

Pension Fund Investment Sub-Committee

13 March 2017

Agenda

The Pension Fund Investment Sub-Committee will meet in **Committee Room 2, Shire Hall, Warwick** on **13 March 2017** at **10.00 a.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 Code of Conduct. These should be declared at the commencement of the meeting.

(3) Minutes of the previous meeting held on 27 January 2017

2. Investment Performance

3. Investment Update (Verbal Update)

4. Investment Strategy Statement

5. Possible Prepayment of WCC Employer Contributions

6. Rebalancing

7. Funding Strategy Statement

8. Actuarial Valuation Update (Verbal Update)

9. Business Plan

10. Any other items

Which the Chair decides are urgent.

11. Reports Containing Confidential or Exempt Information

To consider passing the following resolution:

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

12. Exempt minutes of the meeting held on 27 January 2017

DAVID CARTER
Joint Managing Director
Shire Hall
Warwick

Membership of the Pension Fund Investment Sub-Committee

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

For general enquiries please contact Ben Patel-Sadler:

Tel: 01926 736118

Email: benpatelsadler@warwickshire.gov.uk

**Minutes of the Pension Fund Investment
Sub-Committee meeting held on 27 January 2017**

Present:

Members

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

Officers

Mathew Dawson - Treasury and Pension Fund Manager
Andrew Lovegrove - Head of Corporate Financial Services
Ben Patel-Sadler - Democratic Services Officer
Jane Pollard – Legal Services Manager

Invitees

Karen Shackleton – Independent Investment Adviser

Observers

None

No members of the public attended.

1. General

(1) Apologies for absence

Peter Jones – Independent Investment Adviser

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

None

(3) Minutes of the previous meeting held on 12 December 2016

The minutes of the meeting held on 12 December 2016 were agreed as a true and correct record and were signed by the Chair.

2. Any other items

Mathew Dawson - Treasury and Pension Fund Manager provided the Sub-Committee with an update in relation to pooling. Members noted that the pooling steering group were meeting on 31 January to approve the appointments process in relation to appointing a chief executive of the pool. The Sub-Committee noted that because the role of pool chief executive was entirely new, discussions were ongoing to determine what level of salary was appropriate for the role. This was to be a very specialised role with very specific attributes required from potential candidates – concerns had been raised that there may be a shortage of appropriately skilled individuals nationally to fill all of the pool chief executive positions.

Members noted that workstreams covering governance, people and a potential operating model were continuing to function and would be reporting back to the

steering group on 31 January. A full pooling report would be submitted to council in March 2017.

3. Reports Containing Confidential or Exempt Information

To consider passing the following resolution:

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

4. Exempt Minutes of the meeting held on 12 December 2016

5. Trade Finance - Markham Rae Trade Capital Partners I

The meeting rose at 11.30 am

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Chair

Pension Fund Investment Sub-Committee

13 March 2017

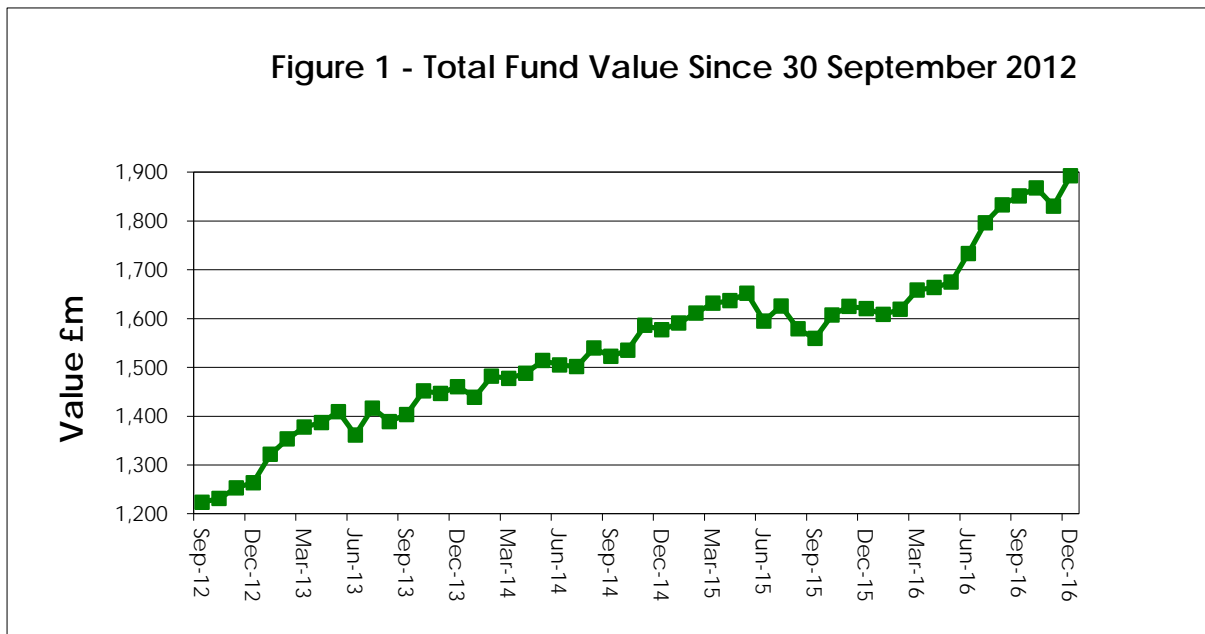
Investment Performance

Recommendation

That the Sub Committee note the fund value and investment performance for the third quarter of 2016/17 to 31 December 2016.

1. Fund Value at 31 Dec 2016

- 1.1 The fund value was £1,892.4m at 31 December 2016 an increase of 2.21% on the previous quarter as shown in Figure 1.



2. Fund Asset Allocation

2.1 The performance of the Fund against its asset class benchmarks for the quarter ending 31 December 2016 is shown in Table 1.

Table 1: Fund Asset Allocation

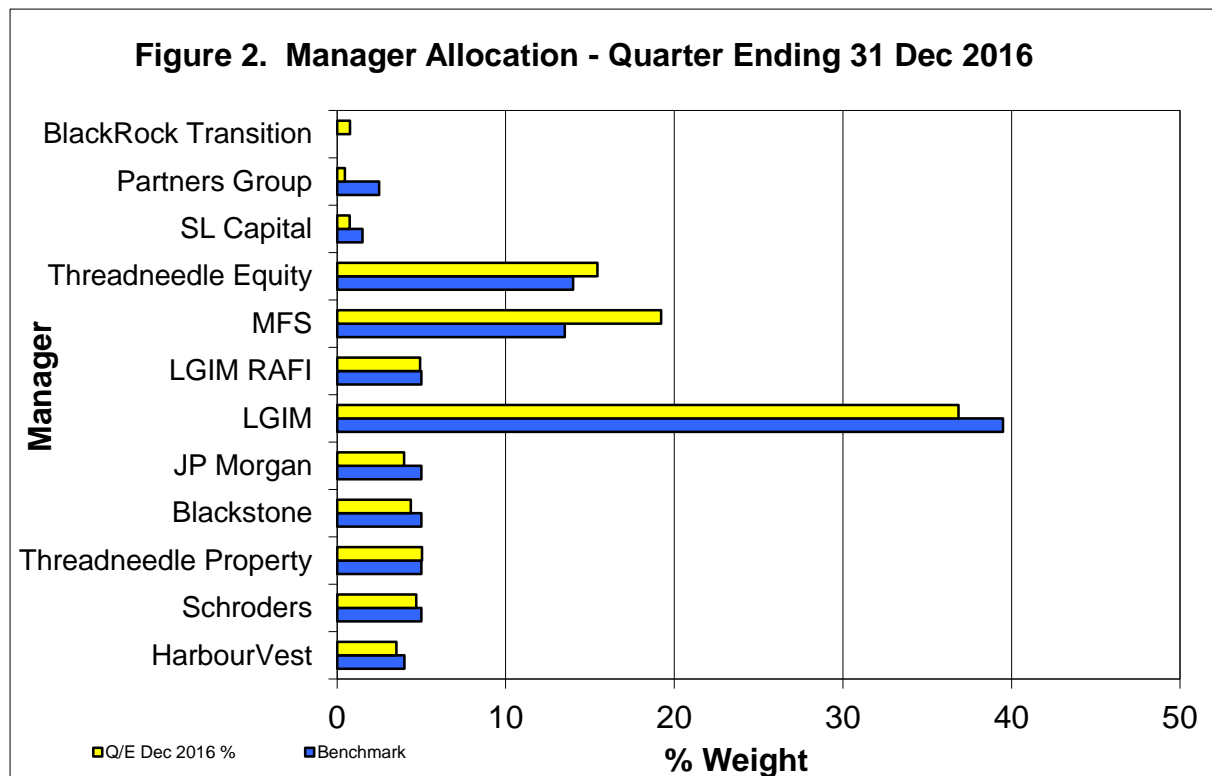
Asset Class	Q/E Dec 2016	Fund policy	Over/under weight
	%	%	%
Equity	59.2	54.5	4.7
UK	25.7	23.0	2.7
Overseas	28.5	26.5	2.0
Fundamental Global Equity	4.9	5.0	-0.1
Fixed Income	17.0	17.5	-0.5
UK corporate bonds	9.6	10.0	-0.4
UK government bonds	2.2	2.5	-0.3
UK index linked bonds	5.2	5.0	0.2
Hedge Funds	4.4	5.0	-0.6
Private Equity	3.5	4.0	-0.5
Property	9.4	10.0	-0.7
Absolute Return Bonds	4.0	5.0	-1.0
Infrastructure	1.2	4.0	-2.8
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 December 2016 is shown in Table 2.

Table 2: Fund Asset Allocation by Manager

Manager	Q/E Dec 2016 %	Benchmark	Variance
HarbourVest	3.5	4.0	-0.5
Schroders	4.7	5.0	-0.3
Threadneedle Property	5.0	5.0	0.0
Blackstone	4.4	5.0	-0.6
JP Morgan	4.0	5.0	-1.0
LGIM	36.9	39.5	-2.6
LGIM RAFI	4.9	5.0	-0.1
MFS	19.2	13.5	5.7
Threadneedle Equity	15.4	14.0	1.4
SL Capital	0.7	1.5	-0.8
Partners Group	0.5	2.5	-2.0
BlackRock Transition	0.8	0.0	0.8
Total	100.0	100.0	0.0

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



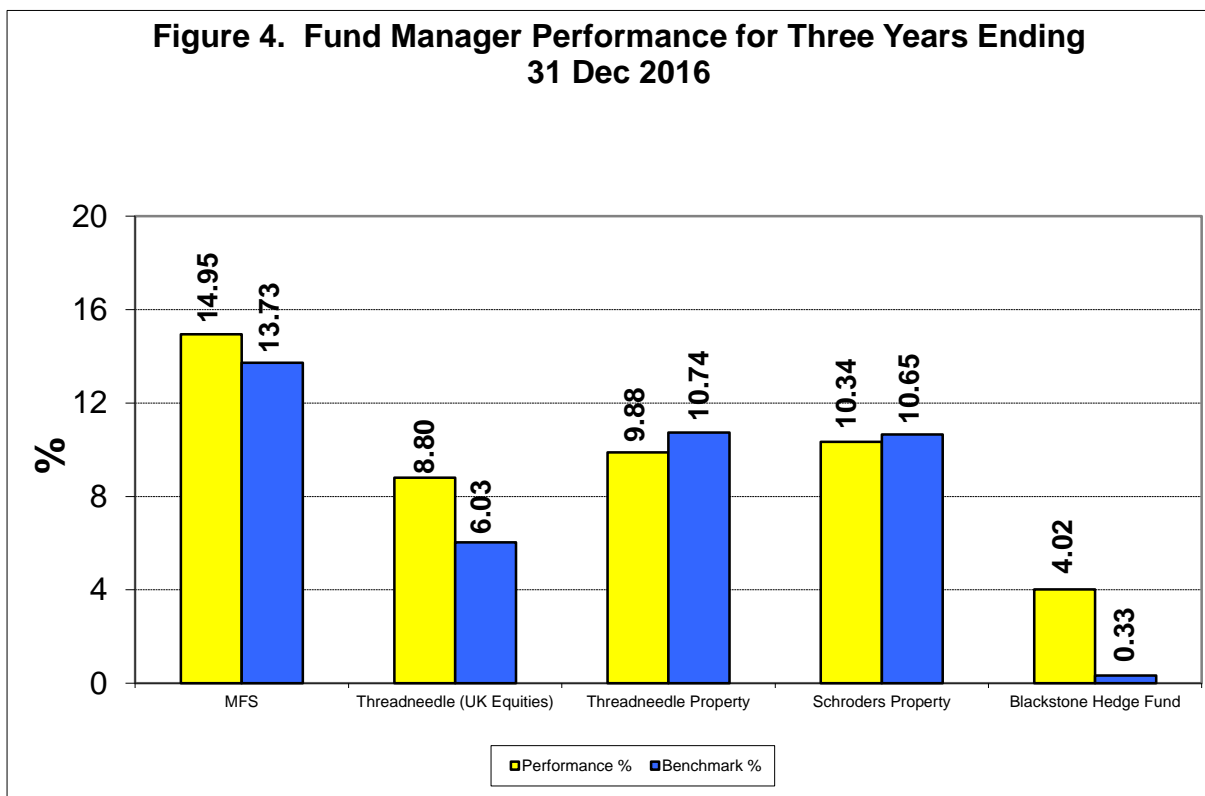
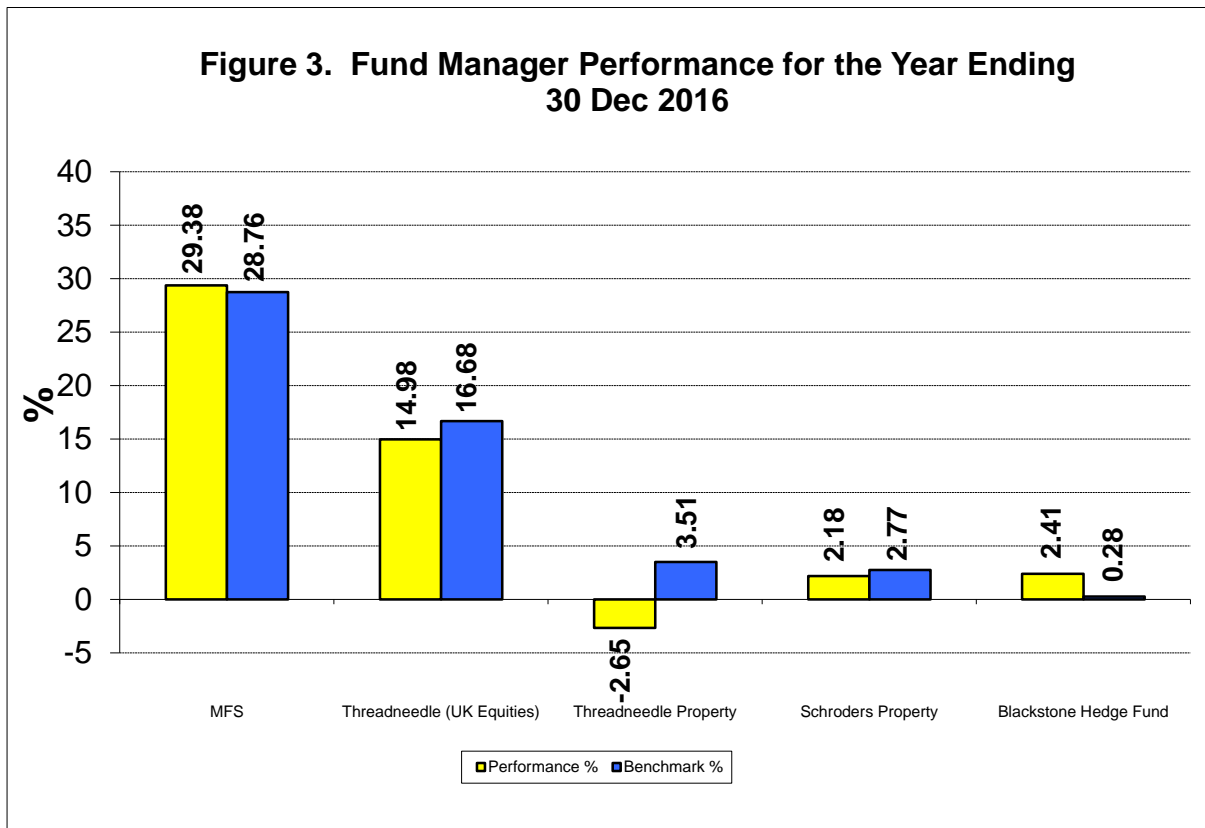
3. Fund Performance

3.1 Overall the fund out-performed its overall benchmark by 0.39%. The performances of managers against their benchmarks for the quarter ending 31 December 2016 were:

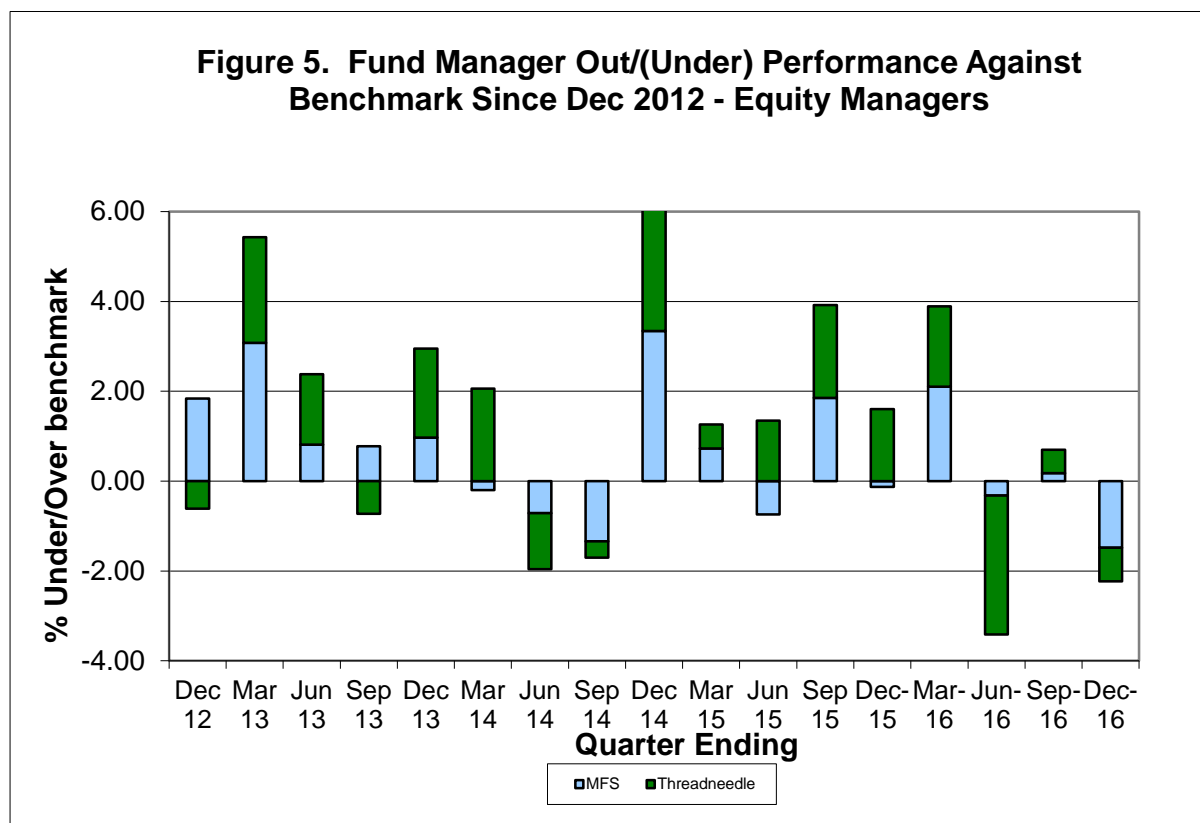
Table 3: Performance by Fund Manager

Manager	Benchmark Measure	Q/E Dec 2016	Benchmark	Variance
		%	%	%
MFS	Global Equity Benchmark	4.93	6.41	-1.48
Threadneedle	FTSE All-Share	3.07	3.82	-0.75
Legal and General (Global Equities)	LGIM Benchmark	5.17	4.15	1.02
Legal and General (Fixed Interest)	LGIM Benchmark	6.50	5.06	1.44
Threadneedle Property	Customised Benchmark	-3.82	2.02	-5.84
Schroders Property	Customised Benchmark	1.65	0.03	1.62
Blackstone Hedge	Customised Benchmark	2.12	0.07	2.05
JP Morgan Strategic Bond	Customised Benchmark	0.15	0.07	0.08
Total	WCC Total Fund Benchmark	2.30	3.18	-0.88

3.2 Annualised return for the fund managers to 31 December 2016 is summarised in Figure 3. The three year annualised return is summarised in Figure 4.



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



	Name	Contact Information
Report Author	Sukhdev Singh, Principal Accountant	01926 412861 sukhdevsingh@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

The report was circulated to the following members prior to publication:

Local Member(s):

Other members:

Pension Fund Investment Sub-Committee

13 March 2017

Investment Strategy Statement

Recommendation

The sub-committee is asked to approve the statement at **Appendix A**.

1. Background

- 1.1 New investment regulations issued on 21 September 2016 included a requirement for funds to publish new Investment Strategy Statements (ISS) by 1 April 2017. The ISS will replace the Statement of Investment Principles that is currently in place.
- 1.2 The funds existing duty to prepare, maintain and review a Funding Strategy Statement under Regulation 58 of the Local Government Pension Scheme Regulations 2013 (“the 2013 Regulations”) is unaffected.
- 1.3 Regulation 7(1) requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State. The Investment Strategy Statement required by Regulation 7 must include:-
 - a) A requirement to invest money in a wide variety of investments;
 - b) The authority’s assessment of the suitability of particular investments and types of investments;
 - c) The authority’s approach to risk, including the ways in which risks are to be measured and managed;
 - d) The authority’s approach to pooling investments, including the use of collective investment vehicles and shared services;
 - e) The authority’s policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments;
 - f) The authority’s policy on the exercise of rights (including voting rights) attaching to investments.

2. Draft ISS

- 2.1 The Investment Strategy Statement must also set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment.
- 2.2 The statements must be kept under review and revised from time to time and at least every three years.
- 2.3 The draft ISS can be found at **Appendix A**.

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

The report was circulated to the following members prior to publication:

Local Member(s):

Other members:

Investment Strategy Statement (March 2017)

Introduction and background

This is the Investment Strategy Statement (“ISS”) of the Warwickshire Pension Fund (“the Fund”), which is administered by Warwickshire County Council, (“the Administering Authority”). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (“the Regulations”).

The ISS has been prepared by the Fund’s Investment Sub Committee (“the Committee”) having taken advice from the Fund’s investment adviser, Hymans Robertson LLP. The Committee acts on the delegated authority of the Administering Authority.

The ISS, which was approved by the Committee on 13 March 2017, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund’s investment strategy with such persons it considers appropriate.

The Committee seeks to invest in accordance with the ISS any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund’s Funding Strategy Statement (dated 01 XXXXXXXX 2017).

The suitability of particular investments and types of investments

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death for their dependants, on a defined benefits basis. The funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund’s assets and that an appropriate level of contributions is agreed by the employers to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases.

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee’s views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund’s liabilities.

The broad approach that the Fund has taken to setting an appropriate investment strategy is as follows:

- In order to generate attractive long term returns on the portfolio, a substantial proportion of the investments will be in growth assets such as equities.
- To reduce the volatility of those growth assets, and to help protect the capital value of the Fund, the remaining portfolio will be invested in risk diversifying assets that have a low correlation with equity markets.
- The Fund will maintain a sufficient level of liquidity in the investment portfolio such that it can facilitate the normal cash flow requirements of the scheme, such as paying pensions.

It is intended that the Fund’s investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.

The Fund is currently carrying out an asset liability modelling exercise following on from the 2016 actuarial valuation. The Fund's liability data from the valuation has been used in the modelling, and the implications of adopting a range of alternative contribution and investment strategies are being assessed. The implications for the future evolution of the Fund will be considered under a wide range of different scenarios.

The Committee will be assessing the likelihood of achieving their long term funding target – which has been defined as achieving a fully funded position within the next 19 years. They will also be considering the level of downside risk associated with different strategies by identifying the low funding levels which might emerge in the event of adverse experience.

A summary of the expected returns and volatility for each asset class included in the modelling is included in Appendix 1.

This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

In addition, the Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund's level of funding and liability profile
- The level of expected risk
- Outlook for asset returns

The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation. The Committee has set ranges around the strategic asset allocation for the traditional asset classes (equities and bonds) and then rebalances the portfolio if any individual asset class moves outside its range.

Investment of money in a wide variety of investments

Asset classes

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, and property either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

The Fund's current investment strategy is set out below. The table also includes the control ranges agreed for rebalancing purposes and therefore the maximum percentage of total Fund assets that it will invest in these asset classes. In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007".

Asset class	Strategic Allocation (%)	Asset Allocation Range (%)
UK equities	23.0	+/-2.5
Overseas equities	26.5	+/-2.5
Fundamental global equity	5.0	+/-2.5
Private equity	4.0	n/a
Property	10.0	n/a
Infrastructure	4.0	n/a
Hedge funds	5.0	n/a
Total Growth	77.5	
UK corporate bonds	10.0	+/-1.5
UK government bonds	2.5	+/-0.5
UK index linked bonds	5.0	+/-0.5
Absolute return bonds	5.0	n/a
Total Bonds	22.5	
Total	100.0	

As at 31 March 2016, the expected long term return from the target asset allocation was approximately 4.8% p.a. excluding any benefit from active management.

Restrictions on investment

The Regulations have removed the previous restrictions that applied under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The Committee's approach to setting its investment strategy and assessing the suitability of different types of investment takes account of the various risks involved and a rebalancing policy is applied to maintain the asset split close to the agreed asset allocation target. Therefore it is not felt necessary to set additional restrictions on investments.

Managers

The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

The individual investment manager mandates in which the Fund assets are currently invested are as follows:-

Investment Manager	Asset Class	Investment style
Legal and General	Equities / Bonds	Passive
Legal and General	Fundamental Global Equity	Passive
Threadneedle	UK Equities	Active
MFS	Global Equities	Active
Schroder	UK Property	Fund of Funds
Threadneedle	UK Property	Balanced Fund
Blackstone	Hedge Funds	Fund of Funds
JP Morgan	Bonds	Absolute Return
Harbourvest	Private Equity	Ongoing fund commitments
Standard Life	Infrastructure	Direct fund
Partners Group	Infrastructure	Ongoing fund commitments

The approach to risk, including the ways in which risks are to be measured and managed

The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken. One of the Committee's overarching beliefs is to only take as much investment risk as is necessary.

The principal risks affecting the Fund are set out below. We also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

Funding risks

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics –The risk that longevity improves and other demographic factors change, increasing the cost of Fund 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 Fund's liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk. This analysis is being revisited as part of the 2016 valuation process. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

The Committee 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 a 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.
- Currency risk – The risk that the currency of the Fund’s assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Environmental, social and governance (“ESG”) – The risk that ESG related factors reduce the Fund’s ability to generate the long-term returns.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Committee measure and manage asset risks as follows.

The Fund’s strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has put in place rebalancing arrangements to ensure the Fund’s actual allocation does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund’s asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, as well as property, the Committee has recognised the need for access to liquidity in the short term.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Committee also assess the Fund’s currency risk during their risk analysis. Details of the Fund’s approach to managing ESG risks is set out later in this document.

The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing more than one manager and having a large proportion of the Scheme’s assets managed on a passive basis. The Committee assess the Fund’s managers’ performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.
- 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.
- Stock-lending – The possibility of default and loss of economic rights to Fund assets.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

A separate schedule of risks that the Fund monitors is set out in the Fund's Funding Strategy Statement.

The approach to pooling investments, including the use of collective investment vehicles and shared services

The Fund is a participating scheme in the Border to Coast Pensions Partnership (BCPP). The proposed structure and basis on which the BCPP pool will operate was set out in the July 2016 submission to Government.

Assets to be invested in the Pool

The Fund's intention is to invest its assets through the BCPP pool as and when suitable investment solutions become available. An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government. The key criteria for assessment of Pool solutions will be as follows:

- 1 That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund
- 2 That there is financial benefit to the Fund in investing in the solution offered by the Pool.

At the time of preparing this statement, the detailed parameters and objectives of the BCPP fund range are still being finalised.

The Fund is intending to retain the following assets outside of the BCPP pool:

- Passive investments with Legal and General are currently held through life policies and these will remain assets of the Fund. However, the Fund benefits from joint procurement arrangements by BCPP for these services. Future monitoring of the manager and any retendering exercises will be managed by BCPP.
- The Fund has investments in a number of closed end funds as part of its private markets programme. These funds invest in underlying private equity and infrastructure investments. Each of the individual funds has a fixed life with all assets being returned to investors within a specified period. There is no liquid secondary market for these types of investment – and there is a risk that sales would only be possible at material discounts to net asset value. Therefore, the Committee believes that it is in the best interests of the Fund to retain these investments. New allocations to these asset classes will be made through BCPP once suitable funds have been established.

Any assets not invested in the BCPP pool will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money. The next such review will take place no later than 2020.

Structure and governance of the BCPP Pool

The July 2016 submission to Government of the BCPP Pool provided a statement addressing the structure and governance of the Pool, the mechanisms by which the Fund can hold the Pool to account and the services that will be shared or jointly procured. Government approved this approach on 12 December 2016. The Fund has been working with the BCPP to progress arrangements on this basis.

These arrangements include establishing a Financial Conduct Authority regulated company to manage the assets of BCPP Funds. Based on legal advice describing the options on holding shares in this company, BCPP Limited, the Fund will hold all voting and non-voting shares rather than the Council. This is because the purpose of the company is to meet the needs of the BCPP Funds in complying with the regulations on pooling, rather than for a Council specific purpose.

As the Pool develops and the structure and governance of the Pool are established, the Fund will include this information in future iterations of the ISS.

How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

It is recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. The Committee consider the Fund's approach to responsible investment in two key areas:

- **Sustainable investment / ESG factors** – considering the financial impact of environmental, social and governance (ESG) factors on its investments.
- **Stewardship and governance** – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

The Committee takes ESG matters seriously and regularly reviews its policies in this area and its investment managers' approach to ESG.

The Fund believes in collective engagement and is a member of the Local Authority Pension Fund Forum (LAPFF), through which it collectively exercises a voice across a range of corporate governance issues.

At the present time the Committee does not take into account non-financial factors when selecting, retaining, or realising its investments. The Committee understand the Fund is not able to exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

To date, the Fund's approach to Social investments has largely been to delegate this to their underlying investment managers as part of their overall ESG duties. The Fund's managers report on this matter as part of the Fund's annual ESG review.

The Fund does not hold any assets which it deems to be social investments.

The exercise of rights (including voting rights) attaching to investments

Voting rights

A specialist advisory firm has been appointed to assist the Fund with its approach to voting. The Committee have approved their own policy with the objective of preserving and enhancing long term shareholder value and actively vote on the Fund's holdings through a voting platform.

The service provided by the advisory firm, and the Fund's voting policies, are reviewed on a regular basis.

Stewardship

The Committee is a signatory to the Stewardship Code as published by the Financial Reporting Council. The Committee also expects both the BCPP Pool and any directly appointed fund managers to comply with the Stewardship Code and this is monitored on an annual basis. A copy of the Fund's statement of compliance with the Stewardship code can be found in Appendix 3. At the FRC's most recent review, the fund was rated as a tier 1 signatory.

Appendices

Appendix 1 – Expected returns

Appendix 2 – Statement of compliance with Stewardship code

Appendix 3 – Voting policies ... to be updated

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Appendix 1 Expected returns and volatilities

The table below shows the absolute expected returns (20 year geometric averages), net of fees, and the absolute volatilities (first year's standard deviations) used in the 2016/17 asset liability study.

Asset Class	Expected return % p.a.	Volatility
UK Equities	5.9	16
Overseas Equities	5.6	19
Private Equity	7.0	29
UK Property	3.7	14
Corporate Bonds	2.7	11
Fixed Interest Gilts	2.0	9
Index Linked Gilts	1.2	7

Appendix 2 Statement of compliance with Stewardship code

<p>Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities</p>	<p>The fund has a long-standing commitment to responsible share ownership. Stewardship is an integral part of share ownership and therefore of the investment code, and requires the same commitment from fund managers.</p> <p>The practical application of the fund's policy is achieved through a combination of activities including, but not limited to: directly voting our shares, dialogue and liaison with fund managers on key issues and through our membership of the Local Authority Pension Fund Forum (LAPFF). In addition to this Stewardship Code Statement, the fund maintains a Statement of Investment Principles (SIP) which explains investment beliefs in more detail.</p> <p>The fund has a responsibility to its membership to regularly engage with fund managers on their stewardship and it is expected to form part of their presentation(s) to the fund sub-committee.</p> <p>Warwickshire Pension Fund believe that well managed companies provide long term value creation to the fund and that the funds members will be beneficiaries of these companies as strong investment returns improve the funds overall funding level which acts favourably in terms of employer contribution rates.</p>
<p>Principle 2 - Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed</p>	<p>The fund encourages fund managers to have effective policies addressing potential conflicts of interest. In respect of conflicts of interest within the fund, Investment Sub-Committee members are required to make declarations of interest prior to each quarterly meeting.</p> <p>External managers are assessed on potential conflicts of interests and their written policies at the evaluation and appointment stage. Subsequent monitoring takes place to by the fund investment consultant and independent advisor protect the funds interests.</p>
<p>Principle 3 - Institutional investors should monitor their investee companies</p>	<p>Day-to-day responsibility for managing our equity holdings is delegated to our appointed fund managers. The fund expects them to monitor companies, intervene where necessary, and report back regularly on activity undertaken. In addition, the fund actively votes all its equity holdings directly and liaises with the fund managers as necessary.</p> <p>The fund has regular meetings with managers and will assess their effectiveness in their monitoring in investee companies as part of formal portfolio reviews either amongst fund officers or the investment sub-committee.</p>
<p>Principle 4 - Institutional investors should establish clear guidelines on where and how they will escalate their stewardship activities</p>	<p>Responsibility for day-to-day interaction with companies is delegated to the fund's fund managers, including the escalation of engagement when necessary. We expect fund managers to disclose their policies and procedures for escalation in their own Stewardship Code statement. However the fund could escalate through LAPFF by supporting a shareholder resolution.</p> <p>The fund's investment managers can escalate through engagement with the company management team, collaboration with other institutional shareholders, filing shareholder resolutions or ultimately selling the holding of company shares. Ultimately the fund manager will seek to add value to their clients through improved company share performance following such escalation.</p>
<p>Principle 5 - Institutional investors should be willing to act collectively with other investors where appropriate</p>	<p>The fund seeks to work collaboratively with like-minded institutional shareholders in order to maximise the influence that it can have on individual companies and would engage it was felt that the fund and the wider Local Government Pension Scheme would benefit. This is achieved in a variety of ways including through our membership of the LAPFF and ad-hoc initiatives</p>

	<p>proposed by our fund managers or other advisors.</p> <p>The funds contact for any such issues is:</p> <p>Mathew Dawson Treasury and Pension Fund Manager Treasury and Pensions Resources Directorate Tel: 01926 412227 Email: mathewdawson@warwickshire.gov.uk</p>
<p>Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity</p>	<p>The fund directly exercises all votes attached to its global equity holdings. The voting policy is a custom policy based on global and local market best practice principles.</p> <p>All voting decisions are made by Fund officers using a variety of inputs including, but not limited to, specialist proxy research.</p> <p>The funds proxy voting system logs all fund voting and uses the funds voting policy to indicate a suggested voting intention that best represents the investment sub-committee's approved policy. A detailed report is also available written by the funds proxy research.</p> <p>The policy is reviewed at least annually by officers in order to take account of regulatory developments. In the event of any changes to the policy, a revised policy would be presented to the investment sub-committee for discussion and approval.</p> <p>Fund voting records can be found at: http://www.warwickshire.gov.uk/pensionstatement</p> <p>The fund does take part in stock lending through its global custodian (Bank of New York Mellon). Stock is not routinely recalled in the event of a company meeting.</p> <p>Within segregated mandates, the fund has absolute discretion over whether stock lending is permitted. The Authority permits stock lending in their active mandates. The manager 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 fund has no direct control over stock lending in pooled funds.</p>
<p>Principle 7 - Institutional investors should report periodically on their stewardship and voting activities.</p>	<p>The fund reports annually on stewardship activity undertaken during the year in the report and accounts and a presentation is given to members who have the opportunity to ask questions about the fund's stewardship activities.</p> <p>In the event of significant engagements through any given year the voting activity would be recorded in the fund's annual report and available with voting records on the fund's website for the benefit of the funds membership.</p> <p>External active managers do not vote on behalf of the fund, however fund officers engage with the governance teams at the fund manager for discussions and would be required to submit their voting if requested.</p>

Pension Fund Investment Sub-Committee

13 March 2017

Possible Prepayment of WCC Employer Contributions

Recommendation

That the Sub-Committee discuss and agree the various options on the treatment of cash received from the County Council should that option be pursued by the County Council.

1. Background

- 1.1 The draft 2016 actuarial valuation results for Warwickshire County Council are currently being finalised by the fund actuary in line for the statutory 31 March 2017 deadline.
- 1.2 As part of this process the County Council is assessing the option of paying its contributions early and in their entirety to March 2020. This report is being made to enable the Sub-Committee to determine its strategy for investment should the County Council pursue this option.

2. Future Contribution Rates

- 2.1 The proposed contribution rates for Warwickshire County Council for the next three financial years are:
 - 2017/18: 19.1% of pay
 - 2018/19: 19.5% of pay plus a lump sum of £528k
 - 2019/20: 19.5% of pay plus a lump sum of £1,641k

Based on current payroll data the cash figure for the above three years is expected to total around £85m.

- 2.2 However, the figure of £85m is undiscounted values and made no allowance for the fact that any prepayment into the Fund would earn investment returns. Therefore, to pre-fund the contributions in full, the actual payment required would be less than £85m. The actual amount depends on when the pre-funding contributions are paid but would be somewhere around £81m

- 2.3 Whilst this payment would be invested in the main fund custody account, it would be attributed in its entirety to the County Council as an employer in the fund for valuation and funding purposes.
- 2.4 If the decision is taken then the rates and adjustment certificate will reflect the arrangement and adhere to LGPS regulations.

3. Options for investing the prepayment

- 3.1 The fund would have several options in regard to the investing of the prepayment if the Council goes ahead and prepays contributions. These options are not mutually exclusive and the sub-committee may wish to recommend a combination of options:
 - 1. Invest the proceeds as cash until the investment consultants review of fund assets is completed in June 2017
 - 2. Top up the absolute return bond allocation which is currently 1% underweight
 - 3. Use part of the cash to address the issues raised in the Rebalancing paper at this meeting
- 3.2 It is not workable to consider topping-up the other underweight positions in the fund, particularly private equity and infrastructure as these are both highly illiquid and monies can only be invested through calls from the fund managers as they find the right asset to invest in.
- 3.3 The fund is also underweight in hedge funds and property. Whilst more liquid than the private market assets in 3.2, these funds would still take time to invest in making them unsuited to a short term investment given the upcoming review of fund assets.

	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

The report was circulated to the following members prior to publication:

Local Member(s):
Other members:

Pension Fund Investment Sub-Committee

13 March 2017

Funding Strategy Statement

Recommendation

That the Sub-Committee approve the Funding Strategy Statement at Appendix A.

1. Introduction

- 1.1 Under LGPS Regulations, the Fund has to prepare and publish a Funding Strategy Statement (FSS). In doing so, it must take guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) into account and “consult such persons as it considers appropriate”. This is generally taken to be employers as they are the group that are responsible for meeting the balance of the cost of benefits promised to members.
- 1.2 The natural time to review and update the FSS is at the end of each triennial actuarial valuation cycle. It should reflect all of the funding decisions made by the Fund during the valuation year. Given that there is a requirement for the fund to consult with employers the draft statement was published on the Fund’s website prior to this meeting.
- 1.3 The draft FSS appended to this paper allows for the most recent guidance issued by CIPFA. The Fund formally consulted its employers by issuing a draft FSS with initial employer contribution rates following the 2016 Actuarial Valuation. Following this consultation and sub-committee approval, the final version of the FSS will be published on the Fund’s website.

2. Background

- 2.1 At the sub-committee meeting of 12 December 2016 the committee had initial discussions with the Fund Actuary who discussed the major changes from the previous statement and presented a suggested draft 2016 statement. Following the meeting and employer consultation the proposed statement can be found at **Appendix A**.

3. Key highlights in the FSS

3.1 Funding objectives

- to ensure the long term solvency of the Fund
- to ensure that employer contribution rates are relatively stable (where appropriate)
- to minimise employer contributions over the longer term (and Council Tax costs), by recognising how assets and liabilities interact and by adopting an investment strategy that balances risk and return
- to set contribution rates that allow for the different risk profiles of participating employers
- to reduce the risk to other employers (and ultimately the Council Tax payer) of an employer defaulting on its pension obligations.

3.2 Employer contribution rate setting

3.3 The ways in which employer contribution rates were set at the 2016 valuation were discussed and agreed between the Fund Actuary and the Fund's officers and Investment Sub Committee over the course of the last year. As mentioned, various meetings were held with employers to help them to understand the process.

3.4 The approaches that were agreed across the various employer groupings are summarised in FSS. It refers to the stabilised approach to contribution rate setting that was adopted for the tax-raising bodies and the risk based approach used for other bodies in the Fund. Amongst other things, it outlines how funding differs between employers that are open and closed to new entrants, shows the deficit recovery period that applies to each type of employer and confirms that deficit repayments will be collected as monetary amounts (rather than as a percentage of pay to protect against the risk of payroll falling in future).

3.5 One of the Fund's key objectives is to ensure that the Fund can meet all benefit payments as and when they fall due. It achieves this via a combination of contributions (arising from the funding strategy) and investment returns and income (arising from the investment strategy). If investment returns are lower than expected, then contributions need to be higher, and vice versa. In other words, the strategies are interlinked.

3.6 The draft FSS explains how the funding policy is consistent with the investment strategy.

3.7 Risks and control mechanisms

3.8 The Appendix at the back of the FSS looks at risks under four headings:

3.9 The valuation is a good time to have a think about the risks that the Fund faces, a report on these risks and the procedures put in place to manage these risks will be presented at the June 2017 sub-committee meeting.

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

The report was circulated to the following members prior to publication:

Local Member(s):

Other members:

Pension Fund Investment Sub-Committee

13 March 2017

Business Plan 2017/18

Recommendation

The Sub-Committee is asked to approve the business plan 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 2017/18.

2. Business Plan 2016/17

- 2.1 **Appendix A** sets out a draft recommended business plan for the 2017/18 financial year. The plan lists the investment and pension administration tasks, which should be carried out during 2017/18, when these should be achieved, the responsible officer, and reporting committee.

3. Recommendation

- 3.1 The Sub-Committee is asked to approve the Warwickshire County Council Pension Fund Business Plan for 2017/18 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
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

The report was circulated to the following members prior to publication:

Local Member(s):

Other members:

**Warwickshire County Council Pension Fund
Business Plan and Actions for 2017/18**

Appendix A

Administration				
Objective(s)				
<ul style="list-style-type: none"> - 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 to receive Finance BU performance measures on a quarterly basis	Ongoing with reports due end Mar, Jun, Sep and Dec	Chris Norton	Local Pension Board
2	Completion of Pension Fund Annual Report	By 30 September 2017	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	Local Pension Board
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 to improve on quality of data received from employers	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 training, knowledge and skills	Ongoing	Chris Norton/Mathew Dawson/Neil Buxton	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 2017 Preserved members 30 June 2017 Councillors 31 May 2017	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	Local Pension Board
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)				
<ul style="list-style-type: none"> - 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	Implementation of new employer rates and arrangements following the 2016 Actuarial Valuation	March 2017	Chris Norton/Mathew Dawson	Staff and Pensions Committee
2	Drafting and presentation of new Funding Strategy Statement including a period of employer consultation	March and June 2017	Chris Norton/Mathew Dawson	Staff and Pensions Committee
3	Receive annual funding updates (ongoing and IAS19)	March 2017, July 2017 and August 2017	Mathew Dawson	Pension Fund Investment Sub-Committee
4	Receive contribution monitoring schedule from Treasury Team and monitor	Ongoing	Mathew Dawson	Local Pension Board
5	Continue to monitor covenant and funding position of Fund employers	Ongoing	Chris Norton/Neil Buxton	Staff and Pensions

6	Member training covering current issues	Ongoing	Chris Norton/Mathew Dawson	Pension Fund Investment Sub-Committee

Pension Fund Investment Sub-committee Members				
Objective(s)				
<ul style="list-style-type: none"> - 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	Chris Norton/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	Chris Norton/Mathew Dawson/Chairman	Pension Fund Investment Sub-Committee
5	Respond to forthcoming changes in legislation	Ongoing	Chris Norton/Mathew Dawson	Local Pension Board

Financial & Risk Management				
Objective(s)				
<ul style="list-style-type: none"> - 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	June 2017	Mathew Dawson	Pension Fund Investment Sub-Committee
3	Produce Draft Statement of Accounts	30 June 2017	Mathew Dawson	Staff and Pensions
4	Produce Pension Fund Annual Report	30 September 2017	Mathew Dawson	Local Pension Board
5	Carry out risk assessment of scheme	Annually	Chris Norton	Pension Fund Investment Sub-Committee
6	To implement a system of disaster recovery/business continuity in the event of major disaster	Ongoing	Chris Norton/Mathew Dawson	Local Pension Board
7	Implementation of HEAT asset tracking	Fully operational from April 2016	Mathew Dawson	Pension Fund Investment Sub-Committee

Investment				
Objective(s)				
<ul style="list-style-type: none"> - 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 private market fund managers (Infrastructure and Private Equity)	Ongoing	Mathew Dawson	Pension Fund Investment Sub-Committee
4	Work with Border to Coast Pensions Partnership to ensure the pool is operational by April 2018. (In accordance with July 2016 submission and Government timetable).	Ongoing	Mathew Dawson	Pension Fund Investment Sub-Committee
5	Work with investment consultant and independent advisor on a review of fund assets to introduce a new strategic asset allocation following the 2016 actuarial valuation	March and June 2017	Chris Norton/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	Draft new Investment Strategy Statement to replace Statement of Investment Principles that is compliant with the new 2016 LGPS investment regulations	April 2017	Mathew Dawson	Pension Fund Investment Sub-Committee
8	Sub-committee to receive quarterly monitoring reports	Quarterly	Mathew Dawson	Pension Fund Investment Sub-Committee
9	Continue to work with the funds re-balancing manager and independent advisor to ensure that asset allocation stays within limits set in Investment Strategy Statement	Ongoing	Mathew Dawson	Pension Fund Investment Sub-Committee

