

Pension Fund Investment Sub-Committee

12 March 2018

Agenda

The Pension Fund Investment Sub-Committee will meet in **Committee Room 2, Shire Hall, Warwick** on Monday **12 March 2018** 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
- 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 18 December 2017.

2. Investment Performance

3. Business Plan

4. Training Plan 2018/19

5. Investment Strategy Statement

6. Presentation by Schroders (UK Property)

7. Presentation by Inalytics (Equity Managers Performance)

8. Any other items

Which in the view of the Chair, require urgent consideration.

9. Reports Containing Confidential or Exempt Information

To consider passing the following resolution:

‘That members of the public be excluded from the meeting for the 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’.

10. Exempt minutes of the meeting held on 18 December 2017

11. Actuarial Services

DAVID CARTER
Joint Managing Director
Shire Hall
Warwick

Membership of the Pension Fund Investment Sub-Committee

Councillor Bill Gifford (Vice-Chair)
Councillor John Horner
Councillor Bob Stevens (Chair)
Councillor Wallace Redford
Councillor Alan Webb

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Minutes of the Pension Fund Investment Sub-Committee meeting held on 18 December 2017

Present:

Members

Councillors John Horner, Corinne Davies (replacing Alan Webb for this meeting), Bill Gifford (Vice Chair), Wallace Redford and Bob Stevens (Chair)

Officers

John Betts – Head of Finance
Mathew Dawson - Treasury and Pension Fund Manager
Aneeta Dhoot – Senior Finance Officer
Chris Norton – Strategic Finance Manager
Jane Pollard – Legal Services Manager
Sukhdev Singh – Senior Finance Officer
Paul Williams - Democratic Services Team Leader

Invitees

Rachel Elwell – Border to Coast Pensions Partnership
Emma Garrett – Hymans Robertson
Peter Jones – Independent Investment Adviser
Paul Potter – Hymans Robertson
Karen Shackleton – Independent Investment Adviser
Richard Warden – Hymans Robertson

Observers

None

No members of the public attended.

1. General

(1) Apologies for absence

Councillor Alan Webb (Replaced for this meeting by Councillor Corinne Davies)

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

None

(3) Minutes of the previous meeting held on 11 September 2017

The minutes of the meeting held on 11 September 2017 were agreed as true and correct records and were signed by the Chair.

2. Investment Performance

Mathew Dawson (Treasury and Pension Fund Manager) introduced the report stating that following another successful quarter the pension fund value stood at £2,039.4m at 30 September 2017, this being an increase of 1.32% on the previous 3 months. Referencing table 1 it was explained that a certain amount of rebalancing

has been undertaken, that the allocation to government bonds has now been sold and that there has been a change in the allocation of equity. A certain cash weighting will need to continue to be held. This will be drawn down throughout the life of the fund. Members sought assurance that 1.5% cash was reasonable. This was given by Paul Potter (Hymans Robertson) who stated that there should be no concern for cash assets up to 2%. The Sub-Committee was informed of the impending withdrawal of a major employer from the fund. This will result in the loss of £15m as a cash withdrawal from the fund. Assurance was provided that whilst not an insignificant development it should have no direct impact on the fund.

Regarding table 2 (page 3 of 6) it was noted that JP Morgan underweight as income is distributed back to the fund not re-invested. However the Sub-Committee learned that this has been topped up with the sale of gilts and will be increased temporarily with the sale hedge funds due as cash post February 2018.

Fund Manager performance was explored by members. That of MFS and Threadneedle was noted to be markedly below that of others. However figure 4 showed that both these managers had performed well since 2014. Members were informed that quarterly figures can be misleading. Performance should be monitored over a two year period at least. Schroders Property and Threadneedle Property were acknowledged as having performed well, outperforming expectations. Members were informed that having the right active managers can be the key to success.

Mathew Dawson observed that the benchmarking performance placed before the committee did not contain all the information collected. Analytics are commissioned by the fund as part of a debate on whether to use active or passive managers. Detailed data was considered necessary as it is not enough to simply know if the agreed benchmark is being met. It was considered more important to know whether fund managers were skilful in buying and selling stocks. There is a considerable amount of data provided to the fund by Analytics. This can be made available to the Sub-Committee should it so wish.

Peter Jones (Independent Investment Adviser) requested that the Sub-Committee bear in mind the very good performance of the fund in recent years.

Resolved

That the Pension Fund Investment Sub-Committee notes the fund value and investment performance for the first quarter of 2017/18 to 30 September 2017.

3. Appointment of Private Debt Manager

Councillor Bob Stevens (Chair of the Pension Fund Investment Sub-Committee) introduced this item explaining that interviews had been held on 1 December 2017 for the role. Members were reminded that whilst the interviews had resulted in two appointments it was still necessary for the Sub-Committee to ratify that decision. Mathew Dawson stated that the decision had been taken to assign Alcentra and Partners Group £50m each adding that MJ Hudson had been appointed to ensure legal and operational due diligence.

Resolved

That the Pension Fund Investment Sub-Committee ratifies the appointment of Alcentra and Partners Group as Private Debt Managers.

4. Pooling Verbal Update

The Chair welcomed Rachel Elwell (CEO of BCPP) to the meeting. Having introduced herself and shared her credentials Rachel proceeded to update the Sub-Committee on progress with the setting up of BCPP. The mission statement of the BCPP was noted this being “making a difference to investment outcomes for Local Government Pension Funds through pooling to create a stronger voice; working in partnership to deliver cost effective and innovative responsible investment now and into the future; thereby enabling great, sustainable performance”. That BCPP is now moving from a transition position to an operational one as a permanent company was noted. Recruitment is underway with a view to becoming operational out of an office in Leeds in 2018.

Phase one of operations will focus on asset management with the first transfers of assets happening in summer 2018. These transfers will need careful planning and an efficient process to ensure they are all undertaken smoothly. Given that it will take two to three years to become fully established it is likely that the arena in which BCPP is working will change. For this reason it will be necessary to be agile and strive to remain ahead of those changes.

The success of BCPP will be measured partly in terms of the cost savings it delivers to its 12 partner funds.

BCPP will need to pay due regard to responsible investment and governance. It will also need to ensure its resilience through the appointment of the right people.

Councillor Bill Gifford questioned whether the drive to cut fees and make savings and pressure to invest in infrastructure would undermine the independence of individual partner funds in the pool. In response the meeting was informed that liabilities will remain with the fund. Success is achieved 80% through strategic asset allocation and 20% through tactical measures eg manager selection. Ultimately the Sub-Committee will retain responsibility for strategic planning. In terms of investment in infrastructure, the Sub-Committee was informed that this can be better than some might suppose. At a general level it works well as an asset class. It provides global investment opportunities although as lead-in times are lengthy and it carries very specific risks infrastructure investment requires careful and long term consideration.

Transition to BCPP will be tightly controlled with a number of stop/go decisions required over the next few months. The Board will need to be comfortable with progress as will the Regulator. Those assets that transfer in June 2018 will mark the first testing point. With £47bn in assets BCPP should achieve a strong voice.

Members asked whether the establishment of BCPP will result in an increase in staffing. It was explained that there will be 70 staff employed by BCPP. Those funds that currently have internally managed teams will TUPE them over. Internal fund management will increase over time. This will result in a reduction in fees being paid to external fund managers. For example if the equity fund is managed internally it

will no longer be necessary to pay fees to HarbourVest. Members were also informed that as BCPP is not a large profit-based commercial concern it will not have the major overheads that the major fund managers have. This will result in further savings.

The various pools across the country are currently cooperating. However it may be that as they become established that level of cooperation will decline.

Leeds is considered to be a good location for the BCPP headquarters. The city has a strong financial industry and to date its location away from London does not appear to have deterred good quality people from wishing to work there. However, it may be that when filling investment roles the location might provide a challenge.

Karen Shackleton (Independent Investment Adviser) observed that that cost savings are to be made via procurement. For example the process used for the appointment of the Private Debt Manager. Karen requested that she and her fellow independent advisers be kept firmly in the loop when correspondence is being sent out and decisions made. This was duly noted.

It was explained that the production of a prospectus is required as part of the Authorised Contractual Scheme. This in turn will need to be approved by the Financial Conduct Authority.

In terms of reporting of performance it was acknowledged that whilst a common approach across the 12 partner pools would be desirable, some variation is inevitable. The key around monitoring and reporting is to get the accounting right. Warwickshire is not as data-heavy as some pension funds plus it also has a custodian platform of which BCPP will be a part. As BCPP will manage assets externally it will be necessary to have strong data management. In addition transaction costs will need to be closely and accurately monitored.

Training for Sub-Committee members was regarded as very important. Members agreed that this should be given further attention.

Resolved

That the Pension Fund Investment Sub-Committee notes progress to date with the Border to Coast Pension Partnership

5. MIFID II Verbal Update

Mathew Dawson informed members that on Wednesday 13 December the County Council had learned that it was now classified as a professional investor under MIFID II by each of its fund managers. One exception was JP Morgan who have decided that the pension fund is protected under the rules applied by the "Undertakings for the Collective Investment of Transferable Securities" (UCITS).

It is expected that over the next few months many more managers will request the fund to opt-up in order that prospective managers can continue to engage with officers.

One area identified for development is training. The fund has been advised that it needs to maintain a more formal training record and that it should have regular training on a quarterly basis. Members acknowledged that MIFID II had encouraged pension funds to reflect on and improve their practices.

Resolved

That the Pension Fund Investment Sub-Committee notes the latest position regarding MIFID II.

6. Results from Training Survey

Karen Shackleton briefed the Sub-Committee on the results of the recent training survey. Seven questions had been asked. The results can be summarised as follows.

1. Pensions legislative and governance context

Members demonstrated a clear knowledge base with a good understanding of MIFID II. A lower score was achieved for LGPS Regulations and Legislative Framework.

2. Pensions accounting and auditing standards

A good working knowledge was demonstrated although that around accounts and audit regulations was weaker.

3. Financial services procurement and relationship management

Scores were high in this area.

4. Investment performance

Results suggest that post pooling engagement and monitoring may require more support.

5. Risk management

More training is required in this area especially around what influences risks and what can be done to mitigate against it.

6. Financial markets and products knowledge

Scores were high in this area.

7. Preferred training method

Members expressed a desire to attend more training days, undertake internal training and to have training before meetings. Online training scored low.

Regarding training Mathew Dawson suggested that short sessions prior to the commencement of meetings may not be sufficient to meet members' requirements or those of MIFID. It was agreed that the matter be discussed in greater depth at the Sub-Committee's March 2018 meeting.

Resolved

- 1) That the Pension Fund Investment Sub-Committee notes the results of the survey.
- 2) That the agenda for the March 2018 meeting of the Pension Fund Investment Sub Committee include an item on training.

7. Investment Guiding Principles

During the introduction to this item it was emphasised that the guiding principles (that resulted from the MIFID II exercise) are not mandatory or definitive but serve to assist in decision making. Mathew Dawson observed that principles 1 -4 are the most significant. Of the remaining guiding principles it was noted that with reference to number 9, had a \$ based manager been appointed as Private Debt Manager it would have been necessary to consider currency hedging. With regards principle 13, quarterly performance reports cover too short a period. A more accurate indication of performance will be obtained over a 3 to 5 year period. Finally with regards principle 15, whilst it is recognised that BCPP will be investing in line with the agreed strategy further advice will be required especially regarding strategic asset allocation.

Councillor Bill Gifford, referred to paragraph 1.2 of agenda item 8 which states, "BCPP will engage with companies on environmental, social and governance issues and exercise its voting rights at company meetings". Members agreed that this should form the basis of a further guiding principle concerning responsible investment.

Regarding currency risk members were informed that equity managers do not manage this. Rather they have to accept that there is volatility in this area.

The Sub-Committee was informed that fund managers' contracts are not normally terminated owing to short term underperformance. They will, however be terminated if managers do not act on instructions and do what they are told.

Resolved

That the Pension Fund Investment Sub-Committee

1. approves the investment guiding principles for inclusion as an appendix in the fund's Investment Strategy Statement.
2. agrees that a further principle be included at number 16 stating, "BCPP will engage with companies on environmental. Social and governance issues and exercise its voting rights at company meetings".
3. agrees that the guiding principles be presented to the next meeting of the Sub-Committee along with any amendments/additions.

8. Responsible Investment and Share Voting

Following a brief introduction by the Chair the Sub Committee was informed that a voting policy is required as the pension fund has a say in how companies operate. A manifest voting system is used whereby suggestions are supplied to the fund on

which way it might choose to vote. This system has the advantage in that votes are recorded and accounted for.

The fund has a choice. It can redesign the Warwickshire Voting Policy to harmonise with BCPP or it can develop its own policies independently. Officers' advice was to align with BCPP.

The meeting was informed that the Warwickshire fund does not have its own Responsible Investment (RI) policy. Any issues around RI form part of the Investment Strategy Statement and Governance Statement. The advantage of aligning with BCPP is that the fund can benefit from its policy.

It was noted that passive managers have a different approach to responsible investment to active managers.

It was agreed that Responsible Investment needs to be good investment that brings a good return.

Resolved

That the Pension Fund Investment Sub Committee approves,

1. The BCPP Corporate Governance Voting Guidelines
2. The BCPP Responsible Investor (RI) Policy
3. The redrafting of the fund's voting policy to align with BCPP for presentation to the June 2018 meeting of the Sub Committee.

9. Any other items

None

10. Reports Containing Confidential or Exempt Information

Resolved:

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

11. Exempt Minutes of the Meeting held on 11 September 2017

The exempt minutes were agreed as a true and accurate record for signing by the Chair.

12. Investment Review

Paul Potter updated the Sub Committee on a number of issues that were raised at its 12 June 2017 meeting. Details of this update are set out in the exempt minute.

The meeting rose at 11.50am

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Chair

Pension Fund Investment Sub-Committee

12th March 2018

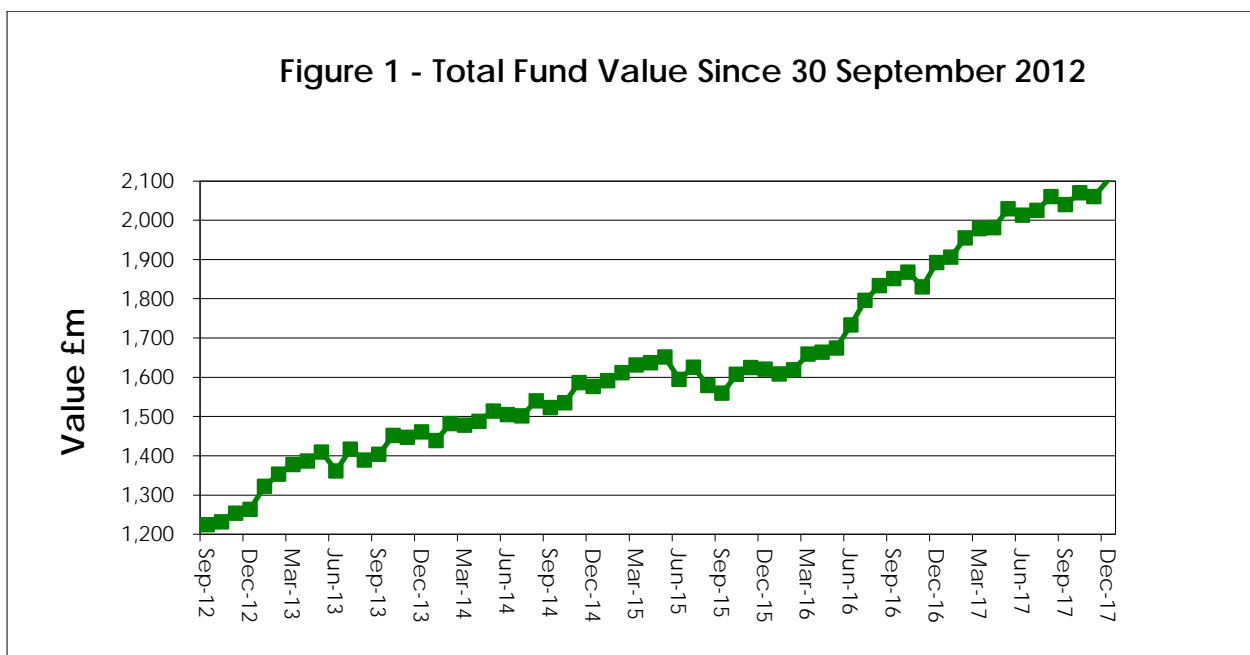
Investment Performance

Recommendation

- (1) That the Sub Committee note the fund value and investment performance for the third quarter of 2017/18 to 31 Dec 2017.

1. Fund Value at 31 Dec 2017

- 1.1 The fund value was £2,102.8 at 31 Dec 2017 an increase of 3.12% 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 Dec 2017 is shown in Table 1.

Table 1: Fund Asset Allocation

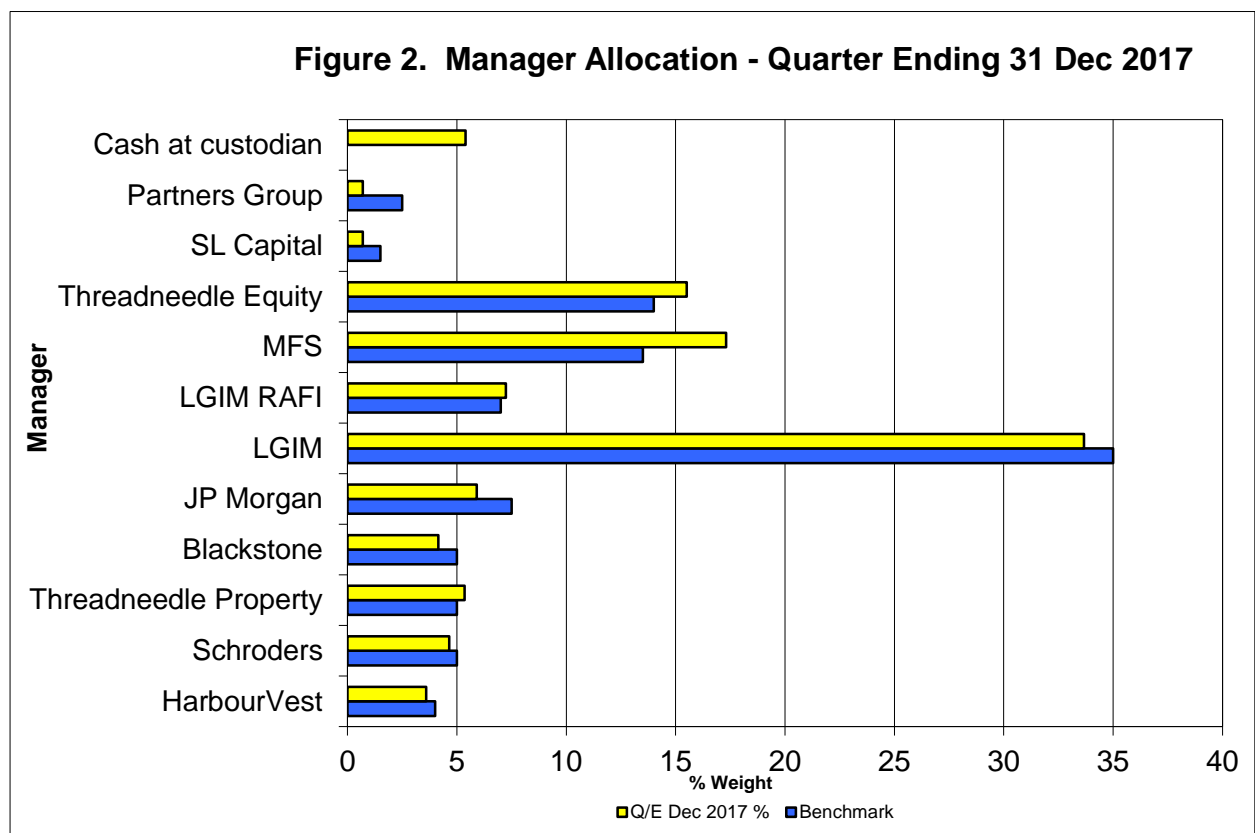
Asset Class	Q/E Dec 2017	Fund policy	Over/under weight
	%	%	%
Equity	58.3	54.5	3.8
UK	23.5	21.0	2.5
Overseas	27.6	26.5	1.1
Fundamental Global Equity	7.2	7.0	0.2
Fixed Income	15.3	15.0	0.3
UK corporate bonds	10.2	10.0	0.2
UK government bonds	0.0	0.0	0.0
UK index linked bonds	5.2	5.0	0.2
Hedge Funds	0.0	5.0	-5.0
Private Equity	3.6	4.0	-0.4
Property	9.9	10.0	-0.1
Absolute Return Bonds	6.0	7.5	-1.6
Infrastructure	1.5	4.0	-2.6
Cash	5.4	0.0	5.4

2.2 The fund managers' asset allocation against the benchmark for the quarter ending 31 Dec 2017 is shown in Table 2.

Table 2: Fund Asset Allocation by Manager

Manager	Q/E Dec 2017 %	Benchmark	Variance
HarbourVest	3.6	4.0	-0.5
Schroders	4.7	5.0	-0.3
Threadneedle Property	5.4	5.0	0.4
Blackstone (Holding cash)	4.2	5.0	-0.8
JP Morgan	3.7	5.0	-1.3
LGIM	38.2	39.5	-1.3
LGIM RAFI	5.2	5.0	0.2
MFS	17.2	13.5	3.7
Threadneedle Equity	15.6	14.0	1.6
SL Capital	0.7	1.5	-0.8
Partners Group	0.6	2.5	-1.9
Cash at custodian	0.9	0.0	0.9
Total	100.0	100.0	0.0

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



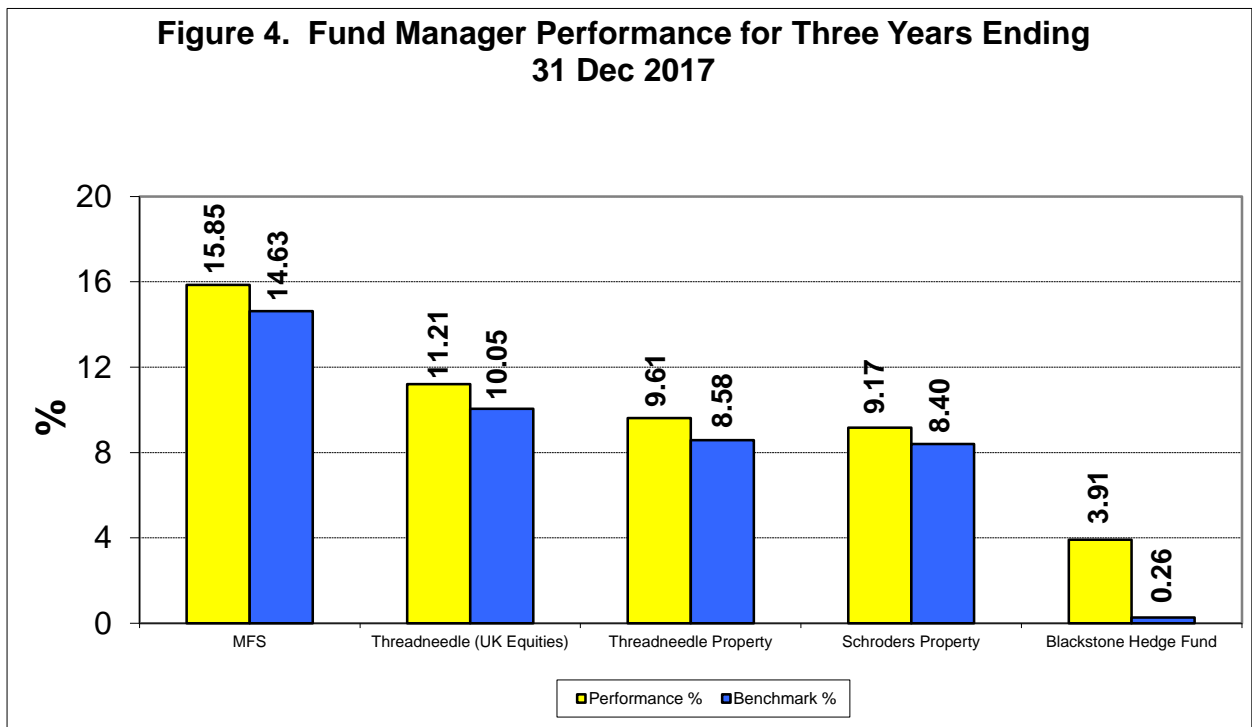
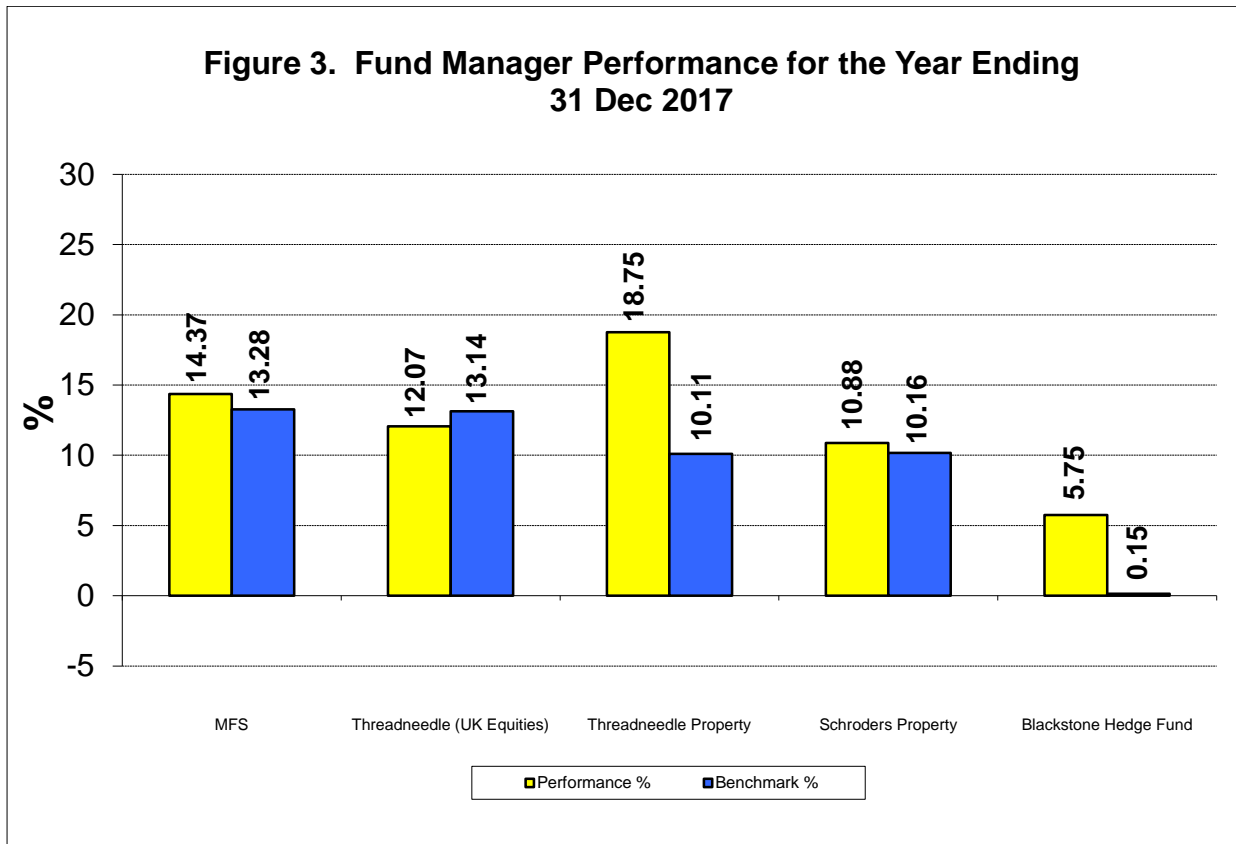
3. Fund Performance

3.1 Overall the fund under-performed its overall benchmark by 0.31%. The performances of managers against their benchmarks for the quarter ending 31 Dec 2017 were:

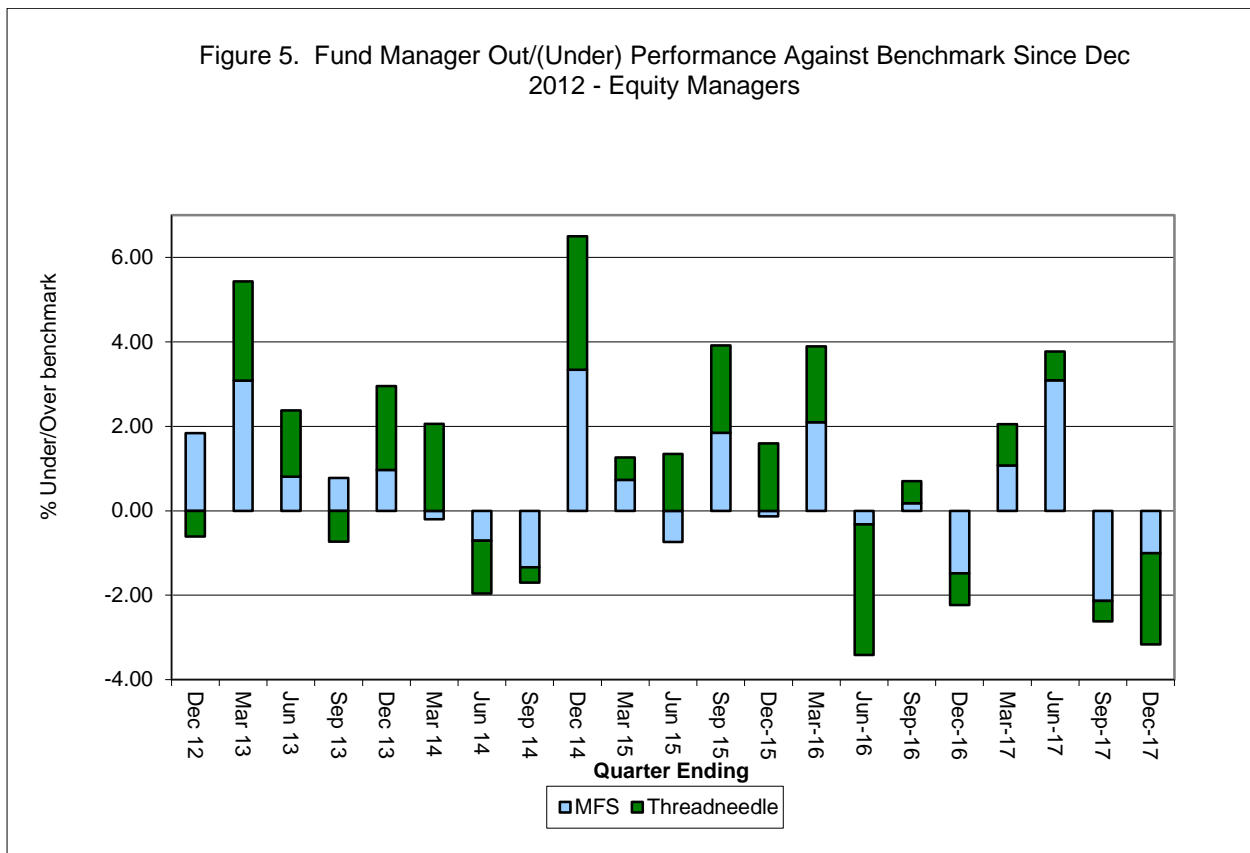
Table 3: Performance by Fund Manager

Manager	Benchmark Measure	Q/E Dec 2017	Benchmark	Variance
		%	%	%
MFS	Global Equity Benchmark	3.87	4.87	-1.00
Threadneedle	FTSE All-Share	2.80	4.96	-2.16
Legal and General (Global Equities)	LGIM Benchmark	4.02	3.60	0.42
Legal and General (Fixed Interest)	LGIM Benchmark	2.50	1.91	0.59
Threadneedle Property	Customised Benchmark	3.87	3.00	0.87
Schroders Property	Customised Benchmark	3.30	3.10	0.20
Blackstone Hedge	Customised Benchmark	1.23	0.06	1.17
JP Morgan Strategic Bond	Customised Benchmark	0.41	0.10	0.31
Total	WCC Total Fund Benchmark	3.12	3.58	-0.46

3.2 Annualised return for the fund managers to 31 Dec 2017 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

Pension Fund Investment Sub-Committee

12th March 2018

Business Plan

Recommendation

The Sub-Committee approves the proposed Business Plan attached at Appendix A.

1. Purpose of Report

- 1.1 It is best practice for local authority pension funds to operate a formal and documented Business Plan for the operations. This report sets out a recommended Business Plan for 2018/19.

2. Business Plan 2018/19

- 2.1 The Business Plan encompasses key activities that need to happen during the year and which officers and committees are responsible for them. The plan has regard to a number of developments as follows:

- GDPR data management requirements
- Borders to Coast Pensions Partnership developments
- MIFID 2 training and governance requirements
- The desire to improve systems and processes in respect of information transfer and data quality from employing organisations
- The desire to investigate options to provide a self-service facility for members of the pension fund.
- Ensuring appropriate risk management in respect of non-statutory employers

3. Recommendation

- 3.1 The Sub Committee are recommended to approve the proposed Business Plan attached at appendix A.

Background Papers

None

	Name	Contact Information
Report Author	Chris Norton Treasury and Pension Fund Manager	07767003428 chrisnorton@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 2018/19**

STRATEGIC FINANCE MANAGER 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	Quarterly Reports	Strategic Finance Manager	Local Pension Board
2	Completion of Pension Fund Annual Report	September 2018	Treasury and Pension Fund Manager	Local Pension Board
3	Review of any complaints and how they have been dealt with by Director of Resources	Ongoing	Treasury and Pension Fund Manager/Pension Services Manager	Local Pension Board
4	Further pension fund website development	July 2018	Pension Services Manager	Staff and Pensions
5	Investigate Member Self Service functionality options and progress developments if/ as appropriate.	March 2019	Pension Services Manager	Staff and Pensions
6	Identify and implement improvements in employer data transfer and data quality functionality	March 2019	Pension Services Manager	Local Pensions Board
7	Ensure administration arrangements are GDPR compliant	May 2018	Pension Services Manager	Local Pension Board
8	Support Local Pension Board in meeting their training needs	Ongoing	Strategic Finance Manager/Treasury and	Local Pension Board

			Pension Fund Manager/Pension Services Manager	
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Communication				
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-	Objective(s) - to convey the security of the Scheme - to ensure members understand and appreciate the value of their benefits
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Action	Description	Timescale	Primary Responsibility	Committee
1	Timely production of minimum one annual pensioners' newsletter	At least one per annum	Pension Services Manager	Local Pension Board
2	Timely production of benefit statements	Active members Aug 2018 Preserved members June 2018 Councillors May 2018	Pension Services Manager	Local Pension Board
3	Prepare and implement Pension Fund Annual Meeting (Nov) and Employers' Forum (as and when deemed necessary)	At least one each per annum	Treasury and Pension Fund Manager /Pension Services Manager	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	Planning for 2019 Revaluation	May 2018	Strategic Finance Manager/Treasury and Pension Fund Manager	Pension Fund Investment Sub-Committee
2	Receive annual accounting updates	March 2018, July 2018 and August 2018	Treasury and Pension Fund Manager	Pension Fund Investment Sub-Committee
3	Receive contribution monitoring schedule from Treasury Team and monitor	Ongoing	Treasury and Pension Fund Manager	Local Pension Board
4	Review approach to covenants and risk management for non-statutory employers	October 2018	Strategic Finance Manager/Pension Services Manager	Staff and Pensions

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 governance and decision making processes to ensure they align with BCPP requirements	Ongoing	Pension Fund Investment Sub-committee	Local Pension Board
2	Member training covering current issues and sufficient to meet MIFID 2 requirements	Ongoing	Treasury and Pension Fund Manager	Pension Fund Investment Sub-Committee
3	Review of compliance with investment principles	October 2018	Treasury and Pension Fund Manager	Pension Fund Investment Sub-Committee

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	Treasury and Pension Fund Manager	Pension Fund Investment Sub-Committee
2	Produce Draft Statement of Accounts	May 2018	Treasury and Pension Fund Manager	Staff and Pensions
3	Produce Pension Fund Annual Report	September 2018	Treasury and Pension Fund Manager	Local Pension Board
4	Carry out risk assessment of scheme	June 2018	Strategic Finance Manager	Pension Fund Investment Sub-Committee
5	To identify and document a disaster recovery/business continuity plan for use in the event of major disaster	July 2018	Strategic Finance Manager/Pension Services Manager/Treasury and Pension Fund Manager	Local Pension Board
6	Oversee and approve employers joining and leaving the Fund	Ongoing	Pension Services Manager	Staff and Pensions

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, Private Equity, and Private Debt)	Ongoing	Treasury and Pension Fund Manager	Pension Fund Investment Sub-Committee
2	Work with Border to Coast Pensions Partnership to ensure the pool is operational by June 2018.	Ongoing	Treasury and Pension Fund Manager	Pension Fund Investment Sub-Committee
3	Identify appropriate BCPP sub funds to transition into when BCPP sub funds are open	December 2018	Treasury and Pension Fund Manager	Pension Fund Investment Sub-Committee
4	Meet with all active investment managers	At least annually	Treasury and Pension Fund Manager	Pension Fund Investment Sub-Committee
5	Draft new Investment Strategy Statement	March 2018	Treasury and Pension Fund Manager	Pension Fund Investment Sub-Committee
6	Sub-committee to receive quarterly monitoring reports	Quarterly	Treasury and Pension Fund Manager	Pension Fund Investment Sub-Committee

Pension Fund Investment Sub-Committee

12th March 2018

Training Plan 2018/19

Recommendation

The Sub-Committee is asked to approve the training plan in **Appendix A**.

1. Background

- 1.1 At the Sub-Committee meeting of 11 September the funds independent advisor introduced an online self-assessment questionnaire for sub-committee members to complete which focussed on their own knowledge and skills. Under MIFID II which has now come into effect it is crucial that correct and relevant training is provided to maintain professional investor status.
- 1.2 This online tool was the first step in preparing a training plan which focussed on any gaps in knowledge or where members feel they need further training.
- 1.3 The questionnaire was based on the CIPFA knowledge and skills framework - in total there are six areas of knowledge and skills that have been identified as the core technical requirements for those working in public sector pensions. They are:
 - pensions legislative and governance context
 - pensions accounting and auditing standards
 - financial services procurement and relationship management
 - investment performance and risk management
 - financial markets and products knowledge
 - actuarial methods, standards and practices
- 1.4 The initial results of the exercise were delivered at the meeting of 18 December 2017. It was decided that the next steps were for Hymans to undergo a further analysis of the questionnaire results and present a training plan at this meeting.
- 1.5 Since this date a date of 16 May 2018 has been provisionally arranged for Hymans to hold a training event for the sub-committee at their Birmingham office.

2. Report from Investment Consultant

2.1 The training plan prepared by Hymans Robertson 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, Joint Managing Director	01926 412564 davidcarter@warwickshire.gov.uk

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

Local Member(s):

Other members:

Committee Training Plan 2018/2019

Addressee

This paper is addressed to the Pensions Committee of the Warwickshire Pension Fund (“the Fund”). This paper should not be disclosed to any other third parties without our prior written permission and then only in full. We accept no liability to third parties unless expressly accepted in writing.

Background

To comply with regulation and for the Fund to maintain a professional investor status under MiFiD II the Committee need to undertake and record regular member training in order to maintain a good working knowledge and understanding.

In Q4 2017 the Committee were issued with a self-assessment questionnaire to establish the general level of understanding and future priorities for member training. The training survey results were discussed at the December meeting and it was agreed that a structured training plan should be put in place.

A dedicated Committee training session is proposed for Q2 2018 to address some of the topics highlighted by the survey. This is to be hosted by Hymans Robertson in their Birmingham office and follow the agenda below. In addition to the off-site training day, Hymans will also present a short summary on the economic and market background at each Committee meeting to provide context for the quarterly investment performance report and subsequent discussions.

A proposed May Committee training day agenda is detailed overleaf.

Training Day – May 2018

Proposed May Committee training agenda - approximate timings 10.00 – 15.15.

Time	Topic	Content	Presenter
10.00 - 11.00	Investment Regulations	The LGPS Regulatory Environment <ul style="list-style-type: none"> - Why they exist - What they allow - What they don't Including: <ul style="list-style-type: none"> - 2016 LGPS Investment Regulations - Regulatory requirements for ISS - Concept of fiduciary duty - DCLG guidance 	Hymans Robertson
11.00 – 12.00	Investment Performance measurement	Performance monitoring <ul style="list-style-type: none"> - How to measure traditional asset classes - How to measure illiquid/private market assets - Importance of choosing benchmarks / performance targets - Performance monitoring under pooling 	Hymans Robertson
12.00 - 12.45	Lunch		
12.45 – 14.15	Investment Risks	<ul style="list-style-type: none"> - Risk management - Assessing long term risks - Different types of risk - Measuring short term risk - Risk mitigation 	Hymans Robertson
14.15 – 15.00	Pension Fund Accounts	<ul style="list-style-type: none"> - How to read financial statements 	Warwickshire pension team
15.00 – 15.15	Round-up of the day		

Further Training

In addition to the material to be covered at May's training day, we suggest the Committee aim to have 6-monthly training days and include a list of topics below for future training considerations.

Training Topics

Investment strategy and valuations

- How investment strategy is set to complement contribution strategy in conjunction with actuarial valuation

Environmental, Social and Governance (ESG) issues

- Concept of Responsible Investment, active ownership and sustainable investing
- Developing Responsible Investment Beliefs

Role of Growth

- Global equities, private equities and RAFI equity investing

Role of Income

- Property, infrastructure, private debt, multi asset credit etc.

Role of Protection

- Bonds, LDI, Equity Protection, Hedging

Pooling and transitioning assets

- How assets will be mapped into the pool and what this means for the Fund

Scope for multiple investment strategies

- Why...and how

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For and on behalf of Hymans Robertson LLP

Pension Fund Investment Sub-Committee

12th March 2018

Investment Strategy Statement

Recommendation

The sub-committee is asked to approve the revised Investment Strategy Statement at **Appendix A**.

1. Background

- 1.1 At the Pension Fund Sub-Committee meeting of 13 March 2017 an Investment Strategy Statements (ISS) for the fund was approved to comply with the new investment regulations that came into force on 1 April 2017. The ISS replaced the Statement of Investment Principles.
- 1.2 Under Regulation 7(1) the administering authority is required to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State. The statements must be kept under review and revised from time to time and at least every three years.

2. Revised ISS

- 2.1 The ISS has been revised to reflect the recent changes in asset allocation which were approved by the sub-committee at the meetings dated 12 June 2017 and 11 September 2017, namely:
 - Removal of the 2.5% allocation to fixed interest gilts managed passively by Legal and General (LGIM) - with the proceeds being invested in the JP Morgan absolute return bond mandate. This transfer took place in November 2017.
 - Also in November, the UK equity allocation managed by LGIM was reduced by 2% into the Fundamental global equity fund also held by LGIM. (A further 3% reduction was also approved by sub-committee but it was proposed that this additional transfer is deferred until BCPP becomes operational).
 - Appointment of two private debt managers as approved by the sub-committee of 18 December 2017 to be funded through the sale of the hedge funds held by Blackstone. The proceeds from the sale of hedge funds have been received (5% on hold until Summer 2018), and are currently being held in the form of cash and units in the JP Morgan absolute return bond fund until the private debt investments are ready to draw down capital.

- 2.2 The Environmental, Social and Governance (ESG) section on page 9 of the ISS has been updated to remove the statement relating to investment exclusions in relation to boycotts, divestment and sanctions.
- 2.3 The Investment Guiding Principles as approved by the sub-committee on 18 December 2017 have been added as an appendix to the ISS.
- 2.4 The revised ISS can be found at **Appendix A**.

Background Papers

None

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

Local Member(s):

Other members:

Investment Strategy Statement (March 2018)

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 12 March 2018, 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.

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.

In 2017, the Fund carried out an asset liability modelling exercise following on from the 2016 actuarial valuation. The Fund's liability data from the valuation was used in the modelling, and the implications of adopting a range of alternative contribution and investment strategies were assessed. The implications for the future evolution of the Fund was considered under a wide range of different scenarios.

The Committee assessed 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 also considered the level of downside risk associated with different strategies by identifying the low funding levels which might emerge in the event of adverse experience.

Following the investment strategy review, the Committee agreed a number of changes to the Fund's asset allocation as follows:-

- Termination of the hedge funds mandate with Blackstone.
- Introduction of a 5% allocation to private debt.
- A phased transfer out of UK equities into the Fundamental global equity mandate.
- A switch of the 2.5% fixed interest gilts allocation into the Absolute Return bond mandate with JP Morgan.

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. The fund has instructed Legal and General to carry out automatic re-balancing in respect of the Fund's bond and equity assets.

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	21.0	+/-2.5
Overseas equities	26.5	+/-2.5
Fundamental global equity	7.0	+/-2.5
Private equity	4.0	n/a
Property	10.0	n/a
Infrastructure	4.0	n/a
Private debt	5.0	n/a
Total Growth / 'Return-Seeking'	77.5	
UK corporate bonds	10.0	+/-1.5
UK index linked bonds	5.0	+/-0.5
Absolute return bonds	7.5	n/a
Total Bonds	22.5	
Total	100.0	

As at 30 June 2017, the expected long term return from the target asset allocation was approximately 4.7% 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
Alcentra	Private Debt	Direct Fund
Partners Group	Private Debt	Direct Fund
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. 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 close to 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. The new private debt funds will also fall into this category. 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.

A Financial Conduct Authority (FCA) regulated company is being established to manage the assets of BCPP Funds. The Board of Directors for the new company has been appointed and a senior management team is being put in place. 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. The first funds are expected to be in operation later in 2018.

Oversight of the company will be carried out by a Joint Governance Committee comprising representatives of each of the participating pension funds.

As the Pool develops, the Fund will include further 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.

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 – Investment Guiding Principles

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 2017 investment strategy review and asset liability modelling.

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 an Investment Strategy Statement (ISS) 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 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</p>

	fund officers engage with the governance teams at the fund manager for discussions and would be required to submit their voting if requested.
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Appendix 3 – Investment Guiding Principles

The Fund adopts the following principles when considering investments and investment strategy.

1. The Pension Fund is a long term vehicle which must be sustainable in generating investment returns to pay pensions for scheme members.
2. It is appropriate to take a long term view when setting the investment strategy though the impact of short term volatility is also considered.
3. Strategic asset allocation is the most important component of decision making as it is here that the optimum risk and return profile is designed and monitored.
4. The Fund's high level investment strategy and asset allocation should be set by using asset liability modelling in conjunction with each actuarial valuation.
5. Appropriate diversification reduces the overall level of dependence on any particular market or asset class and helps manage volatility, particularly in respect of equity markets.
6. Effective governance not only ensures appropriate levels of control over the fund but can add value through correct resourcing and improved decision making.
7. Responsible ownership of companies benefits long term asset owners.
8. A balance of passive and active equity investment will, over the course of a market cycle provide the best mix of performance, diversification and cost.
9. Foreign currency exposure is part of managing a global portfolio of investments. There is no strategic hedging of currency exposure from volatile asset classes such as equities as the fund believes this to be of limited benefit to long term investment returns.
10. Investors are rewarded for illiquidity in private markets. Future liquidity needs must be assessed at each review of asset allocation combined with cash flow projections from the fund actuary.
11. There is a long term risk premium to be earned for investing in equities, credit and property relative to gilts.

12. Fees and costs incurred within investment manager mandates are important though the focus is on achieving the best returns net of fees.
13. The performance of any active managers should be assessed over suitably long periods.
14. Staff and members of the Pension Fund Investment Sub-Committee must have the correct level of skills and investment knowledge to understand the level of risk in the investment portfolio.
15. External advice from independent advisors and an investment consultant helps planning, risk management and decision making.
16. Pooling presents an opportunity to access best in class investments at a lower cost. Such opportunities should always be assessed alongside the strategic asset allocation of the fund for suitability.
17. Once pooled the fund will work closely with BCPP who will be engaging with companies on ESG issues and exercise its voting rights at company meetings.

