring of investment managers.

Investment Management Structure

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

Main Assets

The Authority invests the main assets of the Fund in portfolios operated by external investment managers. The Authority is satisfied that the spread of assets by type and the investment managers' policies on investing in individual securities within each type provides adequate diversification of investments. The investment managers are required to comply with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The managers appointed are listed below.

Manager	Role	Target
BlackRock Global Investors ("BGI")	Passive Multi-Asset Portfolio	18.0
Threadneedle Investments ("Threadneedle")	Active UK Equity Portfolio	14.0
MFS Investment Management ("MFS")	Active Global Equity Portfolio	13.5
Legal and General Investment Management ("LGIM")	Passive Multi- Asset Portfolio	21.5
Legal and General Investment Management ("LGIM")	Passive Fundamental Global Equity Portfolio	5.0
Schroder Investment Management ("Schroder")	Active Property (Multi-Manager) Portfolio	5.0
Threadneedle Investments ("Threadneedle")	Active Property Portfolio	5.0
Blackstone Alternative Asset Management ("Blackstone")	Active Fund of Hedge Funds Portfolio	5.0
HarbourVest	Private Equity	4.0
J P Morgan Asset Management (UK)	Absolute Return Bonds	5.0
Partners Group	Infrastructure	2.5
Standard Life Capital Partners	Infrastructure	1.5

(The State Street UK Equity mandate will reduce over time as the private equity and infrastructure mandates are gradually established).

The investment managers' mandates are as follows:

BlackRock : Passive Multi-Asset mandate

The details of the multi-asset passive mandate are as follows:

	Benchmark (%)	Index
UK Equities	22.0	FTSE All-Share Index
European (ex UK) Equities	15.0	FTSE AW Developed Europe (ex UK) Index
North American Equities	4.0 *	FTSE AW USA Index FTSE AW Canada Index
Japanese Equities	9.0	FTSE AW Developed Japan Index
Pacific Basin (ex Japan) Equities	8.0	FTSE AW Developed Asia Pacific (ex Japan) Index
Emerging Markets Equities	3.0	S&P IFC Investable Composite Index (ex Malaysia)
UK Corporate Bonds	9.0	iBoxx Sterling Non Gilts All Stocks Index
UK Fixed Interest Gilts	3.0	FTSE UK Gilt All Stocks Index
UK Index Linked Gilts	27.0	FTSE UK Index Linked All Stocks Index
Total	**100.0**	

* split between the US and Canada in proportion with the FTSE AW Developed North America Index

State Street Global Advisors: Passive UK equity mandate

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

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

The performance target for the State Street mandate is to match the FTSE All Share Index (gross of fees) over one-year rolling periods.

Threadneedle Investments: Active UK equity mandate

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

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

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

LGIM: Passive Global Multi-Asset mandate

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

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

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

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

LGIM: Passive Fundamental Equity Portfolio

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

	Benchmark (%)	Allowable Range (%)	Index
Global Equities	100.0	+/- 5.0	FTSE RAFI All-World 3000 Index
Cash	0.0	+/- 5.0	

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

MFS: Active Global Equities

The details of the global equity mandate are:

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

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

Schroders: Multi-manager Property

The details of the multi-manager property mandate are:

	Benchmark (%)	Index
Property Multi-Manager	100.0	AREF/IPD UK Pooled Funds Index – All Balanced Funds Weighted Average
Total	**100.0**	

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

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

Threadneedle: Property

The details of the property mandate are:

	Benchmark (%)	Index
Property	100.0	AREF/IPD UK Pooled Funds Index – All Balanced Funds Weighted Average
Total	**100.0**	

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

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

Blackstone: Fund of Hedge Funds

The details of the fund of hedge funds mandate are:

	Benchmark (%)	Index
Fund of hedge funds	100.0	UK LIBID 7 Day Notice
Total	**100.0**	

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

HarbourVest: Fund of Private Equity Funds

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

	Benchmark (%)	Index
Fund of private equity funds	100.0	MSCI World Index
Total	**100.0**	

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

JP Morgan: Absolute Return Bonds

The details of the absolute return bond mandate are:

	Benchmark (%)	Index
Strategic Bond Fund	100.0	LIBOR
Total	**100.0**	

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

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

Item 4

Pension Fund Investment Sub Committee

14 September 2015

Infrastructure Update

Recommendation

That the Pension Fund Investment Sub-Committee notes the report.

1 Introduction

1.1 At the sub-committee meeting of 15 June 2015 it was reported that the fund had experienced delays in allocating cash to the two private infrastructure managers that were appointed to manage assets for the fund.

1.2 Following this report the Chairman requested that both fund manager's report on likely implementation.

2. SL Capital (£20m target allocation)

2.1 Shortly after the June sub-committee meeting SL Capital issued two capital calls to the fund totalling £14.8m. Therefore the remaining commitment to the manager outstanding is now £5.2m.

2.2 These drawdowns were funded through a combination of residual cash, and the redemption of units in the State Street UK passive equity fund.

2.3 SL Capital cannot give any precise indication as to when the remaining commitment will be deployed as it is dependent on opportunities and fund raising. However as a rough guide it is expected that the fund will have the allocation invested by late 2016.

3. Partners Group (£40m target allocation)

3.1 In July the documentation for the Partners Group global infrastructure fund was completed.

3.2 The manager has provided a drawdown forecast for the fund, first capital calls will be expected in the remainder of 2015 and will be in the region of 10-15% of committed amount (£4-6m). Throughout 2016 further drawdowns will be expected to around 40% of total target allocation. Looking to the longer term, the aim of this fund is to become fully subscribed by 2020-2021.

Background Papers

Partners Group Infrastructure Fund Cash flow/NAV document

	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

Pension Fund Investment Sub - Committee

14 September 2015

Business Plan 2015/16

Recommendation

That the Pension Fund Investment sub-committee approve the revised Business Plan as set in out in **Appendix A**.

1. Purpose of the Report

1.1 At the sub-committee meeting on 15 June 2015 the annual business plan for 2015/16 was approved by the sub-committee. It was decided at the meeting above that a revised report would be presented which suggests a responsible committee to each item that reflects revised governance arrangements, particularly the introduction of the Local Pension Board.

2. Business Plan 2015/16 by Committee

2.1 **Appendix A** sets out the approved business plan for the 2015/16 financial year with the suggested committee against each item that will receive future reports.

Background Papers

None

	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

Appendix A

Warwickshire County Council Pension Fund
Business Plan and Actions for 2015/16

Administration				
Objective(s) - to ensure scheme is run in accordance with the rules; agreed service standards and compliantly - to deal with and rectify any errors and complaints in a timely way				
Action	**Description**	**Timescale**	**Primary Responsibility**	**Committee**
1	Head of Finance, Resources to receive service plan report on a quarterly basis	Ongoing with reports due end Mar, Jun, Sep and Dec	Andrew Lovegrove	Local Pension Board
2	Completion of Pension Fund Annual Report	By 30 September 2015	Mathew Dawson	Local Pension Board
3	Review of any complaints and how they have been dealt with by Director of Resources	Ongoing	Mathew Dawson/Neil Buxton	Staff and Pensions
4	Further pension fund website development (in line with Group business plan)	Ongoing	Neil Buxton	Staff and Pensions
5	Development of Member Self Service facility to enable scheme members to view their record and benefits.	Ongoing	Neil Buxton	Staff and Pensions
6	Continued work on LGPS 2014 Scheme	Ongoing	Neil Buxton	Staff and Pensions
7	Support remaining employers in their auto-enrolment staging.	Ongoing	Neil Buxton	Local Pension Board
8	Implementation of Local Pension Board	First meeting July 2015	Andrew Lovegrove	Local Pension Board

Communication	
	Objective(s) - to convey the security of the Scheme - to ensure members understand and appreciate the value of their benefits

Action	**Description**	**Timescale**	**Primary Responsibility**	**Committee**
1	Timely production of minimum one annual pensioners' newsletter	At least one per annum	Neil Buxton	Local Pension Board
2	Timely production of benefit statements	Active members 31 Aug 2015 Preserved members 30 June 2015 Councillors 31 May 2015	Neil Buxton	Local Pension Board
3	Review communication material in last 12 months and compare with good practice	Annually	Neil Buxton	Local Pension Board
4	Communication on a timely basis of the new LGPS scheme to Sub-committee, employer bodies and members	As information becomes available	Mathew Dawson/Neil Buxton	Staff and Pensions
5	Prepare and implement Pension Fund Annual Meeting (Nov) and Employers' Forum (as and when deemed necessary)	At least one each per annum	Mathew Dawson /Neil Buxton	Staff and Pensions

Actuarial/Funding				
Objective(s) - to monitor the funding level of the Scheme including formal valuation every 3 years - to monitor contribution payments to the Scheme by the contributors - to understand legislative changes which will impact on funding				
Action	**Description**	**Timescale**	**Primary Responsibility**	**Committee**
1	Receive annual funding updates (ongoing and IAS19)	March 2015, July 2015 and August 2015	Mathew Dawson	Pension Fund Investment Sub-Committee
2	Receive contribution monitoring schedule from Treasury Team and monitor	Ongoing	Mathew Dawson	Local Pension Board
3	Member training covering current issues	Ongoing	Andrew Lovegrove/Mathew Dawson	Pension Fund Investment Sub-Committee and Local Pension Board.

Pension Fund Investment Sub-committee Members				
Objective(s) - to train and develop all members to enable them to perform duties effectively - to meet quarterly and to include investment advisor and independent advisors as required - to run meetings efficiently and to ensure decisions are made clearly and effectively				-
Action	**Description**	**Timescale**	**Primary Responsibility**	**Committee**
1	Review decision making process to ensure decisions are made effectively	Ongoing	Pension Fund Investment Sub-committee	Local Pension Board
2	Review member training requirements and implement training plan as appropriate	Ongoing	Andrew Lovegrove/Mathew Dawson/Chairman	All
3	Ensure compliance with the forward plan and CMIS deadlines	Ongoing	Mathew Dawson	Pension Fund Investment Sub-Committee
4	Review Pension Fund Investment meeting structure	Ongoing	Andrew Lovegrove/Mathew Dawson/Chairman	Pension Fund Investment Sub-Committee
5	Respond to forthcoming changes in legislation	Ongoing	Andrew Lovegrove/Mathew Dawson	Local Pension Board and Staff & Pensions

Financial & Risk Management				
Objective(s) - To properly record financial transactions to and from the Scheme and produce annual accounts within 6 months of year end - Manage advisers fees against budgets - Assess the risk associated with the management of the Scheme				-
Action	**Description**	**Timescale**	**Primary Responsibility**	**Committee**
1	Monitor pension fund expenses for next financial year	Ongoing	Mathew Dawson	Pension Fund Investment Sub-Committee
2	Produce cash flow forecast for next three financial years	September 2015		Pension Fund Investment Sub-Committee
3	Produce Draft Statement of Accounts	22 June 2015	Mathew Dawson	Staff and Pensions
4	Produce Pension Fund Annual Report	30 September 2015	Mathew Dawson	Local Pension Board
5	Carry out risk assessment of scheme	Annually	Andrew Lovegrove	Pension Fund Investment Sub-Committee
6	To implement a system of disaster recovery/business continuity in the event of major disaster	Ongoing	Andrew Lovegrove/Mathew Dawson	Local Pension Board

Investment				
Objective(s) - Periodically review investment strategy and benchmarks - Monitor performance against benchmarks - Meet with investment managers to discuss performance				-
Action	**Description**	**Timescale**	**Primary Responsibility**	**Committee**
1	Transition of assets to successful infrastructure fund managers	Starting March 2015 and on-going	Mathew Dawson	Pension Fund Investment Sub-Committee
2	Transition of assets to fundamental indexation manager	April 2015	Mathew Dawson	Pension Fund Investment Sub-Committee
3	Transition of assets to private equity funds	Ongoing	Mathew Dawson	Pension Fund Investment Sub-Committee
4	Review of investment manager arrangements	Ongoing	Mathew Dawson	Pension Fund Investment Sub-Committee
5	Review asset allocation and possible further diversification in partnership with consultant and independent advisor	Following 2016 Actuarial Valuation	Andrew Lovegrove/Mathew Dawson	Pension Fund Investment Sub-Committee
6	Discuss/meet with all active investment managers	At least annually	Mathew Dawson	Pension Fund Investment Sub-Committee
7	Revise SIP following investments in 1+2 above	September 2015	Mathew Dawson	Pension Fund Investment Sub-Committee

8	Sub-committee to receive quarterly monitoring reports	Quarterly	Mathew Dawson	Pension Fund Investment Sub-Committee
9	Ongoing consideration of best practice	Ongoing	Andrew Lovegrove	Local Pension Board

Pension Fund Investment Sub Committee

14 September 2015

Governance Compliance Statement

Recommendation

That the Pension Fund Investment Sub-Committee approve the statement and make any comments.

1. Introduction

1.1 Warwickshire Pension Fund maintains a Governance Compliance Statement in compliance with best practice principles.

1.2 From April 2015 the governance structure of the fund has changed following the introduction of the new Local Pension Board, this revised Governance Compliance Statement incorporates these changes.

1.3 Further amendments to the Statement have taken place to reflect the arrangements in place between with Staff and Pensions Committee and the dissolving of the Pension Fund Consultative Panel.

2. The Governance Compliance Statement

2.1 The Governance Compliance Statement requires LGPS funds to demonstrate their compliance (or non-compliance) with best practice principles. These are contained in statutory guidance which is not mandatory but there is an obligation to comply unless there is a good reason not to do so. This approach is termed as "comply or explain".

3. Contents of the Governance Compliance Statement

3.1 The Governance Compliance Statement must include the following information:

- The delegation arrangements (from the administering authority to a Committee and/or officers).
- The frequency of any meetings, terms of reference, structure and operational procedures of the delegation.
- Whether the committee or sub-committee includes representatives of employing authorities (including non LGPS employers) or members, and if so, whether those representatives have voting rights.

3.2 In addition to the above, the Statement must:

- State the extent to which a delegation complies with the Department of Communities and Local Government (CLG) guidance.
- Where the statement does not comply with the guidance, the reason for the non-compliance.

3.3 In summary, the Governance Compliance Statement covers various governance issues: namely, structure, representation, the selection and role of lay members, voting, training/facilities/expenses, meetings (frequency and quorum), access to information and papers, scope and publicity.

3.4 Warwickshire's statement is included as **Appendix A** to this report.

Background Papers

None

	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

Appendix A

GOVERNANCE COMPLIANCE STATUTORY GUIDANCE

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

Principle	Warwickshire's Approach	Compliance
REPRESENTATION		
That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: • employing authorities (including non-scheme employers, e.g., admitted bodies);	There are three employer positions on the Local Pension Board representing the administering authority, major precepting employers and a member representing remaining admitted and scheduled bodies.	Comply
• scheme members (including deferred and pensioner scheme members);	The Local Pension Board has two members from trade unions who must demonstrate their commitment to each type of scheme member.	Comply
• independent professional observers; and	The PFISC employs an independent consultant who is an experienced ex chief executive of an investment house. The investment consultant is also present at all PFISC meetings.	Comply
• expert advisors (on an ad hoc basis).	Expert advisers attend the Local Pension Board as required depending on the nature of the decisions to be taken. For example, the actuary attends when the valuation is being considered and the investment consultant attends when strategic asset allocation decisions are being discussed.	Comply
That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	All members are treated equally in terms of access to papers and to training that is given as part of the Board processes. The Local Pension Board members are duty bound to have the skills to sit on the board and given training and support.	Explain

Principle	**Warwickshire's Approach**	**Compliance**
SELECTION AND ROLE OF LAY MEMBERS		
That Board or Panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	PFISC and Local Pension Board members are given initial and ongoing training to support them in their role	Comply
VOTING		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Warwickshire is fully compliant with this principle. Most decisions are reached by consensus, but voting rights remain with councillors because the Council retains legal responsibility as the administering authority. The Local Pension Board has its own voting system and must be independent from the PFISC.	Comply
TRAINING/FACILITY TIME/EXPENSES		
That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	This falls within the County Council's normal approach to member expenses. The Chair of the Local Pension Board receives an allowance and expenses but the remainder of the Board will not receive expenses.	Comply
That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	The policy applies equally to all elected members of the PFISC.	Comply

MEETINGS (FREQUENCY/QUORUM)		
That an administering authority's main committee or committees meet at least quarterly.	Warwickshire is fully compliant with this principle by holding quarterly and special appointment meetings.	Comply
That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	The Local Pension Board meet twice yearly.	Comply
That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented	The Pension Fund holds an annual meeting in November each year to which all key stakeholders are invited.	Comply
ACCESS		
That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Certain papers involving confidential information are held to be exempt from the usual distribution process.	Explain
SCOPE		
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Warwickshire is fully compliant with this principle by bringing investment issues to the PFISC and benefit issues to both the Local Pension Board and Staff and Pensions Committee. A business plan is approved each year.	Comply

PUBLICITY		
That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Warwickshire is fully compliant with this principle by publishing statements in the Annual Report and on its website.	Comply

Item 7

Pension Fund Investment Sub - Committee

14 September 2015

Cashflow Analysis

Recommendation

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

1 Introduction

1.1 Cashflow management is an integral element of the administration of any pension scheme. The Fund has to meet its ongoing benefit payments. These may consist of monthly pension payroll, transfer value payments, retirement lump sums and death benefits.

1.2 In order to be able to meet these benefit payments, the Fund requires ready access to cash. Cash may be obtained from payments into the Fund in the form of contributions, from investment income (dividends and interest) drawn from the Fund's assets and by the sale of assets.

1.3 Board members and officers are currently concerned as to the extent to which future estimated contributions due to be received are sufficient to meet the expected benefits outgo over the 'short-term' (defined as three years).

2 Analysis of Historical Cashflows and Method for Estimating Future Cashflows

2.1 In order to estimate future benefit payments from the Fund (pensions and normal retirement lump sums), the fund actuary, Hymans Robertson, has modelled estimated future benefit payments from membership data at the date of the most recent actuarial valuation of the Fund (at 31 March 2013).

2.2 By comparing the actual Fund benefit payments (pensions and lump sums) over the two-year period from 1 April 2013 to 31 March 2015 with those expected from the 2013 valuation, reasons for any differences can be identified and used to calibrate the projected future benefit payments based on actuarial valuation data for short-term use. In the tables below, actual cashflows (A) for the period 2013-15 are compared with those expected (E) based on data at the 2013 valuation and assumptions about future pension increases and pay growth at that time.

Table 1: Comparison of actual (A) and expected (E) outgo over the last two years

	2013/14 (£m)		2014/15 £m)	
	Actual	**Expected**	**Actual**	**Expected**
Pensions	51.6	50.2	54.0	54.0
Lump Sums	11.8	13.0	12.3	14.4
Total	**63.4**	**63.2**	**66.3**	**68.4**

Table 2: Comparison of actual and expected income over the last two years

	2013/14 (£m)		2014/15 (£m)	
	Actual	**Expected**	**Actual**	**Expected**
Contributions	64.8	55.5	69.3	65.7
Investment Income	14.0	-	14.8	-
Total	**78.8**	**55.5**	**84.1**	**65.7**

2.3 The difference between the expected cashflow and actual cashflow in 2013/14 is significantly due to the cessation payment in respect of Orbit Housing.

2.4 Investment income includes dividends from stocks and shares, income from pooled investment vehicles (some of which is automatically reinvested) less the administration and investment management expenses.

2.5 The gap between the expected contributions in 2013/14 and 2014/15 is due to a combination of assumed pay growth in line with the 2013 valuation, the increase in contribution rates as a result of the 2013 valuation and changes to the contribution rates as a result of pension reforms.

2.6 Lump sums (including death grants) are lower than that expected from the 2013 valuation. This may be due to a combination of the number of retirements being less than assumed, and the amount of tax free cash taken at retirement being less than assumed.

2.7 Actual contributions received in 2013-15 have been affected by the number of early retirements. Early retirements reduce the employee membership, reduce pensionable payroll and reduce contribution income. Despite this actual contributions received over the period 2013-15 have been higher than expected. Hymans Robertson have estimated short term contribution income by applying certified contribution rates to the payroll implied from the actual contributions paid.

2.8 Future investment income is not an output from the model used to generate future liability cashflows. “Expected” future investment income is therefore not available for the table above. However, actual income is shown to highlight the magnitude of this against other cashflows.

3 Short Term Cashflow Projection

3.1 Estimates were calculated by analysing future benefit payments from 2013 valuation data with appropriate adjustments to reflect changes in membership since then, and differences between actual and expected pension increases over the period 2013-15. This method ensures projected benefit payments reflect expected pensioner deaths and new retirements from the existing workforce.

3.2 Future contributions are estimated from actual contribution income received in the year 2014/15. The estimates allow for expected long term salary increases and approximate increases to the employer contribution rates in line with the Rates and Adjustments certificate.

Table 3: Estimated Cashflows for period 1 April 2015 to 31 March 2018

	2015/16	2016/17	2017/18
Pensions	-55.5	-58.0	-60.8
Lump Sums	-11.1	-11.8	-14.2
Contributions	73.5	78.4	82.3
Net Cashflow	**6.9**	**8.6**	**7.3**

3.3 It can be seen from the above table that the Fund is cashflow positive. The net cashflow is expected to remain broadly the same over the 3 year period (on central assumptions). No allowance for early retirements has been made in this projection; the lump sums are estimates of lump sums expected as a result of normal retirements.

3.4 However, if there were to be increased levels of early retirements and/or redundancies above those observed, there would most likely be increased lump sum outgo, increased regular pensions in payment and reduced regular contribution income (although there may be a short term increase in income from any strain payments for early retirements). The net effect of increased redundancies and/or early retirements would worsen the cashflow position.

4 Sensitivity of Results to Future Salary Freezes

4.1 The public sector pay freeze has been extended following the Chancellor's 2015 Summer Budget. The pay rises for public sector workers will be capped at an average of 1% p.a. for the next 4 years. The table below shows the likely impact that the pay freeze could have on the contributions being paid into the Fund.

4.2 Taken in isolation, this reduction in the expected rate of pay growth will result in a lower value of past service benefits compared to that expected at the 2013 valuation (which will affect benefit payments in the longer term). However, in the short term this will also reduce the contribution income expected to be received by the Fund where employers are paying a percentage of payroll. The contributions towards the deficit will not be affected by the salary freeze for employers who are paying monetary deficit repayment amounts.

Table 4: Estimated Cashflows for Period 1 April 2015 to 31 March 2018 Allowing for Salary Freeze

	2015/16	2016/17	2017/18
Pensions	-55.5	-58.0	-60.8
Lump Sums	-11.1	-11.8	-14.2
Contributions	71.5	74.3	75.8
Net Cashflow	**4.9**	**4.5**	**0.9**

4.3 The impact of the salary freeze causes the net cashflow to gradually decrease but contribution income is still sufficient to cover the benefit outgo in the short-term. However, if a shortfall was to arise, there could be income available to cover the cash outflow provided that the investment income is relatively stable and in line with levels experienced in 2013/14 and 2014/15.

5 Investment Income

5.1 The projections suggest that the Fund will be cashflow positive over the next 3 years. However, income and expenditure levels are very similar and, consideration should be given to reinvestment of the contribution and investment income generated by the Fund's assets. At present, we understand that income is received from some of the Fund's investment managers, whilst the income from other managers is reinvested within the respective portfolios. It should be possible to estimate the level of investment income available to be reinvested into the Fund's assets across all of the investments (the accuracy of these estimates will vary depending on asset class).

5.2 Reinvesting income may ultimately create an imbalance in the overall cash availability which must also be managed. We therefore recommend that the overall cash availability is monitored closely. Eventually, assets may need to be sold on a regular basis in order to fund outgoings, should these increase in the longer term, though we expect this point to be some time away. At that point, account will need to be taken of the underlying liquidity of each of the Fund's investments (and therefore how readily available cash actually is) alongside the administrative complexity of instructing frequent investments/disinvestments.

6 Actions Required

6.1 The existing arrangements to draw income from particular fund managers is sufficient to cover the projected cashflow needs of the fund, however Hymans Robertson have made the following points for officers use in their management of fund cash:

- The cash balance maintained is not so large as to reduce the potential for future investment returns.

- The cash balance maintained is not so small so as to create a risk that the balance will be easily exhausted, and thus disinvestments will be required either frequently or at short notice.

- Additional assets are invested in the most efficient manner possible.

6.2 Regular monitoring of short term cashflows, based on whole fund membership data is recommended.

Background Papers

Hymans Robertson Cashflow Management paper

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Report Author	Mathew Dawson, Treasury and Pension Fund Manager	01926 412227 mathewdawson@warwickshire.gov.uk
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Item 8

Pension Fund Investment Sub-Committee

14 September 2015

Additional Independent Adviser

Recommendations

(1) That the Pension Fund Investment Sub-Committee approve the appointment of a second independent adviser to work alongside the existing adviser, consultants, and officers.

(2) If recommendation (1) is approved that the sub-committee decide whether to appoint the adviser at a special sub-committee meeting, or delegate the selection process to officers.

1 Introduction

1.1 The Fund currently has one independent adviser and an investment consultant that work alongside officers and the sub-committee to deliver the Fund's investment strategy. This report asks sub-committee members to consider the appointment of an additional adviser to add to the existing structure.

2. Independent Adviser

2.1 The existing independent adviser role is primarily the attendance at quarterly sub-committee meetings with minimal contact between. Whilst this process is valued and will continue, officers now believe that the support to members would be improved by a second advisor to offer continuous "hands on" support to both officers and members.

2.2 In recent years the fund has diversified its asset allocation. This has led to a greater number of fund managers and a more complex asset attribution. Officers believe that an additional independent advisor has the potential to be beneficial to the fund as the increased capacity would lead to a more thorough relationship with fund managers.

2.3 There are growing complexities with performance reporting particularly around benchmarks. An experienced investment professional will be able to advise officers on adapt and customise where necessary.

2.4 The fund must demonstrate independence in its dealings and decision making. Whilst the fund investment consultant provides an invaluable service, the governance arrangements of the fund would be improved if more strategic level work was initiated independently.

2.5 There is increasing pressure for LGPS funds to justify their use of active investments. A second independent adviser attending quarterly sub-committee meetings will ensure a high degree of scrutiny both in terms of the interpretation of performance reports and questions asked at manager presentations.

3. The Role

3.1 We would expect, as a minimum, the following tasks to be assigned to this role:

- Advise officers and sub-committee on Statement of Investment Principles/asset allocation.
- Work with officers to identify future opportunities.
- Assess manager performance and advise officers around the appropriate use of benchmarks.
- Provision of commentary on manager performance to officers.
- Completion of a quarterly investment report to officers for use in the compiling of the quarterly performance report to the sub-committee
- Work with fund officers to compile all other investment reports for quarterly meetings.
- Attendance at quarterly investment sub-committee meetings.
- Provision of a separate article for the fund annual report and full review of whole report.

3.2 As the fund evolves there would be potential for the adviser to take on additional work:

- Co-author Funding Strategy Statement alongside investment consultant and fund actuary.
- Provision of training and materials for members/officers.
- Manager selection exercises, scoring/interviews etc.
- High level one off projects.

4. Next Steps

4.1 Officers expect to pay around £20,000 per annum for an experienced adviser, subject to Sub-Committee approval the role would be advertised on the funds website with shortlisting and interviews to follow.

Background Papers

None

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Report Author	Mathew Dawson, Treasury and Pension Fund Manager	01926 412227 mathewdawson@warwickshire.gov.uk
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Item 9

Pension Fund Investment Sub Committee

14 September 2015

Passive Investment – Collaborative Working

Recommendations

(1) That the Pension Fund Investment sub-committee approve pursuing a collaborative procurement mandate for passively managed funds with other Authorities.

(2) That the Pension Fund Investment sub-committee delegate the negotiation and decision making on this procurement to the Head of Finance and the Strategic Director for Resources, in consultation with the Chair of this sub Committee.

1 Introduction

1.1 In May 2013 the then Local Government Minister made clear in a speech that the structure of the LGPS was being considered, with Fund mergers a possibility for consideration. This speech was followed by a 'Call for Evidence' consultation that focused on the management of deficits and investment efficiency.

1.2 In May 2014, and following analysis of the responses received from the Call for Evidence, a further round of consultation was launched. This consultation ruled out forced Fund mergers in the near term and focused on the possibility of asset pooling (possibly via the formation of a small number of Common Investment Vehicles) and the increased use of passive management, both of which were thought to offer potentially significant savings in investment management fees across the LGPS.

1.3 The Summer Budget of July 2015 contained the following announcement:

"The government will work with the Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance. The government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings. A consultation to be published later this year will set out those detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments."

2. Passive Investments held by the Fund

2.1 The consultation referred to in the Budget has not yet been issued, and there is no set date for when it will be issued. What is clear is that the Government will need to see significant efforts by the LGPS to reduce running costs (and especially investment management fees), or it will legislate to ensure that this happens.

2.2 The first logical step in reducing costs would be addressing the funds passively managed investments as this is the most liquid and simple area of the asset allocation in terms of a transition. Officers of the fund have been in discussion with six other Administering Authorities with a view to a joint procurement of passive investment management.

2.3 It is difficult to be specific about the likely fee savings in advance of the procurement, but informal discussions between other Authorities and some of the potential managers suggest that it will be very worthwhile. Passive management fees are already low in comparison to those charged by active managers, but it seems likely that a reduction of about 30-40% is achievable.

3. Collaboration

3.1 A meeting was held on 14th August with the group of Administering Authorities and the discussions were extremely encouraging. There was a clear common goal and willingness to proceed in a timely manner; in fact, the group was able to agree every point of importance. There was agreement of the need to appoint an investment consultant to carry out work in respect of the optimal outcome for the group, and four consultants have been approached to put forward submissions for how they would carry out this work. By the date of this Pension Fund Investment Sub Committee meeting the investment consultant will either have been selected by the group, or the appointment will be very close.

3.2 The outcome of the joint procurement will almost undoubtedly be that all of the Funds involved will have the same passive investment manager, as opposed to the three that are currently used (BlackRock, Legal and General and State Street). It is expected that the appointed manager will be able to provide pooled funds that replicate the indices that are already used by the individual funds, although there is a willingness on the part of the Funds to make slight revisions to their benchmarks (e.g. moving to the regional components of the MSCI[1] indices for overseas equities, rather than the FTSE equivalent) if this is beneficial.

[1] **Morgan Stanley Capital International** (**MSCI**) is an alternative stock market index to FTSE

4. The Process

4.1 It is hoped that the whole process, including restructuring any assets that will require transferring between investment managers, will be completed before the end of October 2015. This timetable is ambitious but it is believed that it can be achieved.

4.2 Officers will work with the fund investment consultant to ensure compliance with regulation, that the swing manager function (to ensure that the fund remains within its asset allocation as values increase/decrease with market fluctuation) can be maintained by the successful manager and that benchmarks are still appropriate.

Background Papers

None

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