Local Pension Board of the Warwickshire Pension Fund

8 July 2019

Agenda

The Warwickshire Local Pension Board will meet in **Committee Room 2, Shire Hall**, **Warwick** on **Monday 8 July 2019 at 10am**

1. Introductions and General business

i) Apologies

ii) Board Members' Disclosures of Interests (as stipulated by the Public Sector Pensions Act 2013 and set out in Annex A of the Board Terms of Reference)**.**

iii) Minutes of the meeting held on 5 March 2019

2. Review of the Papers of the Pension Fund Investment Sub-Committee meeting held on 13 March 2019 and 10 June 2019

3. Pension Fund Administration Update

4. Annual Report 2018-2019

5. Border to Coast - Pooling Update

6. Valuation Update

7. Annual Report and Accounts 2018/19

8. LGPS Development Update

9. Any other business

Local Pension Board Membership

10. Next Meeting - To be confirmed for 14 November 2019 at 10am.

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 Part 1 of Schedule 12A of the Local Government Act 1972.

EXEMPT ITEMS FOR DISCUSSION IN PRIVATE (PURPLE PAPERS)

11. Exempt Minutes of the meeting held on 5 March 2018

Monica Fogarty
Chief Executive
Shire Hall
Warwick

July 2019

Membership of the Local Pension Board

Keith Bray (Chair), David Buckland, Keith Francis, Alan Kidner, Councillor Parminder Singh Birdi and Councillor Dave Parsons

For general enquiries please contact Helen Barnsley
Tel: 01926 412323
Email: helenbarnsley@warwickshire.gov.uk

Minutes of the meeting of the
Local Pension Board of Warwickshire Pension Fund
held on 5 March 2019

Present:

Members
Councillor Parminder Singh Birdi, David Buckland, Keith Bray (Chair), Keith Francis and Alan Kidner

Officers
Helen Barnsley, Democratic Services Officer
Sarah Cowen, Senior Solicitor
Michael Nicolaou, Treasury and Pension Fund Manager
Chris Norton, Strategic Finance Manager
Jane Pollard, Legal Services Manager

1. Introductions and General business

(1) Introduction to David Buckland (Stratford District Council) – New Employer Representative

The Board welcomed David Buckland to his first meeting as the new employer representative. It was noted that there is still a vacancy for an employee representative.

(2) Apologies

Councillor Dave Parsons
Neil Buxton, Pensions Manager

(3) Board Members' Disclosures of Interests

The Chair stated that he was an Officer of the Local Authority Pension Fund Forum and also worked for American lawyers who had pension fund clients but these did not include Warwickshire. Alan Kidner stated that his sister-in- law worked for J.P. Morgan. It was recognised that these were unlikely to present any issues but still worthy of recording.

(4) Minutes of the meeting held on 27 November 2018

The Board agreed that the minutes of the Regulatory Committee meeting held on 27 November 2018 be signed by the Chairman as a true and accurate record.

Under matters arising it was agreed as a point of clarification that information from the PFISC meetings exempt parts will be presented to the board where appropriate and not routinely. The Chair asked if the minutes from Local Pension Board meetings should be shared with the PFISC. It was agreed that

Chris Norton and Jane Pollard would discuss this outside of the meeting but national clarification on the matter was expected in due course.

2. Review of the Minutes of the Pension Fund Investment Sub-Committee meeting held on 10 December 2018

The minutes were reviewed by the board and the following points of clarification were made;

- The scheme of delegation allows signatures on transfers of transactions without having to wait for a committee meeting.

- Investment through Threadneedle would use 10% of funds to invest in property debt

- In relation to investment performance, a request was made that information is provided in the annual report on the 1.51% growth – how much is from new contributions and how much is from growth.

It was agreed that the board would ask, via the PFISC, which overseas markets are being invested in? How much is being invested overseas?

3. Pension Fund Administration Update

Chris Norton, Strategic Finance Manager presented the report to the board with the following highlights;

- The new pension website is up and running. Feedback, so far, has been positive.

- Six new academies have joined the scheme and several businesses have exited the scheme

- The Chair requested more detailed information in relation to the performance indicators is individual cases affect the figures.

- Following a question relating to death in service payments it was agreed that Chris Norton will confirm if the payment is standard or pro-rata.

- Following a question from Alan Kidner in relation to staffing levels, it was confirmed to the board that resources will need to be reviewed but at the moment they are being well managed.

- Recent changes in membership are reflected across England; with the biggest change coming mainly from the introduction of academies.

- It was confirmed that Chris Norton will provide details on how fund inputs are calculated and what is included in the original input.

4. Risk Register

Keith Francis noted that the report was a detailed and comprehensive document on risks to the pension fund. It was noted that this was not a document that would be used every day but it is a point of reference that is very useful to board members.

Concern was raised in relation to the high turnover of staff over the last 12 months in comparison to previous years. Officers confirmed that future recruitment and retention was being actively discussed but it was likely that temporary staff will be needed.

The board wished it to be noted that any current recruitment holds at Warwickshire County Council should not apply; the Local Pension Board is not part of the council just the administrating authority.

5. MIFID2 Update

It was confirmed to the board that the professional status standard had been met and that training would be offered to both the local pension board and the PFISC.

6. 2019-20 Business Plan

The report was presented to the board with the main objectives of the business plan highlighted;

- Ensure that funds are available to pay member pensions when they are due
- Ensure that pensions are paid accurately and on time when they are due

7. Local Pension Board Forward Plan

The board noted the forward plan and was invited to add items to the work programme. The Chair requested that training sessions were added for both the board and the PFISC.

Alan Kidner requested that an item was added in relation to climate change and the risks associated with it. It was confirmed that this would be covered in a future training session.

A key point noted by the board was that the policy states that decisions must be made to pay decisions correctly and that decisions should be made responsibly.

8. Border to Coast Responsible Investment Policy

It was confirmed to the board that the document has now been published on the Border to Coast website and that investment choices are the responsibility of each individual fund.

9. Any other business

The Chair wished it to be noted on behalf of all the board his thanks to all the officers for their support, guidance and detailed reports

10. Next Meeting

Monday 8 July 2019 @ 10am (Committee Room 2, Shire Hall)

The board rose at 4.18pm

……………………………………….
Chair

Item 2

Local Pension Board of the Warwickshire Pension Fund

8 July 2019

Review of the Papers of the Pension Fund Investment Sub-Committee meetings held on 13 March and 10 June 2019

1.0 Introduction

1.1 This report introduces the Pension Fund Investment Sub-Committee (PFISC) public papers for note and comment.

1.2 These papers are in relation to the Committee meetings held on 13th March 2019 and 10th June 2019.

1.3 The report covers:

- Draft Minutes of the public meeting for March 2019 (Appendix 1) and July 2019 (Appendix 4)
- Investment Performance Report for Q2 2018/19 (Appendix 2) and Q3 2018/19 (Appendix 5)
- Draft Forward Plan for March 2019 (Appendix 3) and June 2019 (Appendix 6)

2.0 Financial Implications

2.1 None for this Board

Background papers

None.

	Name	**Contact Information**
Report Author	Michael Nicolaou	michaelnicolaou@warwickshire.gov.uk 01926412227
Head of Service	Liza Kitto	01926 412441 lisakitto@warwickshire.gov.uk
Strategic Director	Rob Powell	01926 412564 robpowell@warwickshire.gov.uk
Portfolio Holder	Councillor Peter Butlin	cllrbutlin@warwickshire.gov.uk

The report was not circulated to members prior to publication

Appendix 1

Minutes of the meeting of the
Local Pension Board of Warwickshire Pension Fund
held on 5 March 2019

Present:

Members
Councillor Parminder Singh Birdi, David Buckland, Keith Bray (Chair), Keith Francis and Alan Kidner

Officers
Helen Barnsley, Democratic Services Officer
Sarah Cowen, Senior Solicitor
Michael Nicolaou, Treasury and Pension Fund Manager
Chris Norton, Strategic Finance Manager
Jane Pollard, Legal Services Manager

1. Introductions and General business

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10. Next Meeting

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The board rose at 4.18pm

……………………………………
Chair

Appendix 2

Pension Fund Investment Sub Committee

11th March 2019

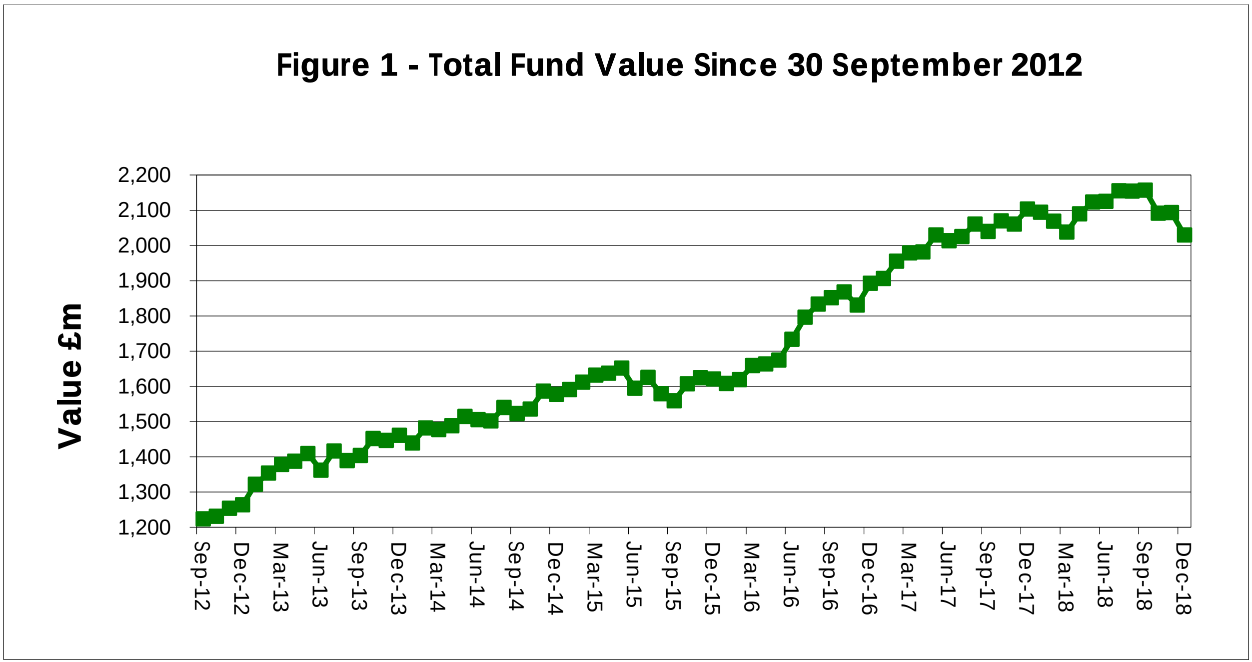
Investment Performance

Recommendation

(1) That the Sub Committee note the fund value and investment performance for the first quarter of 2018/19 to 31st December 2018.

1. Fund Value at 31st December 2018

1.1 The fund value was £2,029.4m at 31st December 2018 a decrease of 5.92% against the previous quarter of £2,157.1 at 31st September 2018 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 31st December 2018 is shown in Table 1.

Table 1: Fund Asset Allocation

Asset Class		Q/E Sep 2018 %	Q/E Dec 2018 %	Variance Dec Qtr to Sep Qtr	Fund policy %	Over/under weight %
Equity		**58.3**	**56.7**	**-1.6**	**54.5**	**2.2**
	UK	22.8	19.1	-3.7	20.0	-0.9
	Overseas	28.1	27.8	-0.3	27.5	0.3
	Fundamental Global Equity	7.4	9.9	2.5	7.0	2.9
Fixed Income		**15.5**	**15.8**	**0.3**	**15.0**	**0.8**
	UK corporate bonds	10.4	10.5	0.1	10.0	0.5
	UK index linked bonds	5.1	5.3	0.2	5.0	0.3
Private Equity		**4.4**	**5.1**	**0.7**	**4.0**	**1.1**
Property		**10.3**	**10.4**	**0.1**	**10.0**	**0.4**
Absolute Return Bonds		**6.1**	**6.2**	**0.1**	**7.5**	**-1.3**
Infrastructure		**2.0**	**2.3**	**0.3**	**4.0**	**-1.7**
Private Debt		**1.8**	**2.8**	**1.0**	**5.0**	**-2.2**
Cash		**1.6**	**0.7**	**-0.9**	**0.0**	**0.7**

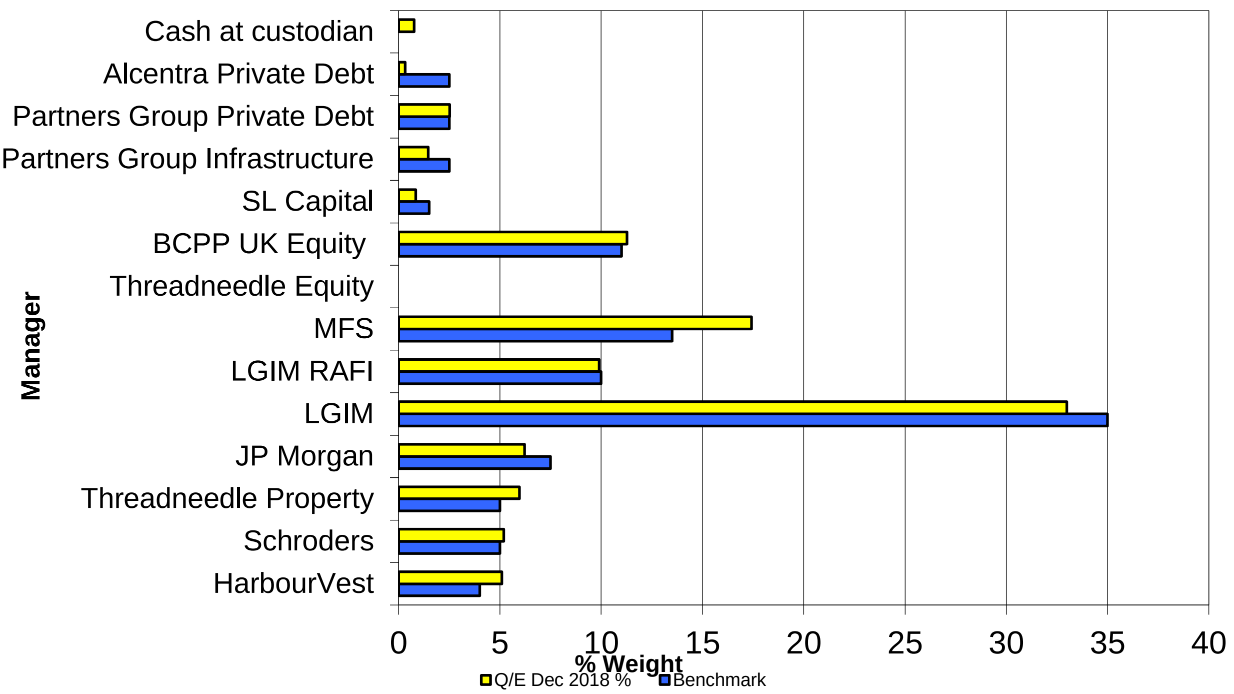
2.2 The fund managers' asset allocation against the benchmark for the quarter ending 31st December 2018 is shown in Table 2.

Table 2: Fund Asset Allocation by Manager

Manager	Q/E Sep 2018 %	Q/E Dec 2018 %	Variance Dec Qtr to Sep Qtr	Benchmark	Variance Dec to Benchmark
HarbourVest	4.4	5.1	0.7	4.0	1.1
Schroders	5.0	5.2	0.2	5.0	0.2
Threadneedle Property	5.5	6.0	0.5	5.0	1.0
JP Morgan	6.1	6.2	0.1	7.5	-1.3
LGIM	32.6	33.0	0.4	35.0	-2.0
LGIM RAFI	7.4	9.9	2.5	10.0	-0.1
MFS	18.2	17.4	-0.8	13.5	3.9
Threadneedle Equity	15.5	0.0	-15.5	0.0	0.0
BCPP UK Equity	0.0	11.3	11.3	11.0	0.3
SL Capital	0.8	0.9	0.0	1.5	-0.7
Partners Group Infrastructure	1.2	1.5	0.3	2.5	-1.0
Partners Group Private Debt	1.8	2.5	0.7	2.5	0.0
Alcentra Private Debt	0.0	0.3	0.3	2.5	-2.2
Cash at custodian	1.6	0.8	-0.8	0.0	0.8
Total	100.0	100.0	0.0	100.0	0.0

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

Figure 2. Manager Allocation - Quarter Ending 31 Dec 2018



3. Fund Performance

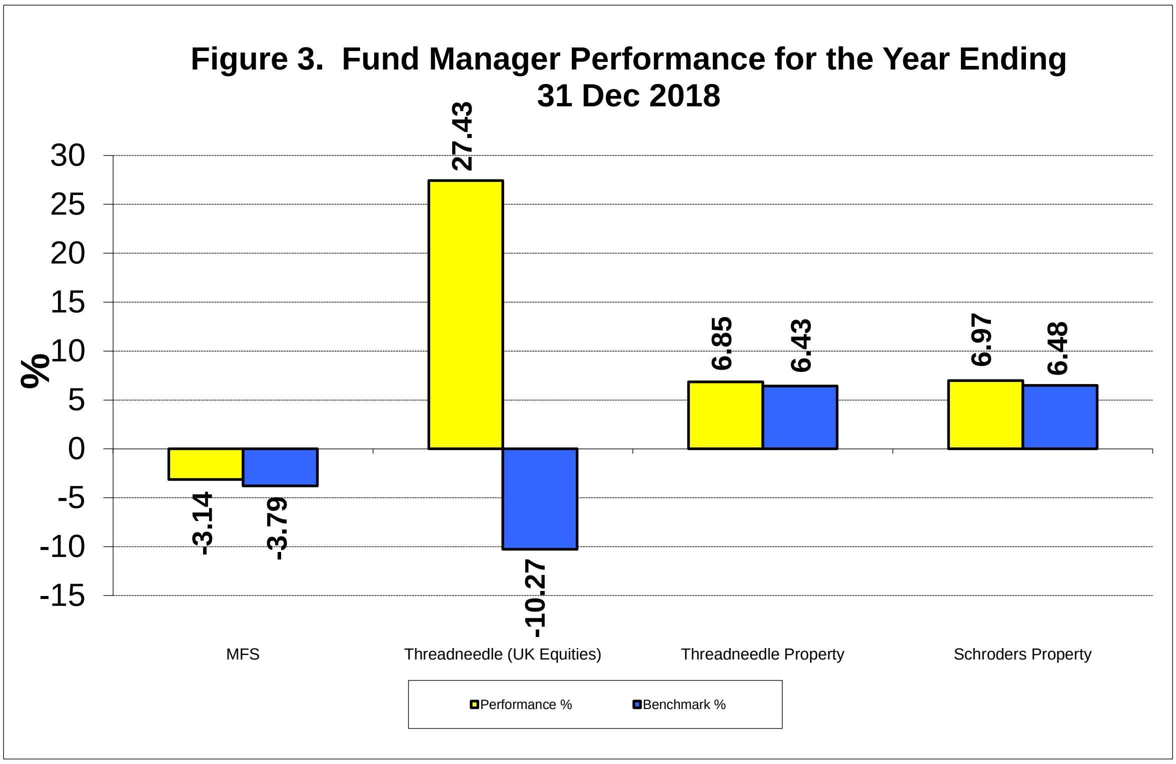
3.1 Overall the fund over-performed its overall benchmark by 0.37%. The performances of managers against their benchmarks for the quarter ending 31st December 2018 were:

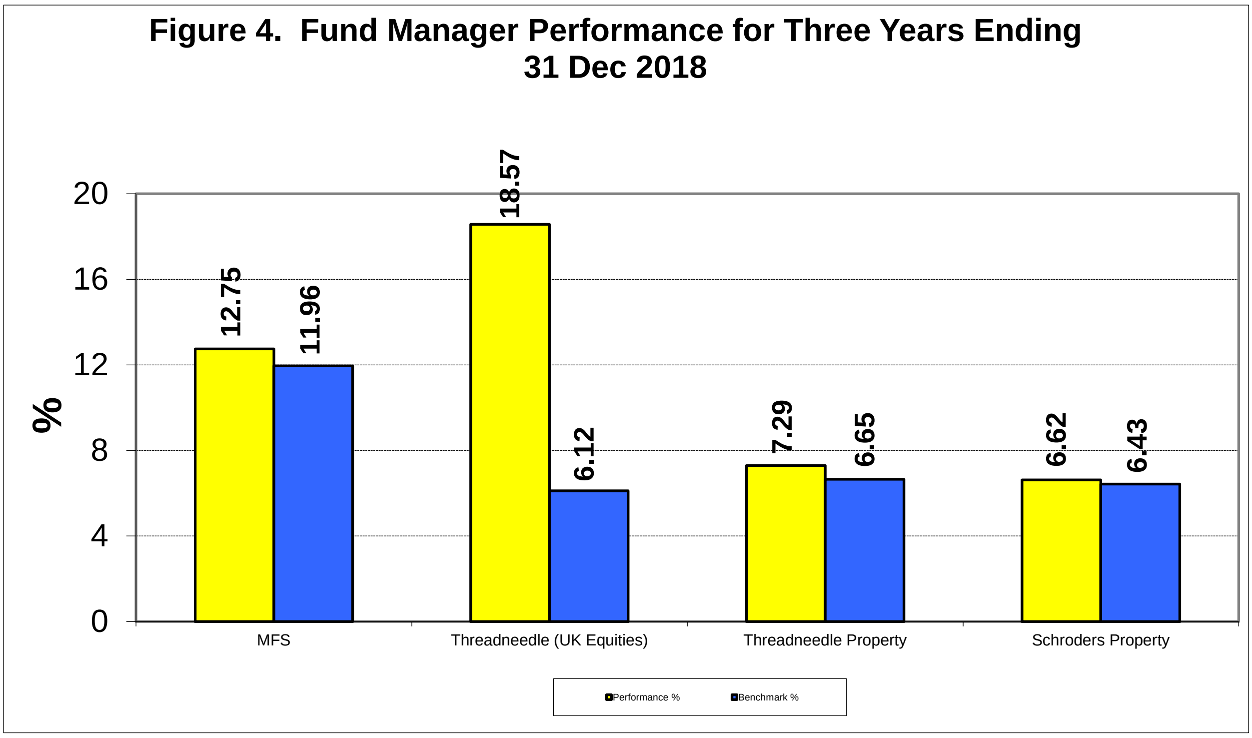
Table 3: Performance by Fund Manager

Manager	Benchmark Measure	Q/E Dec 2018 %	Benchmark %	Variance %
MFS		-9.81		**0.86**
	Global Equity Benchmark		-10.67	
Threadneedle		27.43		**37.70**
	FTSE All-Share		-10.27	
Legal and General (Global Equities)		-9.82		**-0.27**
	LGIM Benchmark		-9.55	
Legal and General (Fixed Interest)		0.82		**0.32**
	LGIM Benchmark		0.50	
Threadneedle Property		1.29		**0.21**
	Customised Benchmark		1.08	
Schroders Property		0.68		**-0.21**
	Customised Benchmark		0.89	
JP Morgan Strategic Bond		-2.87		**-3.05**
	Customised Benchmark		0.18	
Total		**-5.87**		**0.37**
	WCC Total Fund Benchmark		**-6.24**	

*Note the Threadneedle UK Equity quarter 3 return figure is distorted due to the cash movements made to move into the new Border to Coast UK Equity Alpha Fund. The amount of income and interest earned over the quarter is based upon that generated by the whole fund available through the period, but the denominator is the closing balance of the fund at the end of the quarter after the transfer out, which was less than £1m.

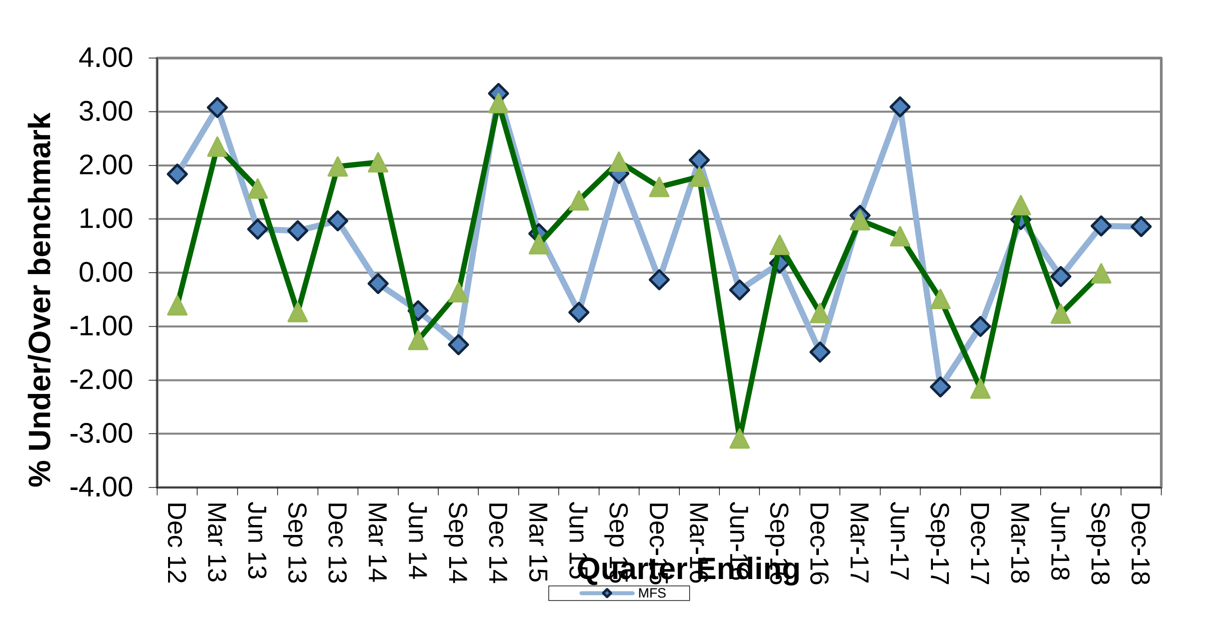
3.2 Annualised return for the fund managers to 31st December 2018 is summarised in Figure 3. The three year annualised return is summarised in Figure 4.





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

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



	Name	Contact Information
Report Author	Sukhdev Singh, Principal Accountant	01926 412861 sukhdevsingh@warwickshire.gov.uk
Interim Assistant Director Finance and ICT	Lisa Kitto	lisakitto@warwickshire.gov.uk 01926 412441
Joint Managing Director (Resources)	David Carter,	01926 412564 davidcarter@warwickshire.gov.uk
Portfolio Holder	Peter Butlin	cllrbutlin@warwickshire.gov.uk

Appendix 3

Pension Fund Investment Sub Committee

13th March 2019

Forward Plan

Recommendation

1. That the Sub Committee notes and comments on the forward plan at Appendix A.

1.0 Introduction

1.1 The purpose of this report is to provide an updated forward plan for the Pension Fund Investment Sub Committee rolled forward to cover the year ahead.

1.2 There is two changes to the forward plan:

- The original plan for the March actuarial update was to consider employer funding strategy modelling and the balance between investment risk and employer contributions. However the timescales for data collection mean that this modelling work is more appropriate to schedule for June and therefore work around revaluation assumptions has been brought forward to the March meeting.
- The Voting, Governance and Responsible Investing review that was scheduled for March has been rescheduled to June to align with the anticipated timing of the Border to Coast policy updates.

Background papers

1. None.

	Name	**Contact Information**
Report Author	Chris Norton	chrisnorton@warwickshire.gov.uk 07767003428
Interim Assistant Director Finance and ICT Strategy	Lisa Kitto	01926 412441 lisakitto@warwickshire.gov.uk
Joint Managing Director (Resources)	David Carter	01926 412564 davidcarter@warwickshire.gov.uk
Portfolio Holder	Peter Butlin	cllrbutlin@warwickshire.gov.uk

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

Local Member(s):
Other members:

March 2019	May 2019	June 2019	September 2019	December 2019	March 2020
Investment Performance		Investment Performance	Investment Performance	Investment Performance	Investment Performance
BCPP Planning Future Transfers BCPP Monitoring Previous Transfers	Election of Chair and Vice Chair	BCPP Planning Future Transfers BCPP Monitoring Previous Transfers	BCPP Planning Future Transfers BCPP Monitoring Previous Transfers	BCPP Planning Future Transfers BCPP Monitoring Previous Transfers	BCPP Planning Future Transfers BCPP Monitoring Previous Transfers
Forward Plan		Forward Plan	Forward Plan	Forward Plan	Forward Plan
Business Plan 2019/20		Private Markets Annual Review (annual update on private market programmes including decisions on commitments)			Investment Strategy Statement Review
2019 Actuarial Valuation Assumptions		2019 Actuarial Valuation Employers Funding Strategy Modelling Investment Risk / Contributions Balance	2019 Actuarial Valuation Present Whole Fund Results	2019 Actuarial Valuation Agreed Employer Funding Strategies Draft Funding Strategy Statement	2019 Actuarial Valuation Valuation Sign Off Funding Strategy Statement
Investment Strategy Statement Review		Voting, Governance, Responsible Investing Review		Business Plan	
				Training Plan	
				Risk Management Review	

Appendix 4

Minutes of the Pension Fund Investment Sub-Committee meeting held on 10 June 2019

Present:

Members
Councillors, John Horner, Wallace Redford, Bob Stevens (Chair), and Alan Webb

Officers
Helen Barnsley – Democratic Services Officer
Aneeta Dhoot – Senior Finance Officer
Chris Norton – Strategic Finance Manager
Jane Pollard – Legal Service Manager
Michael Nicolaou – Interim Treasury and Pension Fund Manager
Sukhdev Singh – Senior Finance Manager

Invitees

Emma Garrett - Associate Investment Consultant, Hymans Robertson
Peter Jones – Independent Investment Adviser
Paul Potter – Hymans Robertson
Karen Shackleton – Independent Investment Adviser
Andrew Stone - Customer Relationship Manager for Border to Coast
Richard Warden – Hymans Robertson

1. General

(1) Apologies for absence

Councillor Bill Gifford (Vice-Chair) and Lisa Kitto – Interim Assistant Director of Finance and ICT tendered apologies.

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

None

(3) Minutes of the previous meeting held on 13 March 2019

The minutes of the meeting held on 13 March 2019 were agreed as a true and accurate record and were signed by the Chair. There were no matters arising.

2. Forward Plan

Chris Norton, Strategic Finance Manager presented the report to the Sub Committee which highlights the planned work for the next 6 to 12 months.

The majority of work currently on the forward plan is in connection to the Border to Coast valuation project.

The Committee also noted that there is a training session planned for 21 August 2019, all members and officers are invited. The session will look at actuarial training and housing.

The Committee noted the forward plan

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'.

3. Exempt Minutes of the previous meeting held on 13 March 2019

The exempt minutes of the meeting held on 13 March 2019 were agreed as a true and accurate record and were signed by the Chair. There were no matters arising.

4. Investment Performance

Resolved: That the Sub Committee agree to the recommendations as set out within the exempt minutes.

5. Funding level and investment update

Resolved: That the Sub Committee agree to the recommendations as set out within the exempt minutes.

6. Border to Coast – general business update

Resolved: That the Sub Committee agree to the recommendations as set out within the exempt minutes.

7. Border to Coast – proposed investments

Resolved: That the Sub Committee agree to the recommendations as set out within the exempt minutes.

8. Border to Coast – presentation/verbal update

Resolved: That the Sub Committee agree to the recommendations as set out within the exempt minutes.

9. Actuarial update – including 2019 Valuation

Resolved: That the Sub Committee agree to the recommendations as set out within the exempt minutes.

10. Any other items

None

The meeting rose at 12:35pm

……………………………………….
Chair

The next meeting of the Pension Fund Investment Sub Committee is Monday 9 September 2019 at 10am, Shire Hall, Warwick.

Appendix 5

Pension Fund Investment Sub Committee

10 June 2019

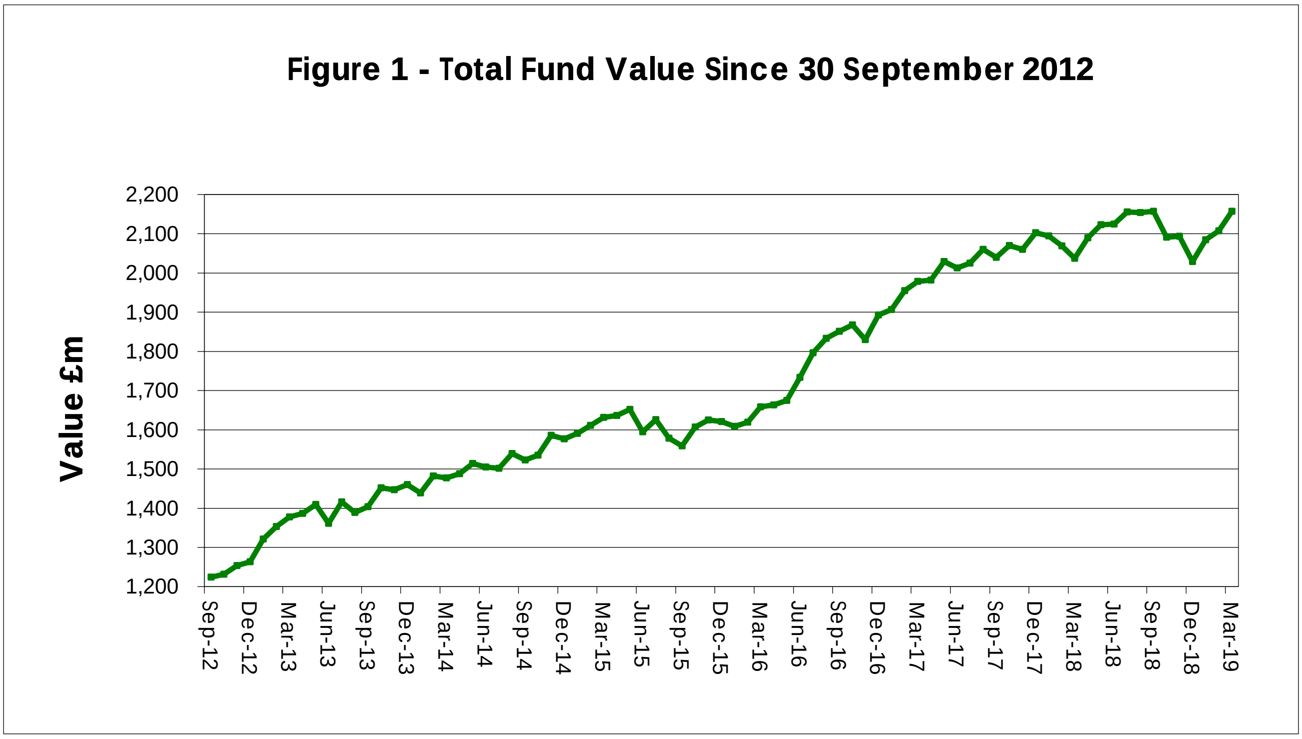
Investment Performance

Recommendation

That the Sub Committee note the fund value and investment performance for the last quarter of 2018/19 to 31 March 2019.

2. Fund Value at 31 March 2019

The fund value was £2,157.2 at 31st March 2019 an increase of 6.29% against the previous quarter of £2,029.4 at 31st December 2018 as shown in Figure 1. Note that this is a summary of the total value of the fund which is a product of employer cash flows as well as investment returns.



2. Fund Asset Allocation

2.2 The performance of the Fund against its asset class benchmarks for the quarter ending 31st March 2019 is shown in Table 1.

Table 1: Fund Asset Allocation

Asset Class		Q/E Dec 2018	Q/E Mar 2019	Variance Dec Qtr to Sep Qtr	Fund policy	Over/under weight
		%	%		%	%
Equity		**56.7**	**55.7**	**-1.0**	**54.5**	**1.2**
	UK	19.1	18.5	-0.6	17.0	1.5
	Overseas	27.8	27.2	-0.6	27.5	-0.3
	Fundamental Global Equity	9.9	10.0	0.1	10.0	0.0
Fixed Income		**15.8**	**16.2**	**0.5**	**15.0**	**1.2**
	UK corporate bonds	10.5	10.8	0.3	10.0	0.8
	UK index linked bonds	5.3	5.5	0.2	5.0	0.5
Private Equity		**5.1**	**5.6**	**0.5**	**4.0**	**1.6**
Property		**10.4**	**10.8**	**0.4**	**10.0**	**0.8**
Absolute Return Bonds		**6.2**	**5.9**	**-0.3**	**7.5**	**-1.6**
Infrastructure		**2.3**	**2.2**	**-0.1**	**4.0**	**-1.8**
Private Debt		**2.8**	**2.9**	**0.0**	**5.0**	**-2.1**
Cash		**0.7**	**0.6**	**-0.1**	**0.0**	**0.6**

2.2 Equities have reduced in weighting following a rebalancing of UK equities. To reduce exposure to active global equities (part of the “overseas” line in the table above) further rebalancing back to the benchmark is planned in 2019/20 before any transfer to a pooled fund.

2.3 Private equity and property funds continue to grow as opportunities to invest continue to be identified.

2.4 The private debt allocation is the most recent new asset class and now has over half the planned allocation invested.

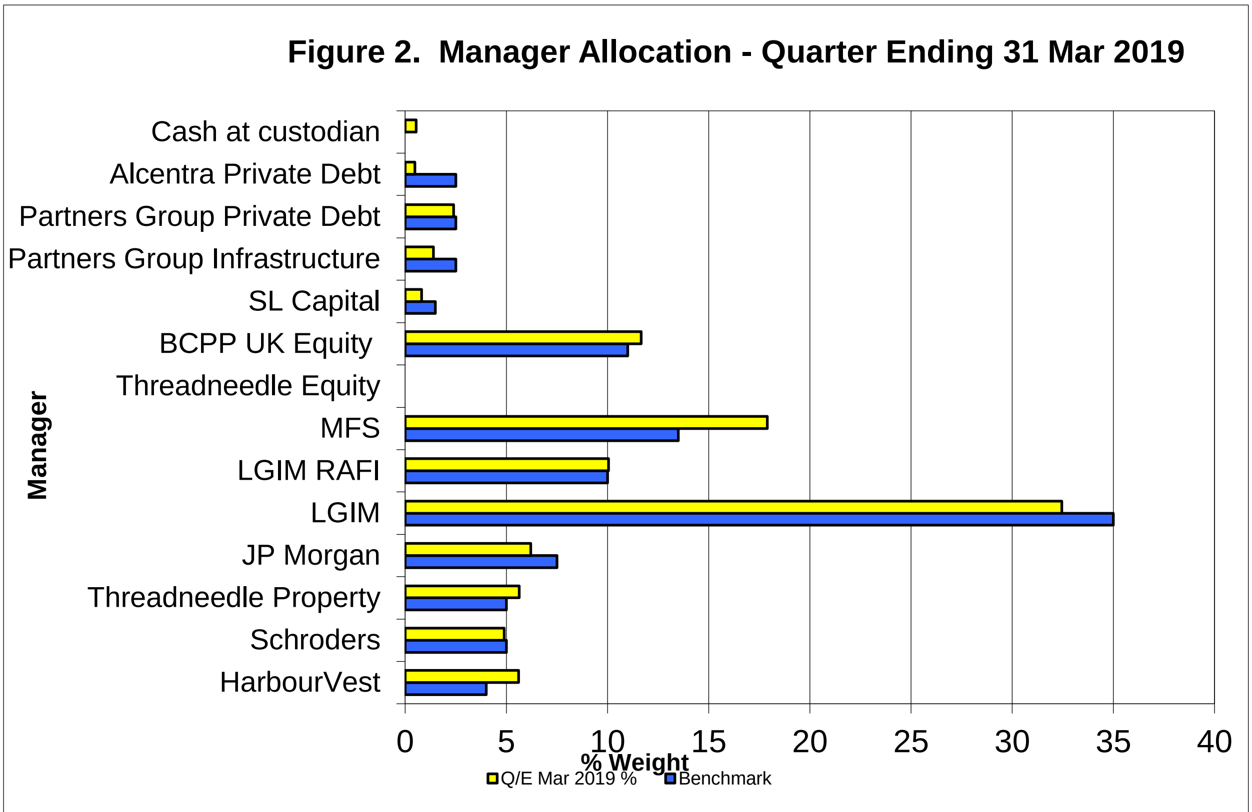
2.5 Cash balances have reduced slightly, now levelling out having been significantly higher earlier in the year (2.7% in June 2018 and 1.6% in September 2018).

2.5 The fund managers' asset allocation against the benchmark for the quarter ending 31st March 2019 is shown in Table 2.

Table 2: Fund Asset Allocation by Manager

Manager	Q/E Dec 2018 %	Q/E Mar 2019 %	Variance Mar Qtr to Dec Qtr	Benchmark	Variance Dec to Benchmark
HarbourVest	5.1	5.6	0.5	4.0	1.6
Schroders	5.2	4.9	-0.3	5.0	-0.1
Threadneedle Property	6.0	5.6	-0.3	5.0	0.6
JP Morgan	6.2	6.2	0.0	7.5	-1.3
LGIM	32.9	32.5	-0.4	35.0	-2.5
LGIM RAFI	10.0	10.0	0.0	10.0	0.0
MFS	17.4	17.9	0.5	13.5	4.4
Threadneedle Equity	0.0	0.0	0.0	0.0	0.0
BCPP UK Equity	11.3	11.7	0.4	11.0	0.7
SL Capital	0.9	0.8	0.0	1.5	-0.7
Partners Group Infrastructure	1.5	1.4	-0.1	2.5	-1.1
Partners Group Private Debt	2.5	2.4	-0.1	2.5	-0.1
Alcentra Private Debt	0.3	0.5	0.2	2.5	-2.0
Cash at custodian	0.8	0.5	-0.2	0.0	0.5
Total	100.0	100.0	0.0	100.0	0.0

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



3. Fund Performance

3.1 Overall the fund -performed in line with the overall benchmark. The performances of managers against their benchmarks for the quarter ending 31st March 2019 were:

Table 3: Performance by Fund Manager

Manager	Benchmark Measure	Q/E Mar 2019**	Benchmark	Variance
		%	%	%
MFS		12.24		**2.60**
	Global Equity Benchmark		9.64	
BCPP UK Equity*		10.85		**1.43**
	FTSE All-Share		9.42	
Legal and General (Global Equities)		8.02		**-0.68**
	LGIM Benchmark		8.70	
Legal and General (Fixed Interest)		4.75		**0.76**
	LGIM Benchmark		3.99	
Threadneedle Property		0.54		**0.04**
	Customised Benchmark		0.50	
Schroders Property		0.18		**-0.10**
	Customised Benchmark		0.28	
JP Morgan Strategic Bond		2.82		**2.64**
	Customised Benchmark		0.18	
Total		**6.34**		**0.00**
	WCC Total Fund Benchmark		**6.34**	

*BCPP UK Equity Fund replaces Threadneedle UK Equity
** figures represent net returns.

3.2 Equity markets continue to be volatile, but the last quarter of 2018/19 was a positive period overall and in addition to this the actively managed equity funds exceeded their benchmarks.

3.3 The strategic bond fund also performed well, as have many corporate bond funds. The fund returned a significantly better return than cash, in comparison to having returned -2.87% in the previous quarter.

3.4 Annualised return for the fund managers to 31st March 2019 is summarised in Figure 3. The three-year annualised return is summarised in Figure 4. (BCPP long-term performance will be included as it becomes available).

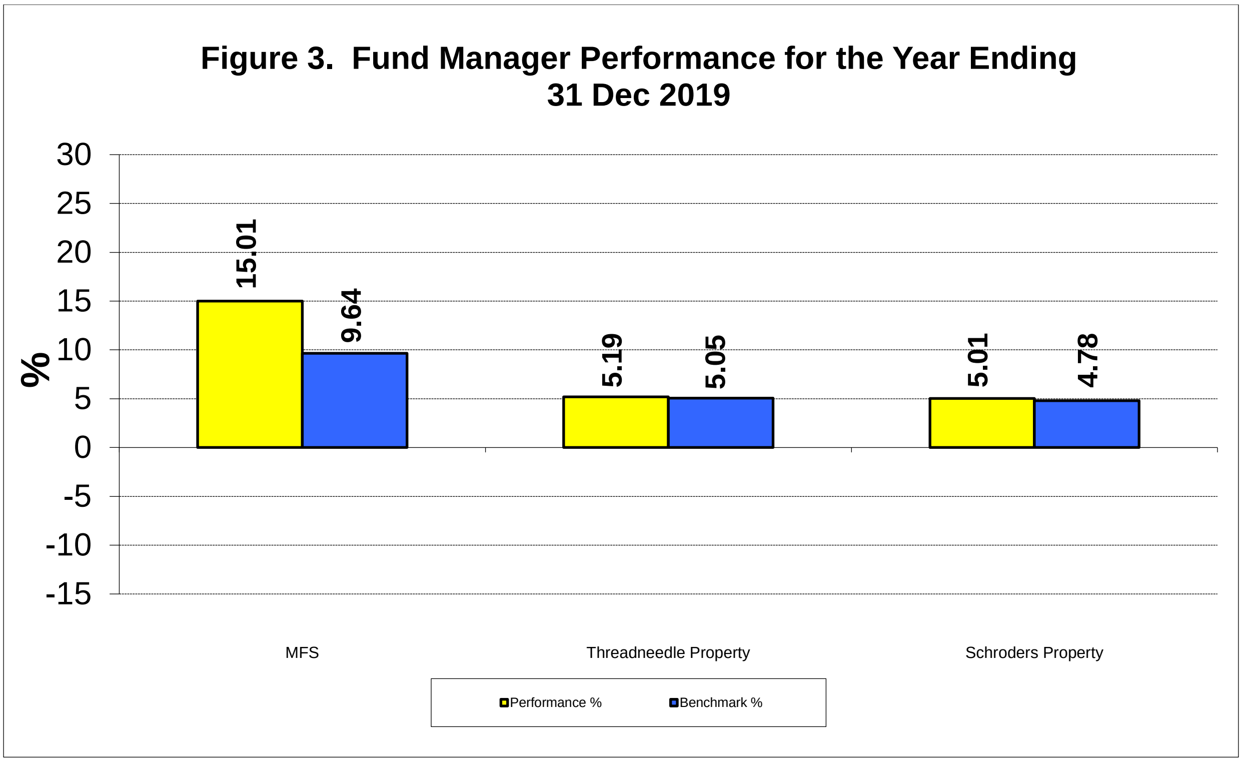


Figure 3. Fund Manager Performance for the Year Ending 31 Dec 2019
30
25
20
15
10
5
0
-5
-10
-15
%
15.01
9.64
5.19
5.05
5.01
4.78
MFS
Threadneedle Property
Schroders Property
Performance %
Benchmark %

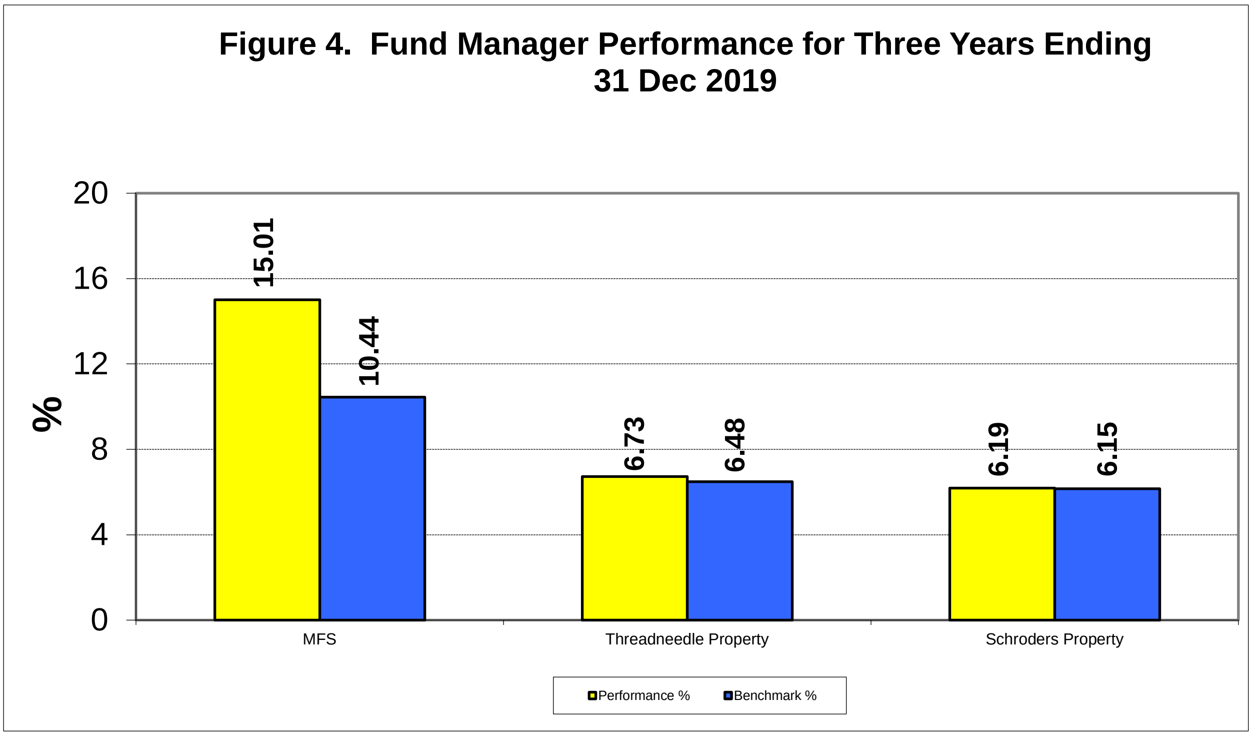
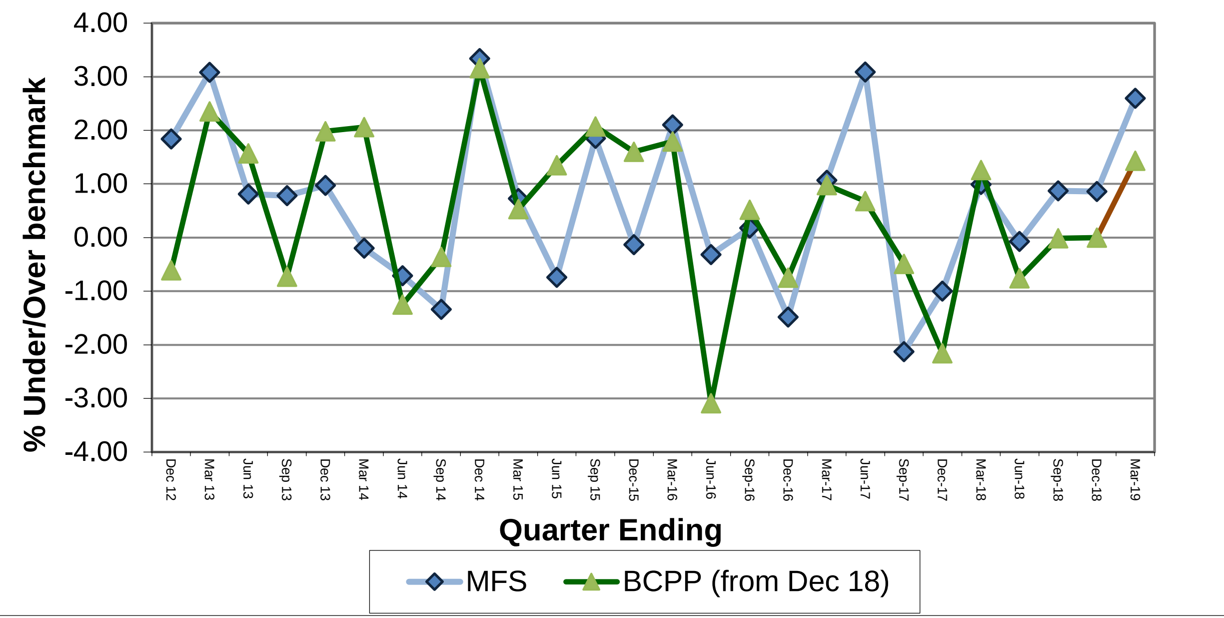


Figure 4. Fund Manager Performance for Three Years Ending 31 Dec 2019
20
16
12
8
4
0
%
15.01
10.44
6.73
6.48
6.19
6.15
MFS
Threadneedle Property
Schroders Property
Performance %
Benchmark %

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

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



Background papers

None

	Name	Contact Information
Report Author	Chris Norton	07767003428 chrisnorton@warwickshire.gov.uk
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Strategic Director (Resources)	Rob Powell	01926 412564 robpowell@warwickshire.gov.uk

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

Local Member(s):
Other members:

Appendix 6

Item 2

Pension Fund Investment Sub Committee

10 June 2019

Forward Plan

Recommendation

That the Sub Committee notes and comments on the forward plan.

1.0 Introduction

1.1 The purpose of this report is to provide an updated forward plan for the Pension Fund Investment Sub Committee rolled forward to cover the year ahead. The plan is set out at Appendix A.

1.2 The agenda for June has a significant amount of specific fund development decisions and discussions therefore the responsible investment / voting item has been put back to a later meeting.

1.3 In September or December an item looking at investment strategy modelling has been added, and can be considered alongside contribution strategies.

Background papers

None

	Name	**Contact Information**
Report Author	Chris Norton	chrisnorton@warwickshire.gov.uk 07767003428
Interim Assistant Director Finance and ICT Strategy	Lisa Kitto	01926 412441 lisakitto@warwickshire.gov.uk
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Portfolio Holder	Peter Butlin	cllrbutlin@warwickshire.gov.uk

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

Local Member(s):
Other members:

September 2019	December 2019	March 2020	May 2020	June 2020
Investment Performance	Investment Performance	Investment Performance		Investment Performance
BCPP Planning Future Transfers BCPP Monitoring Previous Transfers	BCPP Planning Future Transfers BCPP Monitoring Previous Transfers	BCPP Planning Future Transfers BCPP Monitoring Previous Transfers	Election of Chair and Vice Chair	BCPP Planning Future Transfers BCPP Monitoring Previous Transfers
Forward Plan	Forward Plan	Forward Plan		Forward Plan
Investment Strategy Modelling (September or December)		Investment Strategy Statement Review		
2019 Actuarial Valuation Present Whole Fund Results	2019 Actuarial Valuation Agreed Employer Funding Strategies Draft Funding Strategy Statement	2019 Actuarial Valuation Valuation Sign Off Funding Strategy Statement		
Responsible investing / voting	Business Plan			
	Training Plan			
	Risk Management Review			

Item 3

Local Pension Board of the Warwickshire Pension Fund

8 July 2019

Pension Fund Administration Update

Recommendation

That the Local Pension Board of the Warwickshire Pension Fund note and comment on the report.

1.0 Introduction

1.1 This report seeks to update the Board on a number of different areas relating to the administration of the Warwickshire Pension Fund. Board members are requested to note the report and comment on any areas of interest or concern.

2.0 Matters arising from the meeting of 11 March 2019

2.1 None.

3.0 Web page update

3.1 The website was originally designed and hosted by a local firm The Edge of the Web.

3.2 It was agreed from the outset back in November 2018 that the website would eventually be hosted by the County Council and this is due to happen in July.

3.3 We have been speaking with the design team at the County about the availability of users completing simple tasks via the website e.g. notification of change of address, nomination forms, registering for e-payslips etc but the move from Google to Outlook in August will delay this. We have to ensure that this is achieved in a secure way rather than simply asking members to email the information from a downloaded form.

4.0 New Employers

4.1 In accordance with the Fund's Admissions and Terminations policy (which was approved by the Staff and Pensions Committee in June 2017), all prospective employers must submit an application for membership to the Committee for approval.

4.2 As indicated at the July 2017 meeting, a template application is available for new employers together with (where relevant) a template admission agreement. Prospective employers are now able to access this information on our website.

4.3 Below is a list of employers approved by the Staff and Pensions Committee since March 2019:

- ABM Catering contracts for St. Paul's school (1 April 2019) and King Edwards Academy (19 April 2019).
- Bailey's Catering contract for Long Itchington academy (1 January 2019).
- Chartwell Catering contract for Polesworth academy (1 January 2019).
- Kenilworth Academy (1 January 2019).

4.4 The Appendix provides an analysis of Scheme Employers.

5.0 Cessations

5.1 The Fund is also dealing with several cessations.

5.2 **Solihull School** the repayment agreement has been agreed between the Fund and the School.

5.3 **The Rowan Organisation;** the Fund is in the process of negotiating a settlement

6.0 GMP reconciliation

6.1 No further update.

7.0 Performance indicators

Indicator	Target (100%)	2017 / 2018	Number of cases	2018 / 2019
Retirements paid within 30 days of retirement	30 days	not previously measured	262	42%
Retirements paid within 10 days of receiving all relevant paperwork	10 days	76% (previously measured as five days)	262	82%
Deferred Benefits into payment			571	Not measured

Death grants paid 10 days of receiving paperwork	10 days	Not previously measured	20	95%
Process refund	10 days		1,882	See note
Transfers paid	10 days	93%	318	81%
Calculate and notify deferred benefits	10 days	92%	649	81%

7.1 The administration team wanted to provide an indication of the number cases dealt with over the year but this identified some failings in reporting on targets. The workflow system is not ideally suited to report KPIs as it is literally a tool for the officer to process a case through the administration system. Therefore, the team have to supplement this with manual systems which can prove to be labour intensive.

7.2 The team will review how we report on KPIs and seek advice from other Funds and our system provider.

7.3 Analysis of payments and data received from Scheme Employers.

Contributions and monthly returns received by 19th of the month following deduction	**2018 / 2019**
Contributions	92%
Pro-forma	80%

8.0 Annual Benefit Statements

8.1. Almost 15,000 annual benefit statements for deferred beneficiaries were issued in June 2019.

8.2 Contributing members should receive their statement towards the end of August 2019.

9.0 Breach

9.1 An employer informed the Fund that small number of employees' were not brought into the pension scheme when they were transferred from one position to another.

9.2 Twenty six members were affected and the employer concerned has reassured the Fund that the position has been corrected and their systems amended to ensure this does not happen again.

9.3 This breach has been entered on the Breach Register as “not material” due to the small number of members impacted, given the size of the employer.

10.0 Resources

10.1 The Fund’s main employer introduced a new payroll system from December 2017 which resulted in a delay in the production of reports concerning starters, leavers and amendments to members’ records.

10.2 This delay resulted in a backlog of cases which needed to be addressed and the administration team has taken on four agency staff to assist with this.

10.3 The introduction of agency staff enabled more experienced members of staff to deal with data for the triennial valuation and the production of annual benefit statements.

10.4 The team continues to look at resources and its ability to provide a service which satisfies all its stakeholders and has identified areas where additional resource may be required to enhance the service.

10.5 Particular areas identified to date include:

- the introduction of an employer portal to improve the transfer of information on pay and contributions which will improve data quality.
- The portal will improve data quality and functionality and the provision of information for scheme members.
- An online system where members’ can perform online calculations.
- The improved provision of reporting on the performance of the administration team
- Improved monitoring of information provided by Scheme Employers
- Improve the provision of information to outside agencies; the Fund’s Actuary, The Pension Regulator, HMRC, Government Actuary’s Department etc.

11.0 Financial Implications

11.1 The cost of additional agency staff is in the region of £2,400 per week.

12.0 Background Papers

None

	Name	Contact Information
Report Author	Neil Buxton	neilbuxton@warwickshire.gov.uk
Assistant Director (Interim)	Lisa Kitto	lisakitto@warwickshire.gov.uk
Strategic Director	Rob Powell	robpowell@warwickshire.gov.uk
Portfolio Holder	Councillor Peter Butlin	cllrbutlin@warwickshire.gov.uk

The report was not circulated to elected members prior to publication

APPENDIX

Scheme Employers

Employer type	2017 / 2018			2018 / 2019			2019		
	Joiners	Leavers	Total	Joiners	Leavers	Total	Joiners	Leavers	Total
Schedule	1	-	16	-	1	15	-	-	15
Academies	15	-	91	10	-	101	-	-	101
Colleges	1	2	5	-	1	3	-	-	2
Parish / Town Councils	2	-	33	1	-	34	-	-	34
Transfer Bodies	5	-	62	1	2	63	1	-	62
Community Bodies	-	7	14	-	3	7	-	-	4
Others	-	1	2	-	-	1	-	-	1
TOTAL	24	10	**223**	12	7	**224**	1		**219**

NB Leavers will reduce the total quoted following the year they left.

Local Pension Board of Warwickshire Pension Fund

Annual Report 2018-19

The Public Services Pensions Act 2013 requires the Administering Authority for each Local Authority Pension Scheme (LGPS) fund in England and Wales to establish a Local Pension Board

The role of local pension boards is to assist the Administering Authority to secure compliance with LGPS Scheme Regulations and other legislation relating to the governance and administration of the Fund, together with any requirements imposed by the Pensions Regulator. In short, the Board's role is to ensure the effective and efficient governance and administration of the Warwickshire Fund

The Regulations also require the membership of the Board to be made up of equal numbers of employer and employee representatives with a minimum of four members i.e. at least two employer representatives and two employee representatives. The employer representatives on the Board must be independent of the Fund - that is to say they must have no involvement with the day to day management of the Fund. The Warwickshire Board has three employee representatives and three employer representatives

The Warwickshire Board was established as required by the 2013 Act and met three times during 2018/19 The membership of the Board during 2018/19 has been as follows: -

Employer representatives

Councillor Jill Simpson-Vince (Warwickshire County Council) until 27 November 2018

Councillor Parminder Singh Birdi (Warwickshire County Council) from 27 November 2018

Mr Keith Francis (The Citizens Advice Bureaux Service)

Mr Chris Blundell (Rugby District Council) until 5 March 2019

Mr David Buckland from 5 March 2019

Employee Representatives

Mr Alan Kidner (Unison)

Councillor Dave Parsons

VACANCY

The Administering Authority continues to make strenuous efforts to fill this vacancy.

Independent Chairman (Non- voting)

Mr Keith Bray (formerly Director of Financial Services at the City and County of Cardiff)

The Board met on three occasions during 2018/19

10July 2018 – Attendees Keith Francis
Alan Kidner
Keith Bray (Chair)

The Board received an administration update covering: -

- Ongoing website development
- The Risk register - An online toolkit is now available for members to view
- The Fund's registration for the CIPFA Benchmarking Club
- The admission of new employers – the Board sought assurances that covenants for new employers would be monitored with a view to ensuring that the financial difficulties that had arisen in the past would be avoided in future.
- Cessations. These, including the transfer of Stratford Upon Avon to the West Midlands Pension Fund, had been dealt with successfully
- General Data Protection Regulation (GDPR). The GDPR audit had been concluded, staff were receiving training, and all fund members would receive information regarding the Fund's obligations. Under GDPR
- The GMP (guaranteed Minimum pension) reconciliation with HRMC -the Board were advised that this would be concluded by November 2018

The Board received an update on progress at the Borders to Coast Pensions Partnership Including the transfer of assets

The Board considered its training needs and it was agreed that a training session would be held during the morning prior to the next Board meeting on 27 November

The Board reviewed the minutes of the Pension Fund Investment Sub Committee meetings held on 12 March 2018,15 May 2018 and 11 June

Under matters arising from the 12 March meeting the Board requested a copy of the Investment Strategy Statement. There were no matters arising from the meetings of 15 May and 12 June
The Board requested to see the reports to which the minutes related.
The Board also requested to see the confidential reports to Committee.
The Legal Services Manager advised that if the Board felt that there was a need to see a confidential report, for example for a piece of work it was undertaking, this would be considered on a case by case basis. It would not be possible however for the Board to see all confidential reports as a matter of course. The Board expressed disappointment and disquiet at this decision.
The Chairman commented that practice varied amongst LGPS funds but he was aware that many funds placed no such restriction on the provision of reports to their Boards. He shared the Board's disappointment and disquiet about the decision as he

felt it hampered the Board's ability to fulfil its responsibilities properly. He requested that the position be kept under review.

It was agreed that Indemnity Insurance for Board Members would be taken out with AON.

27 November 2018 – Attendees

Councillor Parminder Singh Birdi
Keith Francis
Alan Kidner
Councillor Dave Parsons
Keith Bray (Chair)

This meeting was preceded by a training session
Robert Bilton (Hymans Robertson provided an overview of the governance of the Local Government Pension Scheme (LGPS) including its purpose, legal framework, powers and responsibilities
In his capacity as Forum Officer of LAPFF, Keith Bray provided an overview of the work of the Local Authority Pension Fund Forum. The Warwickshire Fund has been a member of the Forum for many years

The Board considered the Annual Report and Accounts for 2017/18

The Pensions Manager provided an administration update covering the development of the webpage which is now live. The Board noted with some concern that there was no report available on performance indicators due to staffing issues.

The Strategic Finance Manager presented the existing communications strategy and reported that that it was being updated so a further report would be presented at a late date. The Board noted that security measures had been taken into account with regard to the GDPR

The Board reviewed the Pension Fund Investment Sub-committee papers made available to them for the meeting held on 10th September but remained concerned that access to exempt papers (i.e. confidential papers) were still not available to the Board.

The Board was informed that the Administering Authority's Section 151 Officer would be leaving his post in January 2019 but were reassured that it was a legal requirement to fill the post immediately following the departure of the current Section 151 Officer

5 March 2019 Attendees

Councillor Parminder Singh Birdi
David Buckland
Keith Francis
Alan Kidner

The Board were informed that an Interim Section 151 Officer had been appointed

The Board reviewed the minutes of the Pension Fund Investment Sub Committee held on 10th December and asked to be informed of the amount of the fund invested overseas and how much is invested in each overseas market.

The Strategic Finance Manager provided an administration update which covered the following points

- The new website is up and running and has received positive feed back

- Six new academies have joined the scheme and ongoing exit agreements have been established with several bodies which have exited the Scheme

With regard to the risk Register it was noted that staffing resources are being monitored. The Board members stressed that any current recruitment restrictions at Warwickshire County Council should not necessarily apply to the Pension Fund.

It was reported that the Fund had continued to meet the requirements of MIFID2. regarding the professional status of the personnel supporting the Pension Fund

The Board considered the Forward Plan and the Business Plan for 2019/20. The top-level objectives of the Business Plan being to ensure that funds are available to pay all pension benefits as the fall due for payment and that the beneficiaries are paid punctually and accurately.

The Border to Coast Pensions Partnership's Responsible Investment Policy was received by the Board

The Board will meet again on 8 July 2019

Keith Bray

Independent Chairman

July 2019

Local Pension Board of the Warwickshire Pension Fund

8 July 2019

Border to Coast - Pooling Update

1.0 Introduction

1.1 This report provides an update on the Border to Coast Pension Partnership (BCPP) pooling for note and comment.

1.2 The following is covered in the report:

- Funds Development - Timetable
- Global Equities Alpha Fund
- Alternative Funds
- Fixed Income Funds
- Joint Committee Member Scheme Representation
- BCPP Budget
- MHCLG Draft Pooling Guidance
- Voting and Stewardship Policy
- Overseas Investment Allocations

2.0 Funds Development – Timetable

2.1 The latest BCPP timetable for rolling out new funds is given in Appendix 1.

2.2 The timetable is subject to review, in particular BCPP have advised the launch of the Global Equities Alpha Fund is likely to be delayed until after the summer.

3.0 Global Equities Alpha Fund Update

3.1 Design of the global equities fund ahead of launch has been finalised.

3.2 BCPP has also completed selection of the external fund managers. These are:

Investec Value	- deep value
Investec Franchise	- focus on quality/defensive

Harris Associates	- value
Lindsell Train	- quality/defensive
Loomis Sayles	- quality growth

4.0 Alternative Funds Update

4.1 The final design of the alternatives has been approved by shareholders.

4.2 This broadly follows that set out in the December Local Pension Board (LPB) report.

4.3 The first alternative sub-fund is private equity that has effectively now launched.

4.4 This next alternatives sub-fund launch is infrastructure. This is due to launch shortly.

5.0 Fixed Income Funds Update

5.1 The fixed income products are now in the design phase.

5.2 Investment Grade Credit (IGC) is due to be the first fixed income launch. This is an active strategy that invests across investment grade bonds.

5.3 The BCPP IGC sub-fund targets value added from credit selection.

5.4 The BCPP IGC sub-fund is due to launch in Q4 2019.

6.0 BCPP Strategic Business Plan and Budget 2019/20

6.1 A noted at the March 2019 LPB meeting, BCPP has presented its Strategic Business Plan and Budget 2019/20 to partner funds.

6.2 A shareholder resolution has now approved the Strategic Plan and Budget 2019/20.

7.0 Joint Committee Scheme Member Representative

7.1 At the last Board meeting in March it was noted that the BCPP Joint Committee was making arrangements for the election of a scheme member observer and substitute from amongst the scheme member representatives on the twelve partner funds Local Pension Boards.

7.2 The Board was informed verbally at the March meeting that there had been five nominations from which Nicholas Wirz, Tyne & Wear Pension Fund, was elected as scheme member observer and Deirdre Burnet, Cumbria Pension Fund, was elected as substitute.

8.0 MHCLG Draft Pooling Guidance

8.1 As noted at the last Board meeting, the Ministry of Housing, Communities and Local Government (MHCLG) issued a draft of its proposed pooling guidance for comment by authorities and pool companies.

8.2 All 12 Authorities in the pool as well as the BCPP JC and BCPP submitted a response to the survey.

8.3 WCC’s response generally welcomed the draft guidance but highlighted a number of areas where more consideration would be of benefit.

9.0 Voting and Stewardship Policy

9.1 During the latter part of 2018, the Fund transitioned its active UK equities to BCPP. These assets were invested in the BCPP UK Equity Alpha Fund.

9.2 More of the Warwickshire Pension Fund (WPF) assets are likely to be transitioned over to BCPP in the coming months and years.

9.3 Currently, BCPP applies its own Stewardship and Voting Guidelines plus the associated compliance statement to any transitioned assets.

9.4 BCPP declares its voting activity on its website and to Partner Funds on a quarterly basis.

9.5 It is desirable to have consistency in relation to voting and stewardship between the WPF and BCPP. Therefore, it is proposed that the WPF should look to broadly align its voting and stewardship guidelines with that of BCPP.

9.6 The Board is therefore asked to note and comment on the BCPP Voting and Stewardship Policy and associated compliance statement (see Appendix 1 and Appendix 2).

10.0 Overseas Investment Allocations

10.1 Under Item 2 of the Minutes of the last meeting, the Board enquired, via the PFISC, which overseas markets the Fund is invested in and how much is being invested overseas? An update will be provided to the board on the day.

11.0 Financial Implications

11.1 None for this Board

Background papers

1. None.

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Strategic Director	Rob Powell	01926 412564 robpowell@warwickshire.gov.uk
Portfolio Holder	Councillor Peter Butlin	cllrbutlin@warwickshire.gov.uk

The report was not circulated to members prior to publication:

Appendix 1

Timelines for potential investment

<table>
<tr><th>Area</th><th>Q1 18</th><th>Q2 18</th><th>Q3 18</th><th>Q4 18</th><th>Q1 19</th><th>Q2 19</th><th>Q3 19</th><th>Q4 19</th><th>Q1 20</th><th>Q2 20</th><th>Q3 20</th><th>Q4 20</th></tr>
<tr><td>UK Equities</td><td>Specify</td><td>Build</td><td>Launch</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>UK Equities Alpha</td><td></td><td>Specify</td><td>Build</td><td>Launch</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Overseas Developed Equities</td><td>Specify</td><td>Build</td><td>Launch</td><td></td><td></td><td></td><td colspan="2">Consultation</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Global Equities Alpha</td><td></td><td></td><td colspan="2">Specify</td><td>Build</td><td>Launch</td><td></td><td colspan="2">Consultation</td><td></td><td></td><td></td></tr>
<tr><td>Emerging Markets Equities</td><td>Specify</td><td>Build</td><td>Build</td><td>Launch</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Gilts & Index-Linked Gilts</td><td></td><td></td><td></td><td rowspan="3">Specify</td><td rowspan="3">Specify</td><td rowspan="3">Build</td><td rowspan="3">Launch</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Overseas Government Bonds</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Inv Grade Corporate Bonds</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Multi-Asset Credit</td><td></td><td></td><td></td><td colspan="2">Specify</td><td colspan="2">Build</td><td>Launch</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Diversified Growth</td><td></td><td></td><td></td><td></td><td></td><td>Specify</td><td>Build</td><td>Launch</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Alternatives: Private Equity</td><td></td><td></td><td>Specify</td><td>Build</td><td>Launch</td><td></td><td></td><td></td><td colspan="2" rowspan="2">Consider legacy</td><td></td><td></td></tr>
<tr><td>Alternatives: Infrastructure</td><td></td><td></td><td></td><td>Specify</td><td>Build</td><td>Launch</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Alternatives: Private Credit</td><td></td><td></td><td></td><td></td><td>Specify</td><td colspan="2">Build</td><td>Launch</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Alternatives: Other</td><td></td><td></td><td></td><td></td><td></td><td></td><td>Specify</td><td>Build</td><td>Launch</td><td></td><td></td><td></td></tr>
<tr><td>Property</td><td></td><td></td><td></td><td colspan="2">Specify</td><td colspan="2">Build Phase 1</td><td></td><td colspan="2">Build Phase 2</td><td></td><td>Launch</td></tr>
</table>

Note: This is subject to change.

APPENDIX 1

Corporate Governance & Voting Guidelines

Border to Coast Pensions Partnership

November 2018

1. Introduction

Border to Coast Pensions Partnership believes that companies operating to higher standards of corporate governance along with environmental and social best practice have greater potential to protect and enhance investment returns. As an active owner Border to Coast will engage with companies on environmental, social and governance (ESG) issues and exercise its voting rights at company meetings. When used together, voting and engagement can give greater results.

An investment in a company not only brings rights but also responsibilities. The shareholders' role is to appoint the directors and auditors and to be assured that appropriate governance structures are in place. Good governance is about ensuring that a company's policies and practices are robust and effective. It defines the extent to which a company operates responsibly in relation to its customers, shareholders, employees, and the wider community. Corporate governance goes hand-in-hand with responsible investment and stewardship. Border to Coast considers the UK Corporate Governance Code and other best practice global guidelines in formulating and delivering its policy and guidelines.

2. Voting procedure

These broad guidelines should be read in conjunction with the Responsible Investment Policy. They provide the framework within which the voting guidelines are administered and assessed on a case-by-case basis. A degree of flexibility will be required when interpreting the guidelines to reflect specific company and meeting circumstances. Voting decisions are reviewed with the portfolio managers. Where there are areas of contention the decision on voting will ultimately be made by the Chief Investment Officer. A specialist proxy voting advisor is employed to ensure that votes are executed in accordance with the policy.

Where a decision has been made not to support a resolution at a company meeting, Border to Coast will, where able, engage with the company prior to the vote being cast. This will generally be where it holds a declarable stake or is already engaging with the company. In some instances, attendance at AGMs may be required.

Border to Coast discloses its voting activity on its website and to Partner Funds on a quarterly basis.

We will support incumbent management wherever possible but recognise that the neglect of corporate governance and corporate responsibility issues could lead to reduced shareholder returns.

We will vote **For**, **Abstain** or **Oppose** on the following basis:

- We will support management that acts in the long-term interests of all shareholders, where a resolution is aligned with these guidelines and considered to be in line with best practice.

- We will abstain when a resolution fails the best practice test but is not considered to be serious enough to vote against.

- We will vote against a resolution where corporate behaviour falls short of best practice or these guidelines, or where the directors have failed to provide sufficient information to support the proposal.

3. Voting Guidelines

Company Boards

The composition and effectiveness of the board is crucial to determining corporate performance, as it oversees the running of a company by its managers and is accountable to shareholders. Company behaviour has implications for shareholders and other stakeholders. The structure and composition of the board may vary between different countries; however, we believe that the following main governance criteria are valid across the globe.

Composition and independence

The board should have a balance of executive and non-executive directors so that no individual or small group of individuals can control the board's decision making. They should possess a suitable range of skills, experience and knowledge to ensure the company can meet its objectives. Boards do not need to be of a standard size: different companies need different board structures and no simple model can be adopted by all companies.

The board of large companies, excluding the Chair, should consist of a majority of independent non-executive directors although local market practices shall be taken into account. Controlled companies should have a majority of independent non-executive directors, or at least one-third independent directors on the board. As non-executive directors have a fiduciary duty to represent and act in the best interests of shareholders and to be objective and impartial when considering company matters, they must be able to demonstrate their independence. Non-executive directors who have been on the board for over nine years have been associated with the company for long enough to be presumed to have a close relationship with the business or fellow directors.

The nomination process of a company should therefore ensure that potential risks are restricted by having the right skills mix, competencies and independence at both the supervisory and executive board level. It is essential for boards to achieve an appropriate balance between tenure and experience, whilst not compromising the overall independence of the board. The re-nomination of board members with longer tenures should be balanced out by the nomination of members able to bring fresh perspectives. It is recognised that excessive length of tenure can be an issue in some markets, for example the US where it is common to have a retirement age limit in place rather than length of tenure. In such cases it is of even greater importance to have a process to robustly assess the independence of long tenured directors. Where it is believed an individual can make a valuable and independent contribution, tenure greater than ten years will be assessed on a case-by-case basis.

The company should therefore, have a policy on tenure which is referenced in its annual report and accounts. There should also be sufficient disclosure of biographical details so that shareholders can make informed decisions. There are a number of factors which could affect independence, which includes but is not restricted to:

- Representing a significant shareholder.
- Serving on the board for over nine years.
- Having had a material business relationship with the company in the last three years.
- Having been a former employee within the last five years.
- Family relationships with directors, senior employees or advisors.

- Cross directorships with other board members.
- Having received or receiving additional remuneration from the company in addition to a director's fee, participating in the company's share option or performance-related pay schemes, or being a member of the company's pension scheme.

Leadership

The role of the Chairman (he or she) is distinct from that of other board members and should be seen as such. The Chairman should be independent upon appointment and should not have previously been the CEO. The Chairman should also take the lead in communicating with shareholders and the media. However, the Chairman should not be responsible for the day to day management of the business: that responsibility rests with the Chief Executive. The role of Chair and CEO should not be combined as different skills and experience are required. There should be a distinct separation of duties to ensure that no one director has unfettered decision making power.

However, Border to Coast recognises that in many markets it is still common to find these positions combined. Any company intending to combine these roles must justify its position and satisfy shareholders in advance as to how the dangers inherent in such a combination are to be avoided; best practice advocates a separation of the roles. A senior independent non-executive director must be appointed if roles are combined to provide shareholders and directors with a meaningful channel of communication, to provide a sounding board for the chair and to serve as an intermediary for the other directors and shareholders. Led by the senior independent director, the non-executive directors should meet without the chair present at least annually to appraise the chair's performance.

Non-executive Directors

The role of non-executive directors is to challenge and scrutinise the performance of management in relation to company strategy and performance. To do this effectively they need to be independent; free from connections and situations which could impact their judgement. They must commit sufficient time to their role to be able to carry out their responsibilities. A senior independent non-executive director should be appointed to act as liaison between the other non-executives, the Chairman and other directors where necessary.

Diversity

Board members should be recruited from as broad a range of backgrounds and experiences as possible. A diversity of directors will improve the representation and accountability of boards, bringing new dimensions to board discussions and decision making. Companies should broaden the search to recruit non-executives to include open advertising and the process for board appointments should be transparent and formalised in a board nomination policy. Companies should have a diversity policy which references gender, ethnicity, age, skills and experience and how this is considered in the formulation of the board. The policy should give insight into how diversity is being addressed not only at board level but throughout the company and be disclosed in the Annual Report.

We will vote against chairs of the nomination committee at FTSE350 companies where less than 30% of directors serving on the board are female. We will promote the increase of female representation on boards globally in line with best practice in that region and will generally expect companies to have at least one female on the board.

Succession planning

We expect the board to disclose its policy on succession planning, the factors considered and where decision-making responsibilities lie. A succession policy should form part of the terms of reference for a formal nomination committee, comprised solely of independent directors and headed by the Chairman or Senior Independent Director except when it is appointing the Chairman's successor. External advisors may also be employed.

Directors' availability and attendance

It is important that directors have sufficient time to devote to the company's affairs; therefore, full time executives should not hold more than one non-executive position in a FTSE 100 company, or similar size company in other regions; nor the chairmanship of such a company. In the remaining instances, directors working as full-time executives should serve on a maximum of two publicly listed company boards.

With regard to non-executive directors, there can be no hard and fast rule on the number of positions that are acceptable: much depends upon the nature of the post and the capabilities of the individual. Shareholders need to be assured that no individual director has taken on too many positions. Full disclosure should be made in the annual report of directors' other commitments and attendance records at formal board and committee meetings. A director should attend a minimum of 75% of applicable board and committee meetings to ensure commitment to responsibilities at board level.

Re-election

For a board to be successful it needs to ensure that it is suitably diverse with a range of skills, experience and knowledge. There is a requirement for non-executive directors to be independent to appropriately challenge management. To achieve this, boards need to be regularly refreshed to deal with the issues of stagnant skill sets, lack of diversity and excessive tenure; therefore, all directors should be subject to re-election annually, or in-line with local best practice.

Board evaluation

A requisite of good governance is that boards have effective processes in place to evaluate their performance and appraise directors at least once a year. The annual evaluation should consider its composition, diversity and how effectively members work together to achieve objectives. Individual director evaluation should demonstrate the effective contribution of each director. An internal evaluation should take place annually with an external evaluation required at least every three years.

Stakeholder engagement

Companies should take into account the interests of and feedback from stakeholders which includes the workforce. Taking into account the differences in best practice across markets, companies should have an appropriate system in place to engage with employees.

Engagement and dialogue with shareholders on a regular basis is key for companies; being a way to discuss governance, strategy, and other significant issues.

Directors' remuneration

Shareholders at UK companies have two votes in relation to pay; the annual advisory vote on remuneration implementation which is non-binding, and the triennial vote on forward-looking pay policy which is binding. If a company does not receive a majority of shareholder support for the pay policy, it is required to table a resolution with a revised policy at the next annual meeting.

It must be noted that remuneration structures are varied, with not one model being suitable for all companies; however, there are concerns over excessive remuneration and the overall quantum of pay. Research shows that the link between executive pay and company performance is negligible. Excessive rewards for poor performance are not in the best interests of a company or its shareholders. Remuneration levels should be sufficient to attract, motivate and retain quality management but should not be excessive compared to salary levels within the organisation and with peer group companies. There is a clear conflict of interest when directors set their own remuneration in terms of their duty to the company, accountability to shareholders and their own self-interest. It is therefore essential that the remuneration committee is comprised solely of non-executive directors and complies with the market independence requirement.

Remuneration has serious implications for corporate performance in terms of providing the right incentives to senior management, in setting performance targets, and its effect on the morale and motivation of employees. Corporate reputation is also at risk. Remuneration policy should be sensitive to pay and employee conditions elsewhere in the company, especially when determining annual salary increases.

Where companies are potentially subject to high levels of environmental and societal risk as part of its business, the remuneration committee should also consider linking relevant metrics and targets to remuneration to focus management on these issues.

The compensation provided to non-executive directors should reflect the role and responsibility. It should be structured in a manner that does not compromise independence, enhancing objectivity and alignment with shareholders' interests. Non-executive directors should therefore, not be granted performance-based pay. Although we would not expect participation in Long-term Incentive Plans (LTIPs), we are conscious that in some exceptional instances Non-executives may be awarded stock, however the proportion of pay granted in stock should be minimal to avoid conflicts of interest.

To ensure accountability there should be a full and transparent disclosure of directors' remuneration with the policy published in the annual report and accounts. The valuation of benefits received during the year, including share options, other conditional awards and pension benefits, should be provided.

• **Annual bonus**

Bonuses should reflect individual and corporate performance targets which are sufficiently challenging, ambitious and linked to delivering the strategy of the business and performance over the longer-term. Bonuses should be set at an appropriate level of base salary and should be capped. Provisions should be in place to reduce or forfeit the annual bonus where the company has experienced a significant negative event.

• **Long-term incentives**

Remuneration policies have over time become more and more complex making them difficult for shareholders to adequately assess. Border to Coast therefore encourages companies to simplify remuneration policies.

Performance-related remuneration schemes should be created in such a way to reward performance that has made a significant contribution to shareholder value. The introduction of incentive schemes to all employees within a firm is encouraged and supported as this helps all employees understand the concept of shareholder value. However, poorly structured schemes can result in senior management receiving unmerited rewards for substandard performance. This is unacceptable and could adversely affect the motivation of other employees.

Incentives are linked to performance over the longer-term in order to create shareholder value. If restricted stock units are awarded under the plan, the vesting period should be at least three years to ensure that the interests of both management and shareholders are aligned in the long-term. Employee incentive plans should include both financial and non-financial metrics and targets that are sufficiently ambitious and challenging. Remuneration should be specifically linked to stated business objectives and performance indicators should be fully disclosed in the annual report.

The performance basis of all such incentive schemes under which benefits are potentially payable should be clearly set out each year, together with the actual performance achieved against the same targets. We expect clawback or malus provisions to be in place for all components of variable compensation.

Directors' contracts

Directors' service contracts are also a fundamental part of corporate governance considerations. Therefore, all executive directors are expected to have contracts that are based upon no more than twelve months' salary. Retirement benefit policies of directors should not be excessive, and no element of variable pay should be pensionable. The main terms of the directors' contracts including notice periods on both sides, and any loans or third-party contractual arrangements such as the provision of housing or removal expenses, should be declared within the annual report.

Corporate reporting

Companies are expected to report regularly to shareholders in an integrated manner that allows them to understand the company's strategic objectives. Companies should be as transparent as possible in disclosures within the Report and Accounts. As well as reporting financial performance, business strategy and the key risks facing the business, companies should provide additional information on ESG issues that also reflect the directors' stewardship of the company. These could include, for example, information on a company's human capital management policies, its charitable and community initiatives and on its impact on the environment in which it operates.

Every annual report (other than those for investment trusts) should include an environmental section, which identifies key quantitative data relating to energy and water consumption, emissions and waste etc., explains any contentious issues and outlines reporting and evaluation criteria. It is important that the risk areas reported upon should not be limited to financial risks. We will encourage companies to report and disclose in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations, and the Workforce Disclosure Initiative in relation to human capital reporting.

Audit

The audit process must be objective, rigorous and independent if it is to provide assurance to users of accounts and maintain the confidence of the capital markets. To ensure that the audit committee can fulfil its fiduciary role, it should be established as an appropriate committee composition with at least three members who are all independent non-executive directors and have at least one director with a relevant audit or financial background. Any material links between the audit firm and the client need to be highlighted, with the audit committee report being the most appropriate place for such disclosures.

FTSE 350 companies should tender the external audit contract at least every ten years. Reappointment of the same firm with rotation of the audit partner, will not be considered as sufficient. If an auditor has been in place for more than ten fiscal years, their appointment will not be supported. Where an auditor has resigned, an explanation should be given. If the accounts have been qualified or there has been non-compliance with legal or regulatory requirements, this should be drawn to shareholders' attention in the main body of the annual report. If the appropriate disclosures are not made, the re-appointment of the audit firm will not be supported.

Non-Audit Fees

There is concern over the potential conflict of interest between audit and non-audit work when conducted by the same firm for a client. Companies must therefore make a full disclosure where such a conflict arises. There can be legitimate reasons for employing the same firm to do both types of work, but these need to be identified. As a rule, the re-appointment of auditors will not be supported where non-audit fees are considerably in excess of audit fees in the year under review, and on a three-year aggregate basis, unless sufficient explanation is given in the accounts.

Political donations

There are concerns over the reputational risks and democratic implications of companies becoming involved in funding political processes, both at home and abroad. Companies should disclose all political donations, demonstrate where they intend to spend the money and that it is the interest of the company and shareholders. Where these conditions are not met political donations will be opposed.

Lobbying

A company should be transparent and publicly disclose direct lobbying, and any indirect lobbying through its membership of trade associations. We will assess shareholder proposals regarding lobbying on a case-by-case basis; however, we will generally support resolutions requesting greater disclosure of trade association and industry body memberships, any payments and contributions made, and where there are differing views on issues.

Shareholder rights

As a shareowner, Border to Coast is entitled to certain shareholder rights in the companies in which it invests (Companies Act 2006). Boards are expected to protect such ownership rights.

- **Dividends**

Shareholders should have the chance to approve a company's dividend policy and this is considered best practice. The resolution should be separate from the resolution to receive the report and accounts. Failure to seek approval would elicit opposition to other resolutions as appropriate.

- **Voting rights**

Voting at company meetings is the main way in which shareholders can influence a company's governance arrangements and its behaviour. Shareholders should have voting rights in equal proportion to their economic interest in a company (one share, one vote). Dual share structures which have differential voting rights are disadvantageous to many shareholders and should be abolished. We will not support measures or proposals which will dilute or restrict our rights.

- **Authority to issue shares**

Companies have the right to issue new shares in order to raise capital but are required by law to seek shareholders' authority. Such issuances should be limited to what is necessary to sustain the company and not be in excess of relevant market norms.

- **Disapplication of Pre-emption Rights**

Border to Coast supports the pre-emption rights principle and considers it acceptable that directors have authority to allot shares on this basis. Resolutions seeking the authority to issue shares with and without pre-emption rights should be separate and should specify the amounts involved, the time periods covered and whether there is any intention to utilise the authority.

Share Repurchases

Border to Coast does not necessarily oppose a company re-purchasing its own shares but it recognises the effect such buy backs might have on incentive schemes where earnings per share measures are a condition of the scheme. The impact of such measures should be reported on. It is important that the directors provide a full justification to demonstrate that a share repurchase is the best use of company resources, including setting out the criteria for calculating the buyback price to ensure that it benefits long-term shareholders.

Memorandum and Articles of Association

Proposals to change a company's memorandum and articles of association should be supported if they are in the interests of Border to Coast, presented as separate resolutions for each change, and the reasons for each change provided.

Mergers and acquisitions

Border to Coast will normally support management if the terms of the deal will create rather than destroy shareholder value and makes sense strategically. Each individual case will be considered on its merits. Seldom will compliance with corporate governance best practice be the sole determinant when evaluating the merits of merger and acquisition activity, but full information must be provided to shareholders on governance issues when they are asked to approve such transactions. Recommendations regarding takeovers should be approved by the full board.

Articles of Association and adopting the report and accounts

It is unlikely that Border to Coast will oppose a vote to adopt the report and accounts simply because it objects to them per se; however, there may be occasions when we might vote against them to lodge dissatisfaction with other points raised within this policy statement. Although it is a blunt tool to use, it can be an effective one especially if the appropriate Chair or senior director is not standing for election.

If proposals to adopt new articles or amend existing articles might result in shareholders' interests being adversely affected, we will oppose the changes.

Virtual Shareholder General Meetings

Many companies are considering using electronic means to reach a greater number of their shareholders. An example of this is via a virtual annual general meeting of shareholders where a meeting takes place exclusively using online technology, without a corresponding in-person meeting. There are some advantages to virtual only meetings as they can increase shareholder accessibility and participation; however, they can also remove the one opportunity shareholders have to meet face to face with the Board to ensure they are held to account. We would expect an electronic meeting to be held in tandem with a physical meeting. Any amendment to a company's Articles to allow virtual only meetings will not be supported.

Shareholder Proposals

We will assess shareholder proposals on a case by case basis. Consideration will be given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

Investment trusts

Border to Coast acknowledges that issues faced by the boards of investment companies are often different to those of other listed companies. The same corporate governance guidelines do not necessarily apply to them; for example, investment companies can operate with smaller boards. However, the conventions applying to audit, board composition and director independence do apply.

The election of any representative of an incumbent investment manager onto the board of a trust managed or advised by that manager will not be supported. Independence of the board from the investment manager is key, therefore management contracts should not exceed one year and should be reviewed every year. In broad terms, the same requirements for independence, diversity and competence apply to boards of investment trusts as they do to any other quoted companies.

We may oppose the adoption of the report and accounts of an investment trust where there is no commitment that the trust exercises its own votes, and there is no explanation of the voting policy.

APPENDIX 2

UK Stewardship Code Compliance Statement

Border to Coast Pensions Partnership

January 2019

UK Stewardship Code Compliance Statement

Introduction

Border to Coast Pensions Partnership Ltd is an FCA alternative investment fund manager (AIFM). It operates investment funds for its twelve shareholders which are Local Government Pension Scheme funds (Partner Funds) based on their strategic asset allocation through internally and externally managed sub-funds. The purpose is to make a difference to the investment outcomes for our Partner Funds through pooling to create a stronger voice; working in partnership to deliver cost effective, innovative, and responsible investment now and into the future; thereby enabling great, sustainable performance.

Responsible Investment (RI) is central to Border to Coast's corporate and investment philosophy; this includes holding companies to account on environmental, social and governance (ESG) issues and practising active ownership across all asset classes. The Border to Coast Responsible Investment policy, which can be found on the website, details the approach to RI and stewardship which we will follow in fulfilling our fiduciary responsibility to Partner Funds. The Corporate Governance & Voting Guidelines (Voting Guidelines), also accessible on the website, set out the approach and principles to voting. The aim is to manage risk and generate sustainable, long-term returns for our Partner Funds.

This document describes the approach Border to Coast takes to stewardship, referenced against the seven Principles of the UK Stewardship Code.

Principle 1: Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities

As a long-term investor, Border to Coast takes its stewardship responsibilities seriously believing that effective active ownership leads to superior long-term returns. As a shareowner, we have a responsibility for effective stewardship of the companies we invest in, whether directly or indirectly through mandates with fund managers. We practice active ownership through voting, monitoring companies, engagement and ultimately if deemed necessary litigation.

Environmental, social and governance (ESG) issues can have a material impact on the value of financial assets and on the long-term performance of investments. ESG issues will be integrated into investment decision making across all asset classes. We use specialist data providers to monitor ESG risks across internally and externally managed portfolios which compliment financial, quantitative and risk analysis. For internally managed portfolios ESG data is used when conducting pre-buy analysis and for ongoing monitoring of portfolio companies.

We expect our external managers to adhere to the Border to Coast RI policy and be able to demonstrate the integration of ESG into investment processes. RI is a component of the external manager selection process and incorporated into the RfP and due diligence. External managers' portfolios are monitored for ESG risk with issues addressed at regular meetings.

As responsible investors we believe that the best way to influence companies is through engagement; therefore, the approach taken will be to influence companies by constructive shareholder engagement and the use of voting rights. Border to Coast has several strands to its engagement strategy. This includes direct engagement by members of the Investment and Research Teams of Border to Coast, with collaborative engagements conducted by Robeco, the third-party Voting and Engagement Partner, on our behalf.

Border to Coast will vote across global equity holdings managed internally and externally, where possible. Voting will be administered by a specialist third-party provider according to the Border to Coast Voting Guidelines.

Responsible Investment which includes stewardship, is considered and overseen by the Board and Executive Committees. Specific policies and procedures are in place to demonstrate our commitment to stewardship. As an organisation we are committed to transparency and disclosure; therefore, our Responsible Investment Policy and Corporate Governance & Voting Guidelines, which explain in detail our approach to Stewardship, can be viewed on the Border to Coast website at (web link)

Principle 2: Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed

Border to Coast has a Conflicts of Interest policy which will be published as part of our Publication Scheme and is available on request. We work actively to continually achieve obligations under the FCA's Principles for Business, PRIN. Whilst all the Principles must be embodied in all of Border to Coast's work, the Principles of direct application to this policy are Principle 6 and Principle 8. The policy is reviewed and updated annually. All staff will receive compulsory and regular training to assist them in identifying, preventing or managing Conflicts of Interest. Personal account dealing and employees outside business positions and interests are addressed by the policy. Conflicts are included on the agenda at Board meetings.

We consider the following in managing Conflict of Interest:

- All reasonable steps must be taken to identify Conflicts of Interest that may result in a material risk of damage to a customer.
- Once identified, conflicts will be escalated to the Chief Risk Officer who will, as appropriate, refer the conflict to the Chief Executive Officer (and Board Chair or the Remuneration and Nomination Committee Chair in respect of Directors' interests).
- Once identified, Conflicts of Interest must be managed in a way that ensures the customers' interests are not adversely affected.
- Border to Coast has implemented internal controls and undertakes awareness raising and monitoring to assist in complying with the approved mitigation or relevant regulatory requirements.

Procedures and policies are in place which cover personal dealing and managing inside information. Information barriers are in operation to ensure that price sensitive information is not passed between different areas of the business. Market soundings can only be received by authorised persons who must then notify Compliance. A register is kept to record inside information when received by any member of Border to Coast staff. A restriction on dealing is then enforced for the investment manager and personal dealing by the member of staff until the information is made public.

Principle 3: Institutional investors should monitor their investee companies

Border to Coast has both internally and externally managed sub-funds. Internally managed funds are monitored by the respective portfolio managers with input from the Head of Equities, the Head of RI and the Research Team. To assist investment staff, research from a number of different providers is utilised; this includes research from sell-side brokers, economists, ESG data providers, proxy voting advisers and industry journals. Additionally, the opinions of NGOs, regulators, other industry bodies and stakeholders will be taken into consideration to give a more informed view.

External managers will be expected to monitor investments managed on behalf of Border to Coast. However, on an ongoing basis, the Border to Coast team will actively monitor market conditions and trends that may impact the performance of the Sub-Funds. Furthermore, on a regular basis the team will compile and review a series of quantitative metrics for all the underlying investment managers and their respective holdings. Managers will be challenged and held to account regarding investee companies, including on ESG issues. Finally, the team will complete a full due diligence for each portfolio manager to assess the strength, consistency, performance, and operations of the underlying funds, on a periodic basis. The due diligence will act as a full reassessment of each manager and will cover similar activities conducted in the original selection process.

All equity portfolios are screened for ESG risk with results used to drive deeper analysis and shape engagement.

Regular meetings are held with companies, other investors, stakeholders and industry professionals to monitor companies' business development and ESG risks and opportunities. Detailed records are kept of engagement meetings, voting and other ESG and stewardship related activities.

Border to Coast has an engagement strategy which consists of internal and external portfolio managers meeting with investee companies, collaborative engagement through investor RI initiatives, and engagements conducted by our Voting and Engagement Partner. We recognise we will not always be able to conduct effective engagement alone which is why collaboration is a strong feature of our engagement strategy. Issues which Border to Coast has engaged on include:

- Diversity
- Climate change
- Independence of non-executive directors
- Human Capital Management

Border to Coast is an active owner of its investee companies and will therefore use its voting rights carefully to influence corporate behaviour.

Principle 4: Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities

As a shareowner Border to Coast practises active ownership which involves engaging with companies and exercising voting rights to influence corporate behaviour, enhancing and protecting long-term returns. When an issue has been identified the first step will be to reach out directly to the company. This approach may vary depending upon where the company is based. Ideally, we will contact the Senior Independent Director or Chair. If this is not possible we will communicate through the Investor Relations Team or company broker. We believe the key to successful engagement is in building and maintaining relationships with investee companies and realise that some engagement may take place over an extended period.

We are mindful that it may be more effective for us to participate in collaborative engagement. This may be achieved through our membership of LAPFF, RI initiatives, collaboration with other interested investors, and via the Voting and Engagement Partner.

Border to Coast is focussing on a number of broad responsible investment themes which include high standards of corporate governance, transparency and disclosure and diversity. Issues that we have engaged collaboratively on include gender diversity, climate change, data privacy and corporate governance in Japan.

Border to Coast may also vote against management at AGMs, attend AGMs to ask questions and will consider co-filing shareholder resolutions. Where appropriate we will participate in shareholder litigation.

Principle 5: Institutional investors should be willing to act collectively with other investors where appropriate

We acknowledge that in many cases joint engagement with other investors has the potential to effect greater change than acting alone. We will therefore seek to work collaboratively with other like-minded investors and bodies to maximise Border to Coast's influence on behalf of Partner Funds, where we consider this to be the most effective means of engagement. This will be achieved through actively supporting investor RI initiatives and collaborating with various other external groups; each opportunity is assessed on a case by case basis. Border to Coast has appointed a third-party Voting and Engagement Partner, Robeco, who engage on our behalf across the internally managed global equity holdings. When carrying out engagement, Robeco do so collectively on behalf of their clients, therefore increasing Border to Coast's influence. This will not preclude Border to Coast engaging with companies alone on specific issues. We also expect external managers to engage with companies on our behalf. We are currently a member or supporter of the following collaborative initiatives:

Local Authority Pension Fund Forum

Workforce Disclosure Initiative

PLSA

Institutional Investor Group on Climate Change

30% Club Investor Group

Climate Action 100+

The contact for any potential collaborative engagement with Border to Coast is Jane Firth who can be contacted at jane.firth@bordertocoast.org.uk

Principle 6: Institutional investors should have a clear policy on voting and disclosure of voting activity

To have a greater influence and for operational reasons, it was deemed essential to have a collective voting policy in place at Pool level. This was developed in collaboration with all Partner Funds. Border to Coast has a policy to exercise its voting rights across all global equity holdings for both internally and externally managed sub-funds. Robeco has been appointed as the external Voting and Engagement Partner, to administer voting on our behalf, providing analysis and also advise when required. The Voting Guidelines are principle based and applied on a case by case basis. The Head of RI & Voting has the ability to override decisions following discussions with internal and external managers. If agreement cannot be reached the decision is referred to the Chief Investment Officer. The Voting Guidelines are reviewed and revised annually to reflect changes in industry best practice. Border to Coast respond to requests from companies on voting rationale and will, where possible, engage with companies prior to voting against a resolution. Summary voting activity is reported and disclosed on the website on a quarterly basis showing votes against and any votes cast contrary to policy with rationale. All votes are disclosed annually.

Border to Coast operates stock lending. Procedures are in place to restrict lending and stock will be recalled ahead of meetings when certain criteria detailed in the RI policy are met.

Principle 7: Institutional investors should report periodically on their stewardship and voting activities

Border to Coast communicates its approach to Stewardship through its RI policy and Corporate Governance & Voting Guidelines; these documents are reviewed and updated annually to reflect changes in best practice.

A quarterly Stewardship publication is produced and published on the website. This includes detail on voting, engagement and market developments. The Active Ownership report prepared by the Voting and Engagement Partner contains voting highlights and coverage of engagement conducted on our behalf, available on the website. Border to Coast's Annual Report includes a section on Responsible Investment including a summary of annual voting activity. A separate standalone annual RI report is also produced. Voting activity is reported on a quarterly basis with annual disclosure of all votes on the website. All the aforementioned documents are shared with the Partner Funds to fulfil our stewardship obligations. Additionally, Border to Coast reports to Partner Funds on ESG in-line with their requirements and provides briefing papers on specific topics, themes and issues.

January 2019

Item 6

Local Pension Board of the Warwickshire Pension Fund

8 July 2019

Valuation Update

Recommendation

That the Local Pension Board of the Warwickshire Pension Fund note and comment on the report.

1.0 Introduction

1.1 This report seeks to update the Board on a number of different areas relating to the administration of the Warwickshire Pension Fund. Board members are requested to note the report and comment on any areas of interest or concern.

2.0 Matters arising from the meeting of 11 March 2019

2.1 None.

3.0 Valuation update

3.1 The Fund is part way through the triennial valuation cycle.

3.2 Data will have been submitted to the Actuary by 30 June 2019 and the administration team are currently dealing with any queries raised by Hymans.

3.3 Delays in the submission of data from the Fund's largest employer due to introduction of a new payroll system had an impact on the reconciliation of data for the submission.

3.4 Extra resource (agency staff) was allocated to deal with the backlog of over 6,000 amendments (starters, leavers or changes to members personal records).

3.5 Dealing with this backlog caused inevitable delays with the submission of test data to the Actuary.

3.6 Senior Pension Officers and more experienced staff were allocated to the resolving of errors and warnings in order to achieve submission by the deadline.

3.7 Over July and August the data will be reviewed and any validation queries resolved with Hymans

3.8 Interim results are expected September/October 2019.

4.0 Financial Implications

4.1 There are no direct implications at this point in time.

5.0 Background Papers

None

	Name	**Contact Information**
Report Author	Neil Buxton	neilbuxton@warwickshire.gov.uk
Assistant Director (Interim)	Lisa Kitto	lisakitto@warwickshire.gov.uk
Strategic Director	Rob Powell	robpowell@warwickshire.gov.uk
Portfolio Holder	Councillor Peter Butlin	cllrbutlin@warwickshire.gov.uk

This report was not circulated to members prior to publication

Warwickshire Pension Fund: 2019 Valuation

The below table details the main tasks/considersations associated with each individual valuation workstream. The table details two possible approaches:
1. Compliance - the valuation tasks required to comply with the LGPS Regulations; and
2. Best Practice - the valuation tasks that, in our view, represent best practice for a LGPS fund to help achieve the best possible funding outcomes and service for employers.

The table has been prepared in mind to facilitate a discussion with the Fund's Officers and therefore does not attempt to include the full detail for each task. This can be covered in our discusssions.

Workstream	Compliance	Best practice
Planning	Agree timetable for delivery of key project milestones	Discuss and agree any pre-valuation work Valuation training for Committee, Officers, Employers, LPB Employer forums (early warning) e.g. academies briefing day Early warning reports Agree content to be presented at each Committee meeting ahead of valuation
Data	Submit data for valuation & respond to validation queries Submit new employer data as part of valuation data submission Fund review of employer database	Data cleanse ahead of valuation to resolve data queries Consult with Actuary to identify any significant data issues for the valuation Liaise with employers to discuss and highlight data issues Data reporting back to employers Submit all new employer data ahead of valuation
Valuation assumptions	Assumptions based on Hymans Robertson proposals	Investigate choice of assumptions and make evidence based decisions (based on Fund views) Agree assumptions ahead of calculations & present evidence to Committee
Whole fund calculations	Balance sheet and experience for whole fund Initial results document for discussion	
Employer results/ communications	Employer results spreadsheet	Employer assets up to date and auditable Individual results schedules Employer surgeries (discuss results) & test alternative contribution rates Employer forums (split between employer types)

Funding strategy	Risk based contribution rates for all employers
	- Single funding target
	- Generic time horizon
	- Single risk parameter
		Stabilisation for precepting employers
		- Review eligible employers - long term, secure, stable employers
		- Test stabilisation parameters for each employer
		Risk based rates for non-stabilised employers
		- Target either ongoing or gilts basis (depending on circumstances)
		- Review time horizon used in funding plan
		- Different levels of risk to reflect employer strength and risk profile
		    - Understand funding profile & employer covenant
		    - Evidence choice of risk levels
		Review investment strategy as part of funding strategy review
		- Ensure investment and funding strategies are optimised
		- Investigate whether alternative investment strategies would suit certain groups of employers
		- Consider implementation of dynamic investment strategies
		Review, investigate, monitor and mitigate potential sources of funding risk
		- Ill health retirement & Death in Service strains
		- Early retirement strain (review early retirement factors)
		- Salary increase strain
		- Significant changes in employer risk profile & strength
		- Cessation planning (gilts glide path)
		- Bond assessments up to date and reflect level of employer risk

Funding Strategy Statement	Sign off updated Funding Strategy Statement	Review, re-draft Funding Strategy Statement (if required)
Final valuation report	Prepare final valuation report and rates & adjustment certificate	

Warwickshire Pension Fund: 2019 valuation DRAFT timetable

Month commencing	Tasks - Hymans Robertson	Tasks - Warwickshire Pension Fund	Meetings
Jul-18			
Aug-18			Valuation planning meeting
Sep-18	Propose scope of comPASS modelling (contributions & investments)		
Oct-18	Data cleansing via Data Portal Discuss results of data cleanse with WCC	Agree scope of comPASS modelling	
Nov-18	comPASS modelling for precepting employers & test alternative investment strategies	Update data after data cleansing Liaison with employers to discuss issues with data	
Dec-18	Issue comPASS modelling results for precepting employers Develop approach to ill health risk management	Receive comPASS modelling results for precepting employers & investment strategies	
Jan-19	Prepare and issue employer covenant questionnaire	Agree ill health risk management approach	comPASS results meeting
Feb-19	Collate results of employer covenant survey	"Spring clean" of employer database Consider comPASS modelling conclusions and communicate any changes Consider if any investment strategy changes required	Pre-valuation meeting & Officer training Employer pre-valuation briefings/training WAFO briefing to communicate comPASS results
Mar-19	Carry out assumptions modelling	Discuss assumptions modelling results and confirm assumptions to use	
Apr-19		Submit all outstanding new employer work before the valuation	
May-19			
Jun-19		Submit triennial valuation data to Hymans via Data Portal	
Jul-19		Respond to data queries on 2019 valuation data	
Aug-19	Carry out whole fund calculations		
Sep-19	Issue whole fund valuation results Discuss whole fund valuation results Start employer level calculations	Receive whole fund valuation results Discuss whole fund valuation results	Initial results meeting
Oct-19	Carry out employer level calculations Discuss employer results Agree funding targets for employers Agree recovery periods		Employer results meeting
Nov-19	Refine employer results Prepare individual employer results schedules Draft FSS		AGM
Dec-19	Issue individual results schedules	Issue individual results schedules to employers Issue draft FSS for consultation to employers	
Jan-20		Consultation on employer contribution rates Consultation on FSS	Employer one-to-one meetings
Feb-20	Finalise employer results Update FSS post consultation	Close FSS consultation	Employer one-to-one meetings
Mar-20	Issue final valuation report and R&A certificate	Present final FSS to Committee for sign off	

Item 7

Local Pension Board of the Warwickshire Pension Fund

8 July 2019

Draft Annual Report and Accounts

Recommendation

That the Local Pension Board notes and comments on the draft annual report and accounts, using them to consider areas of interest and further work to promote the sound governance of the pension fund.

1.0 Introduction

1.1 This report introduces the draft pension fund annual report and accounts for year ended 31 March 2019, which are attached as an Appendix.

1.2 The accounts will be considered by the Audit and Standards Committee on the 24th July 2019 and will be reported to Council on the 25th July.

2.0 Annual Reports and Accounts

2.1 Example headlines from the year include:

- The first transfer of funds to the Border to Coast pool.
- The continuation of the long term year on year increase in the number of employers and members in the scheme.
- The fund value continuing to increase despite increased volatility in markets, being £2.166bn at the end of the year.
- Delivery of improvements in headline administration performance indicators.
- The continued build-up of investments within alternative asset classes.
- A small positive net cashflow before management expenses.

2.2 The draft includes a placeholder (page 65-66) for a new section in the report on pooling costs which will be completed for the final version. A verbal update will be provided to the Board at the meeting on progress in completing this section.

2.3 The report currently contains no commentary in respect of the McCloud judgement and the potential for impacting on the accounts as there is not yet enough clarity around expectations. The fund is in liaison with external auditors, actuaries, and other agencies in respect of this issue and will take a view on any commentary to add before the accounts are finalised.

3.0 Financial Implications

3.1 There are no financial implications in respect of the production of the report itself. The financial issues with regard to the pension fund are set out in the Annual Report and accounts directly.

Background papers

None.

	Name	**Contact Information**
Report Author	Chris Norton	chrisnorton@warwickshire.gov.uk 07767003428
Interim Assistant Director Finance	Lisa Kitto	01926 412441 lisakitto@warwickshire.gov.uk
Strategic Director for Resources	Rob Powell	01926 412564 robpowell@warwickshire.gov.uk
Portfolio Holder	Councillor Peter Butlin	cllrbutlin@warwickshire.gov.uk

The report was not circulated to the members prior to publication.

Warwickshire Pension Fund

Annual Report & Financial Statements

2018-2019

Aerial view of Warwick

WARWICKSHIRE pension fund

Warwickshire County Council

BORDER TO COAST PENSIONS PARTNERSHIP

Contents


New Place Gardens, Stratford Upon Avon

Chairman's Statement

2018/19 has been another very eventful year for the pension fund on a number of fronts, with the total net assets of the fund increasing by £133m.

All of the work that has been done to develop pooling arrangements has led to the first actual investment being made. For the Warwickshire Pension Fund this took the form of transferring the Fund's actively managed UK equity mandate into the pool. The new fund is intended to provide better risk profile, lower fees, and higher net returns in the long-term.

This is the first of many new pooling opportunities. Work was also progressed by the pool to develop an actively managed Global Equity fund and a range of alternatives such as private equity which are expected to go live in 2019/20.

2018/19 saw the retender of the contract for the fund actuary and this was awarded to Hymans Robertson who will continue as the actuary for the next two valuation cycles.

The 2019 valuation will be a significant piece of work during 2019/20, and as always it is critical that information from employers is provided to the fund is complete and accurate. This allows the actuaries to calculate an accurate forecast of the fund position, and can help minimise the contributions required by employers by avoiding the need for the actuaries to adjust financial modelling for the risks presented by lower quality data.

Financial markets have been volatile during the year and the political and economic environment has continued to be complicated and challenging, in particular driven by global trade uncertainty. However the fund is investing for the long-term, has a diversified portfolio, and is able to look through short-term market volatility.

To improve the accessibility of the information about the fund we have created a new look fund website as www.warwickshirepensionfund.org.uk Here you can find lots of useful sources of information.

Responsible investing and consideration of issues such as climate change has been a significant area of discussion for the Fund and will continue to be high on the agenda, but in doing this the Fund's primary responsibility is managing Members' money soundly and ensure that future pensions can be paid.

Lastly, but most importantly, I would like to thank the staff who have been working hard to provide a good service to the members of the scheme and to ensure that the investments of the fund are managed well to protect the long-term interests of the members of the fund.

Cllr Bob Stevens

Chairman of the Pension Fund
Investment Sub-Committee

Kenilworth Castle, Warwickshire

Introduction from Strategic Director for Resources

The fund continues to see an increasing trend in the number of members and the number of employers.

At the same time the complexity of the scheme has been increasing over time, for example through the move to a career average scheme. Standards and regulatory requirements are continually increasing, while customer expectations are changing, particularly driven by improvements in technology. Many members are now accustomed to online banking, and employers expect automated interfaces between information systems. A key challenge for the fund will be to be able to continue to respond to changing demands and expectations in order to maintain and improve the quality of service it offers members and employers.

Pooling has been the primary investment issue for the fund in the last year and as a partner of the pool we have continued to oversee its governance and development.

We continue to take an active role with partners and the Border to Coast Pension Partnership (BCPP) in developing and designing further funds that can fulfil the needs of the partner funds. We are also seeking the opportunity to generate benefits such as fee savings and improved risk profiles. Now that pooling is established the Government is looking at the next steps in pooling development. It has issued new proposals for the evolution of pooling, to which we and our partners will need to respond.

Although pooling has been an area of significant activity, the Fund still manages the majority of its money through directly commissioned funds. Our active managers have continued to exceed their benchmarks over the long-term but the last year has been more challenging.

The two key factors are the performance of fund managers and how assets are allocated between different funds with different risks and returns. Strong long-term performance in equity markets saw the fund become overweight in this asset class, and we undertook some activity to rebalance the portfolio during the year to ensure that the mix of funds and associated risk profile remained aligned with the target set out in our investment strategy.

Infrastructure and Private Equity funds are continuing to build up investments. A new asset class, private debt, has been approved for the Fund, and investments are now also building in this fund. These investments provide benefits to the Fund by for example spreading risk as they have a different risk profile to listed equity markets and traditional income generating funds.

The coming year will also be a very busy one. We are looking forward to further pool fund launches on the investment side, and making use of systems developments to support improved administration of the Fund.

Rob Powell
Strategic Director for Resources

River Leam, Jephson Gardens, Leamington Spa

1. Pensions Administration Performance Indicators

Indicator	Target	
Letter detailing transfer in quote	10 days	90.30%
Letter detailing transfer out quote	5 days	76.50%
Process refund and issue payment voucher	5 days	94.60%
Letter notifying estimate of retirement benefit	10 days	96.20%
Letter notifying actual retirement benefit	5 days	88.90%
Letter notifying amount of dependant benefits	5 days	98.20%
Calculate and notify deferred benefits	10 days	92.60%

2. Pensions Administration Full Time Equivalent Staff

Pensions Admin total		15.5
IT staff *	0.5	
Payroll staff *	1.0	
Communications staff *	1.5	
Employing authority work *	1.0	
Work for other schemes *	1.0	
Admin of LGPS		**10.5**

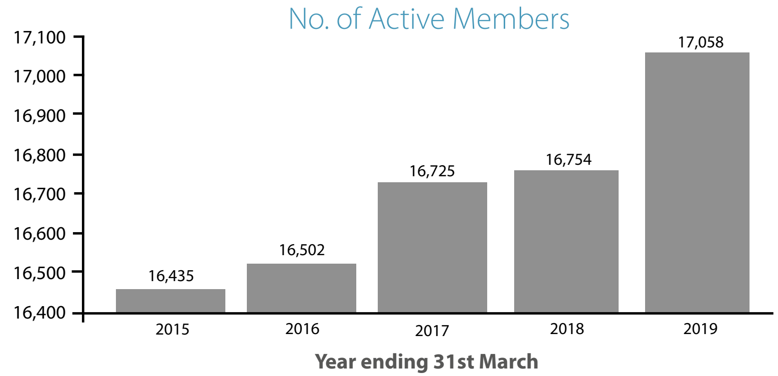
* FTE staff time spent

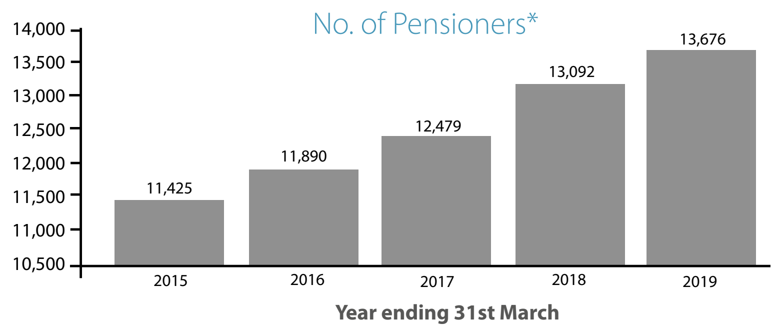
There is 1 member of administration staff for every 4623 LGPS scheme members

There are 2806 new starters and 7600 changes to details processed

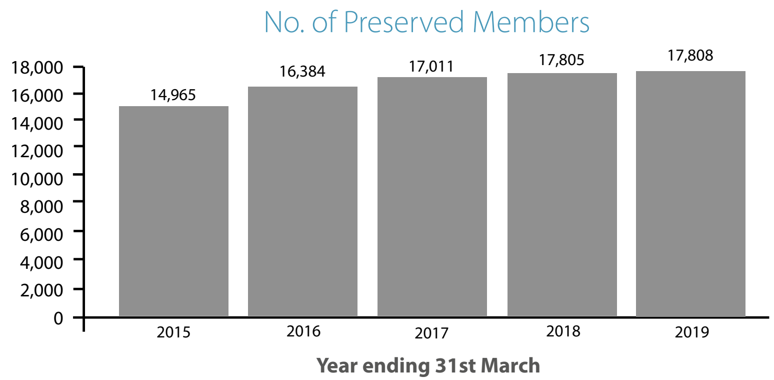
A total of 860 quotations to pension benefits

The total number of actual events (retirements, transfers, refunds, deaths) 5172

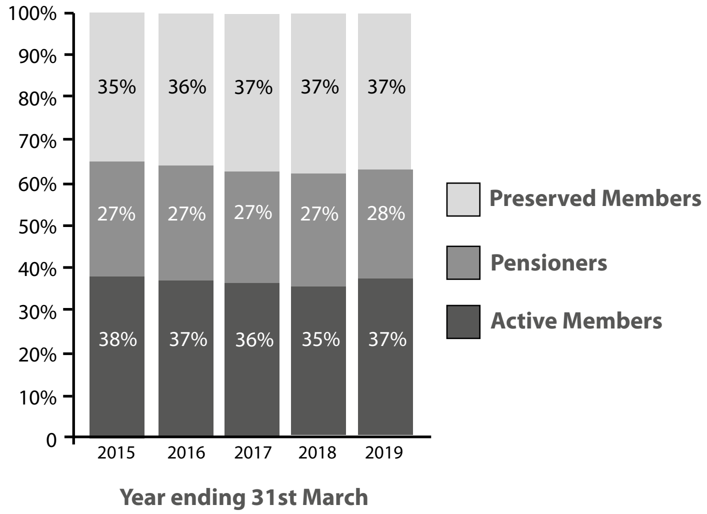




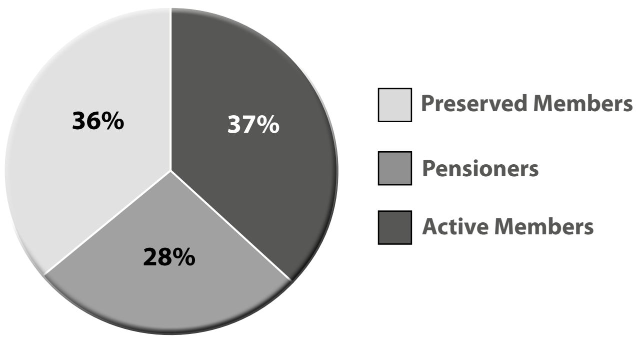
* These figures include dependants



Scheme Membership profile over the last 5 years



Membership profile as at 31 March 2019



Contributions Paid 2018/19

>£1m

Warwickshire County Council
Warwickshire Police and Crime Commission
Nuneaton & Bedworth Borough Council
Warwick District Council
Rugby Borough Council
Warwickshire College
Stratford-On-Avon District Council
North Warwickshire Borough Council
North Warwickshire & Hinckley College
Educaterers Ltd

<£500k

Unity Mat (Woodlands)
Unity MAT (Brooke)
Warwick Schools
Oak Wood Primary and Secondary Academy
North Leamington Academy
Ashlawn Academy
Stratford upon Avon School
Balfour Beatty (new)
Myton Academy
Stowe Valley MAT (Southam Col)
Griffin Trust (Nich Chamb)
Community Academies Trust Polesworth
Avon Valley School
Holy Family Catholic MAC - St. Benedict's High (Alcester)
Higham Lane Academy
Coleshill School Academy
South Warks AT Welcome Hills
Bilton High Academy
Coventry Diocese - Harris High
Campion School Academy
BFMAT (King Ed VI College Nun)
SLM (Warwick District)
Ash Green Academy
Coventry Diocese - St Michaels
Discovery Academy Nuneaton (Macintyre)
Midland Academies Trust (Hartshill)
Lawrence Sheriff School
Aylesford School Academy
Studley High Academy
Alcester Grammar Academy
Stratford On Avon Grammar Academy
Holy Spirit Academy Trust St Thomas More Catholic School
Henley High Academy
Midland Academies Trust (George Eliot)
Rugby High Academy
Castle Phoenix Trust (Kingsbury Academy)

< £100k

Community Academies Trust Admin Centre
Stratford upon Avon King Edward VI Academy
Griffin Trust (Park Lane)
Midland Academies Trust (Nuneaton)
Holy Spirit Academy Trust St Joseph's Catholic Junior School
ATT (Queen Elizabeth Academy)
Alcester High Academy
Central MAT (Admin Centre)
Cawston Grange Primary Academy
Matrix Academy Trust - Etone
Quest Academy (MacIntyre)
Shipston on Stour High School Academy
Stour Federation (Shipston Primary)
Reach2 Academy (Oakfield)
Coventry Diocese - St Nicolas
Dunchurch Infant School
Warwickshire Care Services Ltd
Community Academies Trust - Woodloes Primary
Polesworth Nethersole Academy
Heart of England MENCAP
Rugby Free Secondary School
Tanworth in Arden Academy
The Brandon Trust (North Warwicks)
Alcester St Nicholas Academy
Community Academies Trust Birchwood
Kenilworth Academy
Sports and Leisure Management, Nuneaton Leisure Services
Midland Acadamies Trust (Admin)
Reach2 (Newbold Riverside)

< £50k

Henry Hinde Academy (Infants)
BDAT (Coleshill Primary)
Coventry Diocese - St Oswalds
Barnardo's Rugby
Stratford-Upon-Avon Town Council
Coventry Diocese - Queens Middle School
Reach2 (RaceMeadow)
Futures Trust (Keresley Newland)
Holy Spirit Academy Trust St Anne's Catholic Primary School
The Brandon Trust (Rugby)
Community Academies Trust Budbrooke
Middlemarch Middle School
Heartwood AT Woodside
National Education Trust (Henry Hinde Junior School)
Community Academies Trust Stratford Primary
Heart of England Housing & Care Ltd
Coventry Diocese - St James

Stowe Valley MAT (Southam Primary)
Heartwood AT Warton Nethersole
People in Action
Holy Spirit Academy Trust St Benedicts Catholic Primary School
Griffin Trust (Race Leys)
Stratford-Upon-Avon Town Trust Co. Ltd
Community Academies Trust Dordon
Holy Family Catholic MAC - St. Gregory's Primary (Stratford)
Holy Spirit Academy Trust St Francis Catholic Primary School
Coventry Diocese - Studley St Marys
Stowe Valley MAT (Bishops Itchington)
Cov Diocese (All Saints Leek Wooton) MAT
Coleshill Town Council
Rugby Town Centre Company Ltd
Stratford & District MENCAP
Chartwells (Compass Group) re catering for Coventry Diocese
Henley Primary Academy
Barnardo's Nuneaton
Cov Diocese (Burton Green) MAT
Mappleborough Green School
Rugby Free Primary School
Stowe Valley MAT (Stockton Primary)
Community Academies Trust Wood End
South Warks AT Arden Fields
Royal Leamington Spa Town Council
Holy Family Catholic MAC - St. Mary's Primary (Henley)
Heartwood AT Newton Regis
Community Academy Trust Heathcote
Stour Federation (Acorns)
Vinshire Plumbing and Heating Ltd
Alliance in Partnership (Myton)
Arden Forest MAT (Coughton)
Moreton Morrell Church of England School
Cov Diocese (Southam St James)
Stowe Valley MAT (Rokeby)
Coventry Diocese - Leamington Hastings C of E Academy
Holy Family Catholic MAC - Our Lady's Primary (Alcester)
Cov Diocese (Long Itchington)
Barnardo's North Warwickshire
Wolverton Junior & Infant School
Dunnington C of E Junior & Infant School
Arden Forest MAT (Temple Grafton)
The Priors Free School Academy
Heartwood AT Austrey
Coventry Diocese - Salford Priors
Churchill Cleaning Services (Lawrence Sheriff)
Curdworth Primary (ATLP)
Atherstone Town Council

< £10k

Southam Town Council
Shipston Town Council
Studley Parish Council
St Gabriels C of E Academy
Long Lawford Parish Coucil
Tudor Grange Academy Trust (Haselor)
Alcester Town Council
Bidford-On-Avon Parish Council
Warwick Association for the Blind
Whitnash Town Council
Wellesbourne Parish Council
Churchill Cleaning Services (Shipston)
Alliance in Partnership St Edwards RC
Taylor Shaw (St Paul's)
Stowe Valley MAT (Temple Herdewyke)
Warwickshire Day Care Centres
Westfield Community Development Association
Long Itchington Parish Council
Bishops Itchington Parish Council
ABM Catering North Leam School
North Warwickshire Citizens Advice Bureau
Wolston Parish Council
Tanworth in Arden Parish Council
The Parenting Project
Kingsbury Parish Council
Barnardo's Warwick
Superclean (RBC Benn Hall)
Harbury Parish Council
Class Catering (St Mary Immaculate)
Barnardo's Kenilworth
Alliance in Partnership Henley Primary Academy
Mancetter Parish Council
Napton Parish Council
Ryton on Dunsmore Parish Council
Tenon FM
Curdworth Parish Council
Ettington Parish Council
Class Catering (Thomas Jolyffe)
Burton Dassett Parish Council
Burton Green Parish Coucil
Alliance in Partnership Oakfield Academy
Lawrence Cleaning
Superclean Services
Class Catering (The Willows)
Fenny Compton Parish Council
Avon Dassett Parish Council
The Rowan Organisation
Class Catering (SoA Primary Sch)
Class Catering (Bishops Itchington)
Baileys (Bishops Itchington)

Contributions Paid 2018/19

>£1m
Warwickshire County Council
Warwickshire Police and Crime Commission

<£1m
Warwick District Council
Nuneaton & Bedworth Borough Council
Rugby Borough Council
Warwickshire College
Stratford-On-Avon District Council

<£500k
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Community Academies Trust Birchwood
Heart of England MENCAP
Reach2 Academy (Oakfield)
Warwickshire Care Services Ltd
The Brandon Trust (North Warwicks)
Kenilworth Academy
Stratford-Upon-Avon Town Council
Reach2 (Newbold Riverside)
NSL
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Coventry Diocese - Queens Middle School
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Whitnash Town Council
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Burton Dassett Parish Council
Lawrence Cleaning
Burton Green Parish Coucil
Class Catering (The Willows)
Alliance in Partnership Oakfield Academy
Superclean Services
Avon Dassett Parish Council
Kingsbury Parish Council
Fenny Compton Parish Council
Class Catering (SoA Primary Sch)
Class Catering (Bishops Itchington)
Baileys (Bishops Itchington)

Receipt of contributions

2018/2019	
on or before 19th of each month	91%
After	9%
Total	**100%**

Pension Fund Investment Sub-Committee

The Role of the Sub-Committee

The Sub-Committee oversees the general framework within which the Fund is managed and sets the investment policy. The Sub-Committee also monitors the work of the fund managers and the investment performance for which they are responsible.

Membership of the Pension Fund Investment Sub-Committee

Councillor Bob Stevens
(Conservative)
Chairman

Councillor Bill Gifford
(Liberal Democrat)
Vice Chairman

Councillor John Horner
(Conservative)

Councillor Wallace Redford
(Conservative)

Councillor Alan Webb
(Labour)

Staff, Advisors and Investment Managers

The management and administration of the Pension Fund is delegated to the Chief Finance Officer.

The Treasury and Pensions Group within the Resources Group has responsibility for day-to-day management.

Management and Administration

Lisa Kitto FCCA, Interim Assistant Director - Finance (Jan 19)

John Betts CPFA, Head of Finance (Feb 19)

Rob Powell CPFA, Strategic Director for Resources

Chris Norton CPFA, Strategic Finance Manager

Neil Buxton MIPP, Pensions Services Manager

Sukhdev Singh Principal Accountant

Treasury Team: Jen Turner, Aneeta Dhoot, Shawn Gladwin

Membership Team: Ian Morris, Chris Holmes, Nina Parek, Maria Criado-Martin, Anne Tyler, Susan Currall

Benefits Team: Lisa Eglesfield, Linda Radley, Carly Cleary, Jane Murray, Emma McGeoch

Firefighters Pension Scheme: Anthony Hall

Customer Liaison External Support: Sue Lloyd, Poonam Thompson, Sheila Coughlan, Dawn Clutton, Kelly Harrow, Kurdzai Chengeta, Julie Addis

Global Custodian

Bank of New York Mellon (BNY)

Investment Advisors

Independent Advisors: Peter Jones, Karen Shackleton

Actuary: Richard Warden, Hymans Robertson

External Consultants: Paul Potter, Hymans Robertson

Investment Managers

UK Equities: Columbia Threadneedle Investments

Global Equities: MFS Investment Management

Passive Index Tracker: Legal and General Investment Management

BCPP: UK Equities

UK Property: Schroder Investment Management and Columbia Threadneedle Investments

Private Debt: Partners Group Alcentra

Fund of Private Equity Funds: HarbourVest Partners

Absolute Return: JP Morgan Asset Management

Infrastructure: Standard Life Capital Partners and Partners Groups

The Local Government Pension Scheme

The Warwickshire Pension Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS is governed by statute, primarily the Superannuation Act 1972 and the Local Government Pension Scheme Regulations 2013 (as amended). The statutory responsibility for the LGPS falls under the remit of the Minister of State for the Department for Communities and Local Government.

The Warwickshire Pension Fund is administered by the Chief Finance Officer on behalf of Warwickshire County Council (the scheme manager), five district councils and other scheduled and admitted public service organisations and their contractors. The administration of the fund is carried out through Warwickshire County Council's Staff and Pensions Committee, the Pension Fund Sub-Committee and the Local Pension Board. The committees are comprised of elected County Council members whilst the Board is an equal mix of representatives of employers and scheme members with an independent chair.

At March 2019, the total membership of the fund stood at 48,542 (including 1670 dependants) and the total value of net assets amounted to £2.2 billion. Of the total membership,17,058 are active members currently contributing to the fund, 17,808 members with a preserved benefit and 13,676 retired or dependant members are in receipt of a pension.

All local government employees (except temporary and casual employees) are automatically entered into the scheme and must opt out if they do not wish to remain a member. Temporary and casual employees must make an election to join the scheme. Temporary employees on a contract of less than three months duration are not eligible for membership.

Benefits of the Pension Fund

Members of the LGPS belong to a scheme which provides high quality pension benefits based on career average related pension. The scheme is a defined benefit scheme and members' benefits are

Charlecote House Gardens, Warwickshire

determined strictly in accordance with the provisions of the Regulations and are not subject to changes affecting the fund assets. For members contributing to the scheme before 1 April 2014, protections are in place for benefits to be based on accrued scheme membership and full-time equivalent pensionable pay at retirement.

The Scheme was contracted out of the State Second Pension. This means that the pension paid by the LGPS has passed the minimum standards set by the Government and for pre-1997 membership is at least equal to the Guaranteed Minimum Pension (GMP) otherwise provided by the State Earnings Related Pension Scheme (SERPS). Contracting out came to an end on 31 March 2016.

Below is a brief summary of the benefits of the LGPS. It is not intended to provide details of all benefits provided or the specific conditions that must be met before these benefits can be awarded.

Enquiries and further information can be obtained from the Treasury and Pensions Group.

www.warwickshirepensionfund.org.uk

pensions@warwickshire.gov.uk

The core benefits of the scheme are:

- A guaranteed annual pension based on the pay received during the year and revalued in line with earnings.
- The tax free lump sum is available by commuting part of the pension.
- Life assurance of three times the members' yearly pay from the day they join the scheme.
- Pensions for spouses, civil registered partners, qualifying cohabiting partners and eligible children on the death of the member.
- An entitlement paid early if a member has to stop work permanently due to permanent ill health.
- Inflation proofed preserved pensions and pensions in payment.
- Pensions payable from age 55, including (with the employers consent) flexible retirement and early retirement.
- The option to contribute a reduced contribution for a reduced benefit - the 50/50 option.

NB scheme members must have a minimum of two years' membership to qualify for a pension.

Cost of membership

Employees pay on average approximately 6% of pensionable pay received and receive tax relief on their contributions.

Employers also pay a contribution towards the pension costs. This amount is decided every three years following an independent actuarial evaluation by the Fund's Actuary. The average employer rate at the 2016 valuation was 20%.

The next triennial valuation will be calculated as at 31 March 2019 and will set the contribution rates for the three years from 2020/21.

Investment Report for year ending 31 March 2019

Equity returns were generally positive over the 12-month period to 31 March, with sentiment buoyed by the continued global economic expansion, muted inflationary pressures and strong corporate earnings growth. However, the period was punctuated by a sharp decline in equity markets in the fourth quarter of 2018, amid heightened concerns over geopolitical risks such as the US-China trade dispute, and the lack of progress on Brexit negotiations. There were also worries over slower growth as economies approach the end of the current economic cycle.

Against this backdrop, the UK's FTSE All-Share index rose 6.4% during the review period, with a weaker pound benefiting overseas earners in particular. Brexit dominated the headlines throughout the year. The prime minister and the EU reached agreement on a withdrawal deal in November, but the accord was rejected in three parliamentary votes. As of the end of March, the EU had extended the scheduled exit date to 31 October 2019. The Bank of England raised interest rates by 25 basis points in August, against a backdrop of steady economic growth.

The S&P 500 index gained 9.5% during the review period, supported by continued strength in the US economy. As the year unfolded, the Federal Reserve continued its programme of rate hikes, with three rises of 25 basis points each in June, September and December, even as global equities fell during the final quarter of 2018. However, the Federal Reserve indicated at its March policy meeting that rates were unlikely to rise in 2019, and confirmed the halting of its balance-sheet reduction after September. US-China trade tensions were a theme throughout the period, but the decision by the US to postpone imminent rises in import tariffs on Chinese-made products helped stocks to rally in February.

European equities recorded a 5% return over the period, as measured by the MSCI Europe index. While the region's

Compton Verney, Warwickshire

economy slowed noticeably following a relatively strong run in the second half of 2017, corporate earnings were generally robust. Political tensions remained a theme, characterised by the continued loss of support for mainstream parties and stronger backing for populist views. In Germany, Chancellor Angela Merkel said she will step down when her term ends in 2021, while a populist and openly euro-sceptic government was elected in Italy. The European Central Bank ended its stimulus programme of bond purchases in December, but subsequently stated in March that interest rates are likely to remain unchanged into 2020, and that it would restart stimulus measures in order to support bank lending.

Asian equities turned in a subdued performance, with the MSCI Asia Pacific ex Japan index adding 0.4% and underperforming developed markets. Stocks were held back in 2018 by data indicating a slowing Chinese economy and by ongoing US-China tensions over trade relations. Asian markets performed particularly poorly in the fourth quarter of 2018 as the US threatened to increase import levies on $200 billion of Chinese products, but they rallied in the new year as the rise in tariffs was postponed. China's government lowered its goal for economic growth in 2019, setting a target range of 6% to 6.5%. The authorities have moved to address growth concerns, shifting the focus from deleveraging to stimulus, with measures such as repeated cuts in banks' reserve requirements.

The return from Japanese stocks was negative during the review period, with the Topix index falling by 4.4%. Concerns that Japanese exporters might be caught up in escalating US protectionist measures, particularly against Chinese product component suppliers, weighed on the market. Bouts of yen strength were also a headwind, as rising geopolitical risks fuelled demand for 'safe haven' assets. Economic growth was hurt by a series of natural disasters during the third quarter of 2018, including record rainfall, extreme heat and an earthquake. However, figures for the fourth quarter exceeded expectations, supported by strong corporate capital spending.

Emerging market equities also posted a negative return, slipping 1.4% over the period as a whole. The asset class experienced difficult conditions during 2018, before rallying strongly in the first quarter of 2019. The strengthening of the US dollar in 2018, linked to Federal Reserve rate rises, was a headwind for stocks, as this increases the cost of repaying dollar-denominated debt for emerging market corporates and governments. Emerging markets were also hampered by continued US-China tensions over trade. However, the Federal Reserve's new stance on rate increases, optimism concerning a resolution to the trade dispute and fiscal easing in China supported gains in the first quarter of 2019.

Over the review period, yields on core sovereign debt generally fell as unsettling factors, including geopolitical tensions, rising populism in Europe and evidence of a slowing Chinese economy, drove investors to seek the security of government bonds. The prospect of tighter monetary conditions was also disadvantageous, as the Federal Reserve continued to raise rates, but core bonds rallied in 2019 on indications that 'lower for longer' interest rates were set to persist. Within the euro area, debt issued by periphery nations lagged bonds from core markets. Emerging market bonds recorded a positive return of 2.6%, but were among the weaker performers in relative terms.

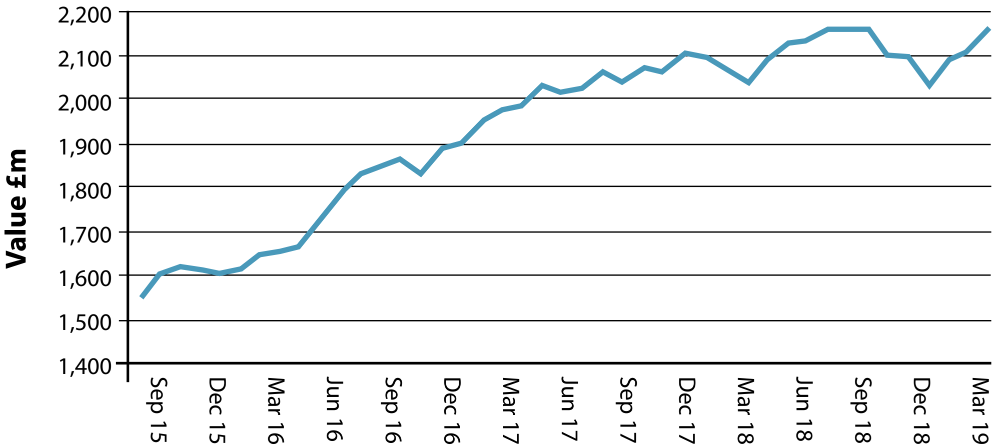
Within emerging markets, countries with high current-account deficits, such as Argentina and Turkey, were hit particularly hard by fears of less 'easy money' during 2018. Country-specific issues compounded the negative sentiment and contributed to steep falls in both countries' currencies in August. In Turkey, the government largely continued to eschew orthodox economic policies, and in Argentina, investors remained wary about poor growth, hyperinflation and the country's monetary policy framework. Elsewhere in Latin America, the victory of Brazilian presidential candidate Jair Bolsonaro in October's election triggered a rally in bond markets, due to his business-friendly views. In Mexico, President Andres Manuel Lopez Obrador unsettled markets by scrapping plans to build a new airport in Mexico City, and investors fretted that other policy decisions could be based on popular opinion. More positively, the government unveiled a fiscally prudent budget for 2019.

Investment Return Compared to the Local Authority Universe 2019/20

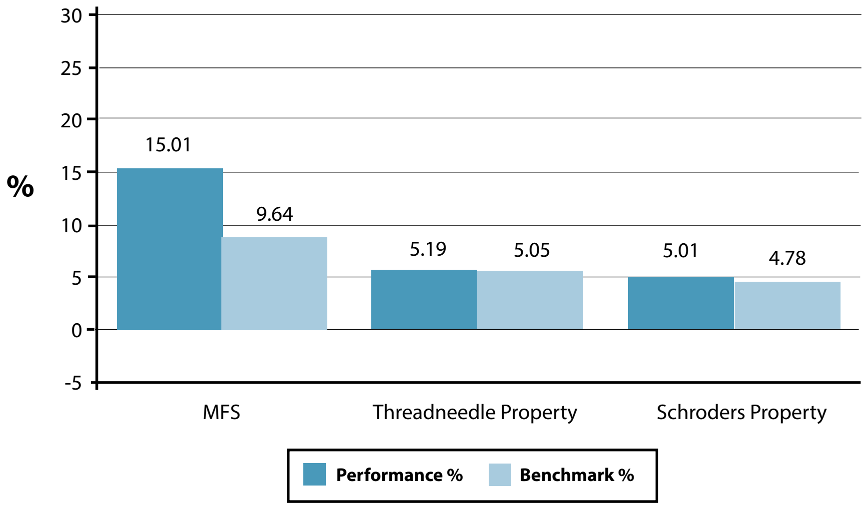
	1 Year Return	3 Year Return
Warwickshire's Benchmark	6.71%	9.48%

Top Ten Holdings at 31 March 2019		£ millions
1	Thermo Fisher Scientific INCS	12.6
2	Visa INC	12.2
3	Comcast CORP	11.4
4	Nestle SA	10.8
5	Medtronic PLC	10.5
6	Accenture PLC	10.3
7	Honeywell International INC	9.5
8	LVMH Moet Hennessy Louis Vuitt	9.5
9	Essity AB	9.1
10	Diago PLC	8.8

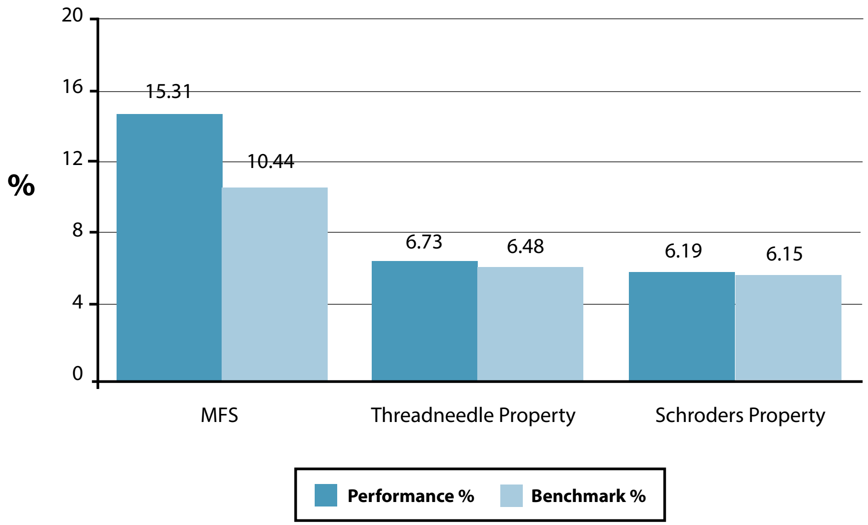
Total Fund Value Since 30 September 2015



Fund Manager Performance for the Year Ending 31 Dec 2019



Fund Manager Performance for 3 Years Ending 31 Dec 2019



Investment Strategy Statement (March 2019)

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 2019, 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.

Chesterton Windmill, Warwickshire

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 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 was defined at that time 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.

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).

It is anticipated that a further review of the investment strategy will be carried out during 2019 in conjunction with the forthcoming actuarial valuation.

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	17.0	+/-2.5
Overseas equities	27.5	+/-2.5
Fundamental global equity	10.0	+/-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 bonds10.0	10.0	+/-2.5
UK index linked bonds	5.0	+/-0.5
Absolute return bonds	7.5	n/a
Total Bonds	**22.5**	
Total	**100.0**	

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
BCPP	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	Fund of Funds
Standard Life	Infrastructure	Direct Fund
Partners Group	Infrastructure	Direct Fund

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 to achieve its objectives.

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.

BCPP launched their first sub-funds in 2018 and there is a timetable in place covering the proposed fund launches over the next 2-3 years. The Fund has invested assets in the UK Equity Alpha fund and has also committed to investing in the Global Equity Alpha fund and private equity vehicle, both of which are expected to launch in the next few months.

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, private debt 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.

The assets above which are 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.

A Financial Conduct Authority (FCA) regulated company has been established to manage the assets of BCPP Funds. The Board of Directors for the new company has been appointed and a senior management team put in place. The Council will hold all voting and non-voting shares. 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.

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, including climate change, are financially material to the Fund's investments at all stages of decision-making as they have the potential to significantly affect 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

As BCPP becomes the manager for an increasing proportion of the Fund's investments, they will take on responsibility for engagement with and monitoring of their underlying managers and their investments.

BCPP have developed their own Responsible Investment policy and appointed their own Head of Responsible Investing and Voting.

Principle 1	
Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.	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. 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. 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. 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.
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.	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. 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.
Principle 3	
Institutional investors should monitor their investee companies.	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. 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.

Principle 4	
Institutional investors should establish clear guidelines on where and how they will escalate their stewardship activities.	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. 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.

Principle 5	
Institutional investors should be willing to act collectively with other investors where appropriate.	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. The funds contact for any such issues is: **Treasury and Pension Fund Manager** Treasury and Pensions Resources Directorate Tel: 01926 412227 Email: wpfinvestments@warwickshire.gov.uk

Principle 6	
Institutional investors should have a clear policy on voting and disclosure of voting activity.	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. All voting decisions are made by Fund officers using a variety of inputs including, but not limited to, specialist proxy research. 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. 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. Fund voting records can be found at: http://www.warwickshirepensionfund.org.uk 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. 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.

Principle 7	
Institutional investors should report periodically on their stewardship and voting activities.	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. 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. 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.

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.

This Statement has been prepared by Warwickshire County Council (the Administering Authority) to set out the funding strategy for the Warwickshire County Council Pension Fund ("the Fund"), in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the guidance papers issued in March 2004 and November 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

1. Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Warwickshire Pension Fund ("the Fund"), which is administered by Warwickshire County Council, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 31 March 2017

The FSS is reviewed in detail at least every three years as part of the triennial valuation process. The next full review is due to be completed as part of the valuation process at 31 March 2019. A revised statement will also be issued in the event of significant or material change arising.

If you have any queries please contact Neil Buxton in the first instance at neilbuxton@warwickshire.gov.uk.

1.2 What is the Warwickshire Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The

Hall's Croft gardens, Stratford Upon Avon

Administering Authority runs the Fund, in effect the LGPS for the Warwickshire area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues.

The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles / Investment Strategy Statement (see Section 4)

1.4 How does the Fund and this FSS affect me?

This depends on who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;

- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. some more details about the actuarial calculations required,

E. the assumptions which the Fund actuary currently makes about the future,

F. a glossary explaining the technical terms occasionally used here.

2. Basic Funding issues

(More detailed and extensive descriptions are given in Appendix D).

2.1 How does the actuary measure the required contribution rate?

In essence this is a three-step process:

1. Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;

2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;

3. Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "Primary rate", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary rate". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

2.4 How does the measured contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;
2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

Costs of ill-health early retirements are covered in 3.7 and 3.8.

2.5 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;

- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and

- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;

- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;

- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;

- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;

- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;

- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Fund will make a risk based judgement of the employer. This judgement will have regard to the type of employer, its membership profile and funding position, any guarantors or other security provision, material changes anticipated, etc. This helps the Fund to establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

3. Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	Local Authorities and Police	Colleges and other FE establishments	Academies	Open to new entrants	Closed to new entrants	(all)
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts basis" -see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	(see Appendix D – D.2)					
Stabilised contribution rate?	Yes - see Note (b)	No	No	No	No	No
Maximum time horizon – Note (c)	19 years	19 years	19 years	19 years	Future Working Lifetime, subject to 19 years maximum	Outstanding contract term
Secondary rate – Note (d))	Monetary					
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at Primary rate. Reductions may be permitted by the Admin. Authority				Reduce contributions by spreading the surplus over the remaining contract term
Probability of achieving target – Note (e)	66%	75%	66%	75%	75%	66%
Phasing of contribution changes	Covered by stabilisation arrangemen	None	3 years	3 years	None	None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations.					Particularly reviewed in last 3 years of contract
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to occur, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring), or changes in the security of the employer.

On the basis of extensive modelling carried out for the 2016 valuation exercise (see Section 4), the stabilised details are as follows:

Type of employer	"Standard" Council	"Mature" Council
Max cont increase	+0.75% of pay per annum	+2.0% of pay per annum
Max cont decrease	-0.75% of pay per annum	-1.0% of pay per annum

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

The Administering Authority may review an employer's eligibility for stabilisation at any time in the event of significant changes in the employer's membership (due for example to redundancies or outsourcing) or if there is a significant change in the Administering Authority's assessment of an employer's security.

Stabilisation rules and eligibility may be reviewed at any time in the event of changes to scheme benefits. Changes in scheme benefits may arise because of changes in regulations or other events that have a material impact (such as the change in 2011 from RPI to CPI for increases to pensions in payment).

The stabilisation mechanism limits increases and reductions in contribution rates for public sector bodies. Therefore any emerging surplus will not reduce their contributions outside the pre-determined range.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

Note (d) (Secondary rate)

The Secondary contribution for each employer covering the three year period until the next valuation will be collected as a monetary amount.

Note (e) (Probability of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

The Administering Authority may review an employer's probability at any time in the event of significant changes in the Administering Authority's assessment of an employer's security.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy conversions)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;

ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

iv. The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion;

v. As an alternative to (iv), the academy will have the option to elect to pay contributions over the period to 31 March 2020 in line with the contribution rates detailed in the table below:

Year	Contribution rate (% of pay)
2017/18	22.2%
2018/19	22.9%
2019/20	23.7%

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (iii), (iv) and (v) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also Note (i) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and does not pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

(a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

(b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in Appendix E;

(c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy.

With the advice of the Actuary the Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool. Transferee Admission Bodies are usually also ineligible for pooling.

Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Employers who are permitted to enter (or remain in) a pool at the 2016 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (NB the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014).

Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

With the agreement of the Administering Authority the payment can be spread as follows:

Major Employing bodies	- up to 5 years
Community Admission Bodies and Designating Employers	- payable immediately
Academies	- payable immediately
Transferee Admission Bodies	- payable immediately

3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see 3.8 below).

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund may monitor each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer may be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

3.8 External Ill health insurances

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.

In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.10 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4. Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (being replaced by an Investment Strategy Statement under new LGPS Regulations), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see Appendix E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;

Affordability - how much can employers afford;

Stewardship - the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and

Stability - employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, from time to time.

5. Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to the Department of Communities & Local Government (DCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional DCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, DCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Appendix A

Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

"to establish a ***clear and transparent fund-specific strategy*** *which will identify how employers' pension liabilities are best met going forward;*

to support the regulatory framework to maintain as ***nearly constant employer contribution rates as possible****; and*

to take a ***prudent longer-term view*** *of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers in December 2016 for comment;

b) Comments were requested in time for the March 2017 meeting of the Pension Fund Investment Sub-Committee;

c) Following the end of the consultation period the FSS was updated where required and then published.

A3 How is the FSS published?

The FSS is made available through the following routes:

Published on the website, at www.warwickshirepensionfund.org.uk;

A draft copy sent by e-mail to each participating employer in the Fund;

A copy sent to the Local Pension Board;

A full copy included in the annual report and accounts of the Fund;

Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles/Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at **www.warwickshirepensionfund.org.uk**

Appendix B

Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles/Investment Strategy Statement (SIP/ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
11. prepare and maintain a FSS and a SIP/ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

B2 The Individual Employer should:-

1. deduct contributions from employees' pay correctly;
2. pay all contributions, including their own as determined by the actuary, promptly by the due date;
3. have a policy and exercise discretions within the regulatory framework;
4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
5. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

1. investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS;
2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP/ISS;
3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
6. the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C

Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies.	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund.	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, express contributions as monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3).

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms were built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.
Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions are expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way.	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.

Risk	Summary of Control Mechanisms
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix D

The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D:

1. The funding target is based on a set of assumptions about the future, eg investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation of participation;
2. The time horizon required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;
3. The required probability of achieving the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' future service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,
2. within the determined time horizon (see note 3.3 Note (c) for further details),
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

For the funding target, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
2. within the determined time horizon (see 3.3 Note (c) for further details)
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

1. the actual timing of employer contributions within any financial year;

2. the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix E

Actuarial assumptions contributions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities"). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the "basis". A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

E2 What basis is used by the Fund?

The Fund's standard funding basis is described as the "ongoing basis", which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate
The key financial assumption is the anticipated return on the Fund's investments. This "discount rate" assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds ("gilts"). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2013 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth
Pay for public sector employees is currently subject to restriction by the UK Government until 2020. Although this "pay freeze" does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by

2. 0.5% above the retail prices index (RPI) per annum p.a. thereafter.

This is a change from the previous valuation, which assumed a flat assumption of RPI plus 1.0% per annum. The change has led to a reduction in the funding target (all other things being equal).

c) Pension increases
Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of

such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the "formula effect" of the difference between RPI and CPI. At this valuation, a reduction of 1.0% per annum has been applied. This is a larger reduction than at 2013, which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements to that made in 2013.

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

e) General

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F

Glossary

Actuarial assumptions/basis

The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the **funding target**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.

Administering Authority

The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".

Admission Bodies

Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).

Covenant

The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.

Designating Employer

Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.

Discount rate

The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **funding target** which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the **Primary and Secondary rates**.

Employer

An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.

Funding target

The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.

Gilt

A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.

Guarantee / guarantor

A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.

Letting employer

An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.

LGPS

The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.

Maturity

A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

Members

The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Primary contribution rate

The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.

Profile

The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.

Rates and Adjustments Certificate

A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.

Scheduled Bodies

Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Secondary contribution rate

The difference between the employer's actual and **Primary contribution rates**. In broad terms, this relates to the shortfall of its asset share to its **funding target**. See Appendix D for further details.

Stabilisation

Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.

Valuation

An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2017. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their

Hatton Locks, Warwick

portion of the Fund to full funding over 19 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a sufficiently high chance that the Fund will return to full funding over 19 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £2,023 million, were sufficient to meet 82% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £358 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2016 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2016 valuation were as follows:

Financial assumptions	31 March 2016
Discount rate	3.8%
Salary increase assumption	2.8%
Benefit increase assumption	2.1%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.5 years	24.7 years
Future Pensioners*	24.3 years	26.7 years

* Aged 45 at the 2016 Valuation.

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities and there have been strong asset returns, particularly during 2016/17. Both events are of broadly similar magnitude with regards to the impact on the funding position.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

Robert Bilton

Robert Bilton FFA
Fund Actuary
For and on behalf of Hymans Robertson LLP

20 Waterloo Street
Glasgow
G2 6DB

2 May 2019

Risk Management

Risks that are established as an issue for the Warwickshire Pension Fund are identified and evaluated via a risk evaluation model. The risks are prioritised with controls implemented to mitigate the risks and recorded in a risk register, which is regularly monitored.

The risks involved in achieving the objectives of the fund are identified and quantified in terms of the likelihood of them occurring and the impact if they did occur.

Risks are updated to have regard to the changing environment and new developments. New areas of risk include risks related to pooling, cybercrime, brexit, and ensuring adequate resources to administrate the fund effectively.

The most recent evaluation was completed in March 2019, copies of the Sub-Committee meeting agenda and minutes are available at:
www.warwickshirepensionfund.org.uk

Appendix 1

Governance Compliance Statement

The Governance Compliance Statement requires LGPS funds to demonstrate their compliance (or non compliance) with best practice principles. These are contained in statutory guidance which is not mandatory but there is an obligation to comply unless there is a good reason not to do so. This approach is termed as "comply or explain". The move to a compliance based approach reinforces the need for pension funds to have well defined and transparent governance structures.

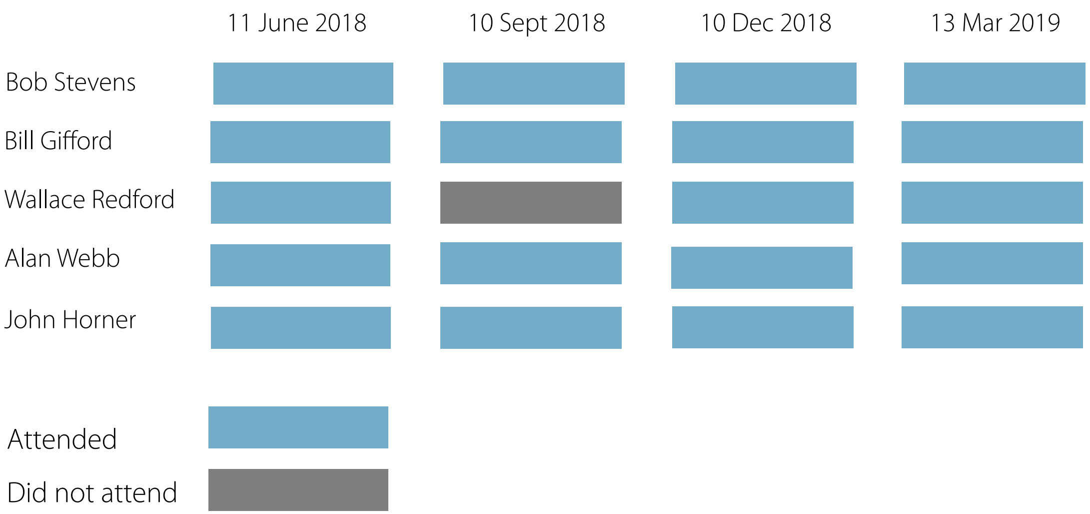
Principle	Warwickshire's Approach	Compliance
Structure		
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Warwickshire County Council delegates the management of the Warwickshire Pension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

Principle	Warwickshire's Approach	Compliance
Representation		
That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: • employing authorities (including non-scheme employers, e.g., admitted bodies);	There are three employer positions on the Local Pension Board representing the administering authority, major precepting employers and a member representing remaining admitted and scheduled bodies.	Comply
• scheme members (including deferred and pensioner scheme members);	There are three member representative positions on the Local Pensions Board.	Comply
• independent professional observers; and	The PFISC employs an independent financial consultant who is present at all PFISC meetings.	Comply
• expert advisors (on an ad hoc basis).	Expert advisors attend the Local Pension Board as required depending on the nature of the decisions to be taken. For example, the actuary attends when the valuation is being considered and the investment consultant attends when strategic asset allocation decisions are being discussed.	Comply
That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	All members are treated equally in terms of access to papers and to training that is given as part of the Board processes. The Local Pension Board members are duty bound to have the skills to sit on the board and are given training and support.	Explain
Selection and role of lay members		
That Board or Panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	PFISC and Local Pension Board members are given initial and ongoing training to support them in their role.	Comply
Voting		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Warwickshire is fully compliant with this principle. Most decisions are reached by consensus, but voting rights remain with councillors because the Council retains legal responsibility as the administering authority. The Local Pension Board has its own voting system and must be independent from the PFISC.	Comply

Principle	Warwickshire's Approach	Compliance
Training/Facility time/Expenses		
That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	This falls within the County Council's normal approach to member expenses. The Chair of the Local Pension Board receives an allowance and expenses but the remainder of the Board can be re-imbersed.	Comply
That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	The policy applies equally to all elected members of the PFISC.	Comply
Meetings (Frequency/Quorum)		
That an administering authority's main committee or committees meet at least quarterly.	Warwickshire is fully compliant with this principle by holding quarterly and special appointment meetings.	Comply
That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	The Local Pension Board meets at least twice yearly.	Comply
That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	The Pension Fund holds an annual meeting in November each year to which all key stakeholders are invited.	Comply
Access		
That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee	Certain papers involving confidential information are held to be exempt from the usual distribution process.	Explain

Principle	Warwickshire's Approach	Compliance
Scope		
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Warwickshire is fully compliant with this principle by bringing investment issues to the PFISC and benefit issues to both the Local Pension Board and Staff and Pensions Committee. A business plan is approved each year.	Comply
Publicity		
That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Warwickshire is fully compliant with this principle by publishing statements in the Annual Report and on its website.	Comply

Member Attendance at Pension Fund Investment Sub-committee Meetings in 2018/19



Pooling section - to be added before final version

Accounts for the year ending 31 March 2019

Statement of responsibilities for the statement of accounts

This section explains our responsibilities, in line with the Accounts and Audit Regulations 2015, for our financial affairs and how we ensure we carry out these responsibilities properly.

Responsibilities of the Pension Fund

We must do the following:

- Make sure that one of our officers is responsible for managing our financial affairs. In the Pension Fund, Warwickshire County Council's Strategic Director of Resources is responsible for doing this.
- Manage our affairs to use our resources efficiently and effectively and to protect our assets.
- Comply with IFRS financial reporting framework
- Approve the statement of accounts.

Responsibilities of the Head of Finance

As the Strategic Director of Resources, I am responsible for preparing our statement of accounts. These accounts must present a true and fair view of our financial position, including our income and spending for the year.

In preparing the Pension Fund accounts, I have:

- Selected suitable accounting policies and applied them consistently
- Made reasonable and prudent judgements and estimates
- Followed the Chartered Institute of Public Finance and Accountancy's/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

I have also:

- Kept proper accounting records which are up to date; and
- Taken steps to prevent and detect fraud and other irregularities.

I confirm that the accounts were considered and approved at a meeting of the Council on

31st of May 2019.

Rob Powell
Strategic Director Resources
31 May 2019

Councillor Nicola Davis
Chair of the Council
25 July 2019

Warwickshire Pension Fund Account

2017/2018 £m		Notes	2018/2019 £m
	Dealings with members, employers and others directly involved in the fund		
(65.8)	Contributions	7	(80.1)
(11.4)	Transfers in from other schemes	8	(8.5)
(77.2)			(88.7)
72.9	Benefits payable	9	76.9
8.3	Payments to and on account of leavers	10	7.9
81.2			84.8
4.0	**Net (additions)/withdrawals from dealing with members**		**(3.9)**
10.6	Management expenses	11	**12.1**
14.6	**Net (additions)/withdrawals inc fund management expenses**		**8.3**
	Returns on investments		
(27.4)	Investment income	13	(29.0)
0.1	Taxes on income		0.5
(100.0)	Profit and losses on disposal of investments	23	(79.6)
64.3	Changes in the market value of investments	23	(33.7)
(63.0)	**Net return on investments**		**(141.7)**
(48.5)	**Net (increase)/decrease in the net assets available for benefits during the year**		**(133.4)**
(1,983.8)	**Opening net assets of the scheme**		**(2,032.3)**
(2,032.3)	**Closing net assets of the scheme**		**(2,165.7)**

Net Assets Statement

2017/2018 £m		Notes	2018/2019 £m
0	Long-term Assets	15	0.8
1,963.6	Investment assets	15/16/17	2,139.7
0.0	Investment liabilities	15	0.0
73.7	Cash deposits	15/16/17	17.5
2,037.3	**Total net investments**		**2,158.0**
12.6	Current assets	29	11.4
(17.6)	Current liabilities	30	(3.8)
2,032.3	**Net assets of the fund available to fund benefits at the period end**		**2,165.7**

Notes to the Warwickshire Pension Fund Accounts for the year ended 31 March 2019

Note 1: Description of fund

The Warwickshire Pension Fund ('the fund') is part of the Local Government Pension Scheme and is administered by Warwickshire County Council. The county council is the reporting entity for this pension fund.

The following description of the fund is a summary only. For more detail, reference should be made to the Warwickshire Pension Fund Annual Report 2017/18 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and The Local Government Pension Scheme (LGPS) Regulations.

a) General

The scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended).

It is a contributory defined benefit pension scheme administered by Warwickshire County Council to provide pensions and other benefits for pensionable employees of Warwickshire County Council, the district and borough councils in the county of Warwickshire and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The fund is overseen by the Warwickshire Pension Fund Investment Sub-committee, which is a sub-committee of Warwickshire County Council and is made up of five County Councillors. Two independent specialists provide advice and guidance to the sub-committee.

The Public Service Pensions Act 2013 included a requirement to establish a local Pension Board, with responsibility to assist the administering authority:

- To secure compliance with; the LGPS regulations; other legislation relating to the governance and administration of the LGPS, and; the requirements imposed by the Pension Regulator in relation to the LGPS and
- Perform an oversight role to ensure the effective and efficient governance and administration of the LGPS.

A local Pension Board has been in place since February 2015.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Warwickshire Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
- Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 192 employer organisations with active members within Warwickshire Pension Fund including the county council itself, as detailed below.

Warwickshire Pension Fund	31 March 2018	31 March 2019
Number of employers with active members	181	192
Number of employees in scheme		
County Council	8,193	8,303
Other employers	8,561	8,755
Total	**16,754**	**17,058**
Number of pensioners		
County Council	6,487	7,706
Other employers	5,002	5,970
Total	**11,489**	**13,676**
Deferred pensioners		
County Council	10,707	10,680
Other employers	7,908	7,128
Total	**17,805**	**17,808**
Total	**46,048**	**48,542**

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with The LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2019. Contributions are also made by employers' which are set based on triennial actuarial funding valuations. The last valuation was at 31 March 2016 and a revised schedule of employer contribution rates became effective for the three years from 1 April 2017.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised in the following table.

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump Sum	Automatic lump sum of 3 x pension In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index. The changes also brought in a 50/50 option allowing members the opportunity to contribute 50% for 50% of the benefit entitlement.

Contributions to the LGPS prior to 1 April 2014 were assessed on full-time equivalent pay and excluded non-contractual elements of pay such as overtime and bonus. However, contributions since 1 April 2014 are assessed on all pensionable pay received including non-contractual elements. In addition, the contribution bandings were extended with many of the higher paid seeing an increase in contributions.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

Note 2: Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2018/19 financial year and its position at year-end as at 31 March 2019. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2018/19* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. They have been prepared on a going concern basis in accordance with IAS1.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. This is addressed by the actuary's triennial valuation.

Note 3: Summary of significant accounting policies

a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the period to which they relate.

Employer deficit, augmentation and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with The Local Government Pension Scheme Regulations (see notes 8 and 10). This is normally when the member liability is accepted or discharged.

c) Investment income

i) Interest Income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is reflected within investment assets in the Net Assets Statement.

iii) Distributions from managed funds

Distributions from managed funds are recognised at the date of issue. Any amount not received by the end of the reporting period is reflected within investment assets in the Net Assets Statement.

iv) Profit and losses on disposal of investments

Profit and losses on the disposal of investments are recognised as income and comprise all realised profits/losses during the year.

v) Movement in the market value of investments

Changes in the market value of investments are recognised as income and comprise all unrealised profits/losses during the year.

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. And amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

e) Taxation

The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

f) Management expenses

The Code does not require a breakdown of pension fund administration expenses. However, in the interests of greater transparency, the council discloses its pension fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs.*

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team and associated accounting, management, accommodation and other overheads are apportioned and charged as expenses to the fund.

Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. All costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Investment management expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. Where these are deducted at source (as opposed to being charged via an invoice) the fee is identified and a journal posted to record the investment management fee and reduce the investment income.

g) Investment assets

Investment assets are included in the Net Assets Statement on a fair value basis as at the reporting date. An investment asset is recognised in the Net Assets Statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the Fund Account.

The values of investments as shown in the Net Assets Statement have been determined as follows:

i) Market-quoted investments

The value of an investment for which there is a readily available market price is determined by the bid market price on the final day of the accounting period.

ii) Fixed interest securities

Are recorded at net market value based on their current yields.

iii) Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

- Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or to the management agreement.
- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.
- Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the *International Private Equity and Venture Capital Valuation Guidelines 2012*.

iv) Limited partnerships

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

v) Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; if single priced, at the closing single price.

In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

h) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

i) Cash and cash equivalents

Cash comprises cash in hand and on demand deposits and includes amounts held by the fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

j) Investment Liabilities

The fund recognises investment liabilities at fair value as at the reporting date. An investment liability is recognised on the date the fund becomes party to the liability and are summarised in Note 13. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

k) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards.

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 28).

l) Additional voluntary contributions

Warwickshire Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The fund has appointed Equitable Life and Standard Life as its AVC providers. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and movements in the year.

AVCs are not included in the accounts in accordance with section 4(1)(b) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 31).

Note 4: Critical judgements in applying accounting policies

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using the *International Private Equity and Venture Capital Valuation Guidelines 2012*. The value of unquoted private equities, infrastructure and private debt at 31 March 2019 was £211.0m (31 March 2018: £110.0m).

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 27. This estimate is subject to significant variances based on changes to the underlying assumptions.

Note 5: Assumptions made about the future and other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the Balance Sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the Net Assets Statement at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: - a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £294m - a 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £43m, and - a one-year increase in assumed life expectancy would increase the liability by approximately 3-5%.
Private equity, Infrastructure and Private Debt	Private equity investments are valued at fair value in accordance with *International Private Equity and Venture Capital Valuation Guidelines 2012*. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £211m. There is a risk that this investment may be under or overstated in the accounts. The custodian reports a tolerance of +/- 2% around the net asset values on which the valuation is based. This equates to a tolerance of +/- £4.2m.

Note 6: Events after the reporting date

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

a) Those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period), and

b) Those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

There were no adjusting or non-adjusting events.

Note 7: Contributions receivable

By category

2017/2018 £m		2018/2019 £m
16.7	Employees' contributions	17.3
	Employer's contributions:	
44.7	Normal contributions	58.0
4.4	Deficit Recovery contributions	4.8
49.1	**Total employer's contributions**	**62.8**
65.8		**80.1**

By authority

2017/2018 £m		2018/2019 £m
35.9	Administering authority	36.9
22.9	Scheduled bodies	39.7
6.9	Admitted bodies	3.4
0.1	Bodies no longer contributing	0.1
65.8		**80.1**

Note 8: Transfers in from other pension funds

2017/2018 £m		2018/2019 £m
0.7	Group transfers	0.7
10.7	Individual transfers	7.8
11.4		**8.5**

Note 9: Benefits payable

By category

2017/2018 £m		2018/2019 £m
59.4	Pensions	62.1
11.7	Commutation and lump sum retirement benefits	13.3
1.9	Lump sum death benefits	1.5
72.9		**76.9**

By authority

2017/2018 £m		2018/2019 £m
38.9	Administering authority	41.8
30.2	Scheduled bodies	30.7
3.2	Admitted bodies	3.7
0.7	Bodies no longer contributing	0.8
72.9		**76.9**

Note 10: Payments to and on account of leavers

2017/2018 £m		2018/2019 £m
0.2	Refunds	0.3
0.0	Group transfers	0.0
8.0	Individual transfers	7.7
8.3		**7.9**

Note 11: Management expenses

2017/2018 £m		2018/2019 £m
1.5	Administration costs	1.3
8.7	Investment management expenses	10.0
0.3	Oversight and governance costs	1.0
10.6		**12.3**

This analysis of the costs of managing the Warwickshire Pension Fund during the period has been prepared in accordance with CIPFA guidance.

Indirect costs are incurred through the bid-offer spread on investment sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sale of investments (Note 16 and Note 25).

Note 12: Investment management expenses

2017/2018 £000		2018/2019 £000
7,623.0	Management fees	8,644.6
647.0	Performance related fees	975.1
76.1	Custody fees	76.1
386.8	Transaction costs	323.3
8,732.9		**10,019.0**

Note 13: Investment income

2017/2018 £000		2018/2019 £000
0.0	Index linked bonds	0.0
17,473.0	Equity dividends	15,381.7
9,259.6	Managed funds:	13,488.8
4,823.2	Property	4,864.50
557.2	Infrastructure	1,010.64
712.7	Hedge Funds	0.00
0.0	Pooled Equity	190.20
0.0	Private Debt	489.07
1,713.7	Alternative	5,499.13
1,452.8	Private Equity	1,435.31
616.3	Interest on cash deposits	252.0
40.5	Stock lending	45.7
27,389.4		**29,168.2**

Note 14: Other fund account disclosures: external audit costs

The external audit fee for 2018/19 was £19,724 excluding VAT The fee for 2017/18, including fee variation, was £25,220 excluding VAT.

Note 15: Investments

2017/2018 £m		2018/2019 £m
	Long term investments	
0	Equities	0.8
	Investment Assets	
0.0	Index linked bonds	0.0
638.3	Equities	389.3
1,314.1	Managed funds:	1744.8
78.1	Private Equity	101.2
207.8	Pooled Property	224.7
996.3	Pooled Investments, Unit Trusts & Other Managed Funds	1308.9
31.9	Infrastructure	47.9
0.0	Private Debt	62.1
73.7	Cash deposits	17.5
11.2	Investment current assets	5.6
2,037.3	**Total Investment Assets**	**2,158.0**
	Investment Liabilities	
0.0	Investment current liabilities	0.0
	Total Investment Liabilities	
2,037.3	**Net Investment Assets**	**2158.0**

Outstanding capital commitments at 31 March 2019 totalled £202.5m. Of this, £107.4 related to Private Equity, £51.4 related to Infrastructure and £43.7 related to Private Debt.

Note 16: Reconciliation of movements in investments

	Market value 1 April 2018 £ m	Purchases during the year £ m	Sales during the year £ m	Change in market value during the year £ m	Market value 31 March 2019 £ m
Investment Assets					
Index linked bonds	0.0				0.0
Equities	638.3	78.8	-361.4	34.5	390.1
Managed funds:	1,314.1	681.0	-327.6	77.4	1,744.8
Private Equity	78.1	17.1	-15.9	21.9	101.2
Pooled Property	207.8	13.3	-3.7	7.3	224.7
Pooled Investments, Unit Trusts & Other Managed Funds	996.3	574.4	-305.3	43.5	1308.9
Infrastructure	31.9	16.1	-2.5	2.5	47.9
Private Debt	0.0	60.2	-0.2	2.1	62.1
Other Investment Balances	**0.0**				**0.0**
Cash deposits	73.7	80.3	-137.0	0.4	17.5
Net investment current assets	11.2	0.1	-5.8	0.1	5.6
Net Investment Assets	**2,037.3**	**840.2**	**-831.9**	**112.4**	**2,158.0**

	Market value 1 April 2017 £ m	Purchases during the year £ m	Sales during the year £ m	Change in market value during the year £ m	Market value 31 March 2018 £ m
Investment Assets					
Equities	683.0	99.2	-133.4	-10.5	638.3
Managed funds:	1,307.2	216.4	-256.2	46.7	1,1314.1
Private Equity	66.2	16.4	-12.4	7.9	78.1
Pooled Property	192.5	10.8	-12.8	17.3	207.8
Pooled Investments, Unit Trusts & Other Managed Funds	945.6	176.2	-142.9	17.4	996.3
Infrastructure	18.7	12.9	-0.8	1.1	31.9
Hedge Funds	84.3	0.0	-87.3	3.0	0.0
Other Investment Balances					
Cash deposits	30.8	162.0	-118.8	-0.4	73.7
Net investment current assets	-42.2	53.7	-0.1	-0.3	11.2
Net Investment Assets	**1,978.8**	**531.4**	**-508.5**	**35.6**	**2,037.3**

Note 17: Analysis of investments

31 March 2018 £m		31 March 2019 £m
	Index linked bonds	
0.0	UK	0.0
0.0	Overseas	0.0
0.0		**0.0**
	Equities	
301.1	UK	0.8
337.2	Overseas	389.3
638.3		**390.1**
	Managed funds	
1,219.6	UK:	1,551.0
207.3	Pooled Property	224.4
996.3	Pooled Investments, Unit Trusts & Other Managed Funds	1308.9
15.9	Infrastructure	17.7
94.5	Overseas:	193.8
0.0	Private Debt	62.1
78.1	Private Equity	101.2
0.5	Pooled Property	0.3
15.9	Infrastructure	30.2
1,314.1		**1,744.9**
	Cash deposits	
69.5	UK Sterling	11.2
4.2	Foreign currency	6.3
73.7		**17.5**
11.2	**Net investment current assets/(liabilities)**	**5.6**
2,037.3	**Net Investment Assets**	**2,158.0**

Note 18: Investments analysed by fund manager

Market value 31 March 2018 £ m	%		Market value 31 March 2019 £ m	%
Investments managed by BCPP asset pool				
0.0	0.0%	UK Equity Alpha Fund	253.6	11.8%
0.0	0.0%	BCPP Shareholding	0.8	0.0%
0.0	**0.0%**		**254.5**	**11.8%**
Investments managed outside of BCPP asset pool				
309.0	15.2%	Columbia Threadneedle Investments (UK Equities)	0.7	0.0%
345.1	16.9%	MFS Investment Management (Global Equities)	396.9	18.4%
512.6	25.2%	Legal and General Investment Management (Index Tracker - Global Equities)	578.3	26.8%
115.7	5.7%	Columbia Threadneedle Investments (Property)	121.8	5.6%
100.5	4.9%	Schroder Investment Management (Property)	105.5	4.9%
78.1	3.8%	HarbourVest (Private Equity)	101.2	4.7%
158.4	7.8%	JP Morgan (Strategic Bond)	128.2	5.9%
15.9	0.8%	Standard Life Capital (Infrastructure)	17.7	0.8%
15.9	0.8%	Partners Group (Infrastructure)	30.2	1.4%
0.0	0.0%	Alcentra (Private Debt)	10.3	0.5%
0.0	0.0%	Partners (Private Debt)	51.8	2.4%
66.3	3.3%	BNY Mellon (Global Custodian)	11.7	0.5%
2,037.3	100.0%		1903.5	88%
2,037.3	**100.0%**		**2,158.0**	**100.0%**

Note 19: Investments representing more than 5% net assets of the scheme

Security	Market value 31 March 2019 £m	% of total fund as at 31 March 2019
Border to Coast Alpha Equity Fund	253.6	11.79%
L&G Investment Grade Corporate Bond	229.4	10.66%
L&G Fundamental Indexation	216.6	10.07%
L&G Europe (Exc UK) Equity Index	136.0	6.32%
JPM Strategic Bond Fund	128.2	5.96%
Columbia ThreadneedleTPN Property A	121.8	5.66%
L&G Index linked Bonds	119.6	5.56%
L&G UK Equity Index	117.6	5.47%

Security	Market value 31 March 2018 £m	% of total fund as at 31 March 2018
L&G Investment Grade Corporate Bond	210.1	10.31%
JPM Strategic Bond Fund	158.4	7.77%
L&G UK Equity Index	130.5	6.41%
L&G Europe (Exc UK) Equity Index	133.5	6.55%
L&G Fundamental Indexation	109.2	5.36%
Columbia ThreadneedleTPN Property A	115.7	5.68%
L&G Index linked Bonds	144.4	7.09%

Note 20: Stock lending

The fund's Statement of Investment Principles sets the parameters for the fund's stock-lending programme. At the year-end, the value of stock on loan was £4.0m (31 March 2018: £35.2m). The investments continue to be recognised in the fund's financial statements.

Counterparty risk is managed through holding collateral at the fund's custodian bank. At the year-end the fund held collateral (via the custodian) at fair value of £4.3m (31 March 2018: £37.2m). Collateral is obtained at 102% for sterling denominated equities and 106% for all other currency denominations and consists of government debt.

Stock-lending commissions are remitted to the fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stock pass to the borrower.

There are no liabilities associated with the loaned assets.

Note 21: Property holdings

The fund does not hold property directly. Property is held in the form of pooled funds.

Note 22: Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and Net Assets Statement heading. No financial assets were reclassified during the accounting period.

Fair value through profit and loss	Loans and receivables	Financial liabilities		Fair value through profit and loss	Loans and receivables	Financial liabilities
31 March 2018				31 March 2019		
£ m	£ m	£ m		£ m	£ m	£ m
			Investment Assets			
0.0			Index linked bonds	0.0		
638.3			Equities	390.1		
1,314.1			Managed funds:	1,744.8		
78.1			Private Equity	101.2		
207.8			Pooled Property	224.7		
996.3			Pooled Investments, Unit Trusts & Other Managed Funds	1,308.9		
31.9			Infrastructure	47.9		
0.0			Private Debt	62.1		
	73.7		Cash deposits		17.5	
	11.2		Investment current assets		5.6	
	10.2		Debtors		9.7	
	2.3		Cash balances		1.7	
1,952.4	**97.5**	**0.0**		**2,134.9**	**34.5**	**0.0**
			Liabilities			
		0.0	Investment current liabilities			0.0
		-17.6	Creditors			-3.8
0.0	**0.0**	**-17.6**		**0.0**	**0.0**	**-3.8**
1,952.4	**97.5**	**-17.6**		**2,134.9**	**34.5**	**-3.8**

Note 23: Net gains and losses on financial instruments

31 March 2018 £m		31 March 2019 £m
	Financial Assets	
100.0	Fair value through profit and loss	113.2
0.0	Loans and receivables	0.0
	Financial liabilities	
-64.3	Fair value through profit and loss	0.0
0.0	Loans and receivables	0.0
35.7	**Total**	**113.2**

The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

Note 24: Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value, these inputs are observable. Products classified as level 2 include unquoted bonds and overseas unit trusts and property funds.

Level 3

Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity and debt investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity, infrastructure and private debt are based on valuations provided by the general partners to the funds in which Warwickshire Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are undertaken quarterly and an adjustment is made to roll forward the latest available valuation to 31 March as appropriate.

Description of asset	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments Level 1	Published bid market price ruling on the final day of the accounting period.	Not required	Not required
Pooled investments – overseas unit trusts & property funds Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price is published.	NAV-based pricing set on a forward pricing basis	Not required
Private equity, Infrastructure and Private Debt Level 3	Private equity and Infrastructure investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines 2012	NAV-based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension funds own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Valuation at 31 March 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
	£ m	**£ m**	**£ m**	**£ m**
Financial assets				
Financial assets at fair value through profit and loss	528.7	1,395.0	211.2	2,134.9
Financial liabilities				
Financial liabilities at fair value through profit and loss	0.0	0.0	0.0	0.0
Net financial assets	**528.7**	**1,395.0**	**211.2**	**2,134.9**

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Valuation at 31 March 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
	£ m	**£ m**	**£ m**	**£ m**
Financial assets				
Financial assets at fair value through profit and loss	864.4	978.0	110.0	1,952.4
Financial liabilities				
Financial liabilities at fair value through profit and loss	0.0	0.0	0.0	0.0
Net financial assets	**864.4**	**978.0**	**110.0**	**1,952.4**

Note 25: Reconciliation of fair value measurements within Level 3

	Market value 31 March 2018	Purchases during the year	Sales during the year	Change in market value during the year	Realised profit or loss (-) during the year	Market value 31 March 2019
	£ m	£ m	£ m	£ m	£ m	£ m
Private Debt	0.0	60.2	-0.2	-0.3	2.4	62.1
Private Equity	78.1	17.1	-15.9	12.9	9.0	101.2
Infrastructure	31.9	16.1	-2.5	2.5	0.0	47.9
	110.0	**93.3**	**-18.7**	**15.0**	**11.5**	**211.2**

Note 26: Nature and extent of risks arising from financial instruments

Risk and risk management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities (ie promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the pension fund investment sub-committee. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The fund manages these risks in two ways:

- The exposure of the fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
- Specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital.

The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored to ensure it is within limits specified in the fund investment strategy.

Following analysis of historical data and expected investment return movement, the fund has determined that the following movements in market price risk were reasonably possible for the 2018/19 reporting period. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Asset Type Movement	2018/19 Potential market movement
	%
UK Equities	17%
Overseas Equities	18%
Total Bonds, Index Linked & Pooled Managed Funds	10%
Cash	1%
Property	14%
Alternatives	10%

The potential price changes disclosed above are broadly consistent with a one year dispersion in the value of the assets and are based on observed historical volatility of the returns of the asset class.

Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits would have been as follows (the prior year comparator is shown below):

Asset Type	Value as at 31 March 2018	Potential market movement	Value on increase	Value on decrease
	£ m	£ m	£ m	£ m
UK Equities	578.3	98.3	676.7	480.0
Overseas Equities	652.0	117.4	769.4	534.6
Total Bonds & Pooled Managed Funds	349.3	34.9	384.2	314.3
Cash	11.7	0.1	11.8	11.6
Alternatives	339.4	33.9	373.4	305.5
Property	227.3	31.8	259.1	195.4
Total	**2,158.0**	**316.5**	**2,474.5**	**1,841.5**

Asset Type	Value as at 31 March 2018	Potential market movement	Value on increase	Value on decrease
	£ m	£ m	£ m	£ m
UK Equities	512.6	87.1	599.8	425.5
Overseas Equities	654.1	117.7	771.8	536.4
Total Bonds, Index Linked & Pooled Managed Funds	319.6	32.0	351.6	287.7
Cash	62.0	0.6	62.6	61.4
Alternatives	272.2	27.3	300.0	245.4
Property	216.2	30.3	246.5	186.0
Total	**2,037.3**	**295.0**	**2,332.3**	**1,742.3**

Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The fund's interest rate risk is monitored as part of asset allocation decisions. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£UK). The fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

Currency	2018/19 Potential market movement
	%
Czech Republic Koruna	10%
Danish Krone	9%
Euro	9%
Japanese Yen	13%
Mexican Peso	13%
Swedish Krona	10%
Swiss Franc	11%
Thai Baht	10%
US Dollar	10%
Hong Kong Dollar	10%

A strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows. This analysis assumes that all other variables, in particular interest rates, remain constant. The prior year comparator is shown below:

Currency	Value as at 31 March 2019	Potential market movement	Value on increase	Value on decrease
	£ m	£ m	£ m	£ m
Czech Republic Koruna	0.0	0.0	0.0	0.0
Danish Krone	2.7	0.2	3.0	2.5
Euro	136.4	12.3	148.6	124.1
Japanese Yen	10.8	1.4	12.2	9.4
Mexican Peso	1.0	0.1	1.2	0.9
Swedish Krona	9.2	0.9	10.0	8.3
Swiss Franc	30.2	3.4	33.6	26.8
Thai Baht	0.8	0.1	0.9	0.7
US Dollar	307.0	30.1	337.1	276.9
Hong Kong Dollar	0.7	0.1	0.8	0.7
Total	**498.8**	**48.6**	**547.4**	**450.3**

Currency	Value as at 31 March 2018	Potential market movement	Value on increase	Value on decrease
	£ m	£ m	£ m	£ m
Czech Republic Koruna	0.0	0.0	0.0	0.0
Danish Krone	2.4	0.2	2.6	2.2
Euro	112.5	10.1	122.6	102.4
Japanese Yen	5.0	0.7	5.7	4.4
Mexican Peso	1.1	0.1	1.2	0.9
Swedish Krona	7.0	0.7	7.7	6.3
Swiss Franc	27.5	3.1	30.5	24.4
Thai Baht	0.8	0.1	0.9	0.7
US Dollar	255.5	25.0	280.5	230.4
Hong Kong Dollar	0.7	0.1	0.8	0.7
Total	**412.5**	**40.1**	**452.6**	**372.5**

Credit risk

Credit risk represents the risk that the counterparty to a transaction will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

In essence the fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high quality counterparties and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The Pension Fund is exposed to credit risk through the stock lending programme. This is managed by the custodian who monitors the counterparty and collateral risk. The level of collateral for stock on loan is assessed daily to ensure it takes account of market movements. To mitigate risk, stock lending is restricted to 25% of the total market value of the stock held, in accordance with investment regulations.

Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The Pension Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments, particularly cash to meet pensioner payroll and other benefit costs, and also cash to meet investment commitments.

The Pension Fund has immediate access to its cash holdings and has had a long term positive cash flow. Cash flow surpluses are invested with fund managers. The Pension Fund is authorised to borrow on a short term basis to fund cash flow deficits.

The actuary to the Pension Fund produces regular cash flow forecasts which are presented to the Investment Sub-Committee.

All financial liabilities as at 31 March 2019 are due within one year.

Note 27: Funding arrangements

In line with The Local Government Pension Scheme Regulations 2013, the fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016 and set contribution rates for the three years commencing 1 April 2017.

The key elements of the funding policy are:

- to ensure the long-term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment
- to ensure that employer contribution rates are as stable as possible
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 19 years and to provide stability in contribution rates by spreading any increases in rates over a period of time. Normally this is three years but in some cases an extended period can be granted. Solvency is achieved when the funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable. When an employer's funding level falls significantly short of the 100% funding target, then a deficit recovery plan will be put in place requiring additional contributions from the employer to meet the shortfall.

At the 2016 actuarial valuation, the fund was assessed as 82% funded. This corresponded to a deficit of £358m.

Contribution increases were phased in over the three year period ending 31 March 2020. The common contribution rate (ie the rate which all employers in the fund pay) is as follows.

Valuation Date	31 March 2016
Total contribution rate	
Primary Rate (% of pay)	20%
2018/19 Secondary Rate £000	39.19
2018/19 Secondary Rate £000	61.25
2019/20 Secondary Rate £000	84.4

Individual employer rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2016 actuarial valuation report and the funding strategy statement on the fund's website.

The valuation of the fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions are as follows:

Financial assumptions

Financial assumptions	Nominal	Real
	%	%
Post Retirement Discount Rate	3.8%	1.7%
Pre Retirement Discount Rate	3.8%	1.7%
Salary Increases	2.8%	0.7%
Price Inflation/Pension Increases	2.1%	-

Demographic assumptions

Assumed life expectancy from age 65 is as follows.

Demographic assumptions	31 March 2016	
Assumed life expectancy at age 65	**Male**	**Female**
Pensioners	22.5	24.7
Non-pensioners	24.3	26.7

Commutation assumptions

It is assumed that future retirees will take 50% of the maximum additional tax-free lump sum up to HMRC limits for pre-April 2008 service and 75% of the maximum for post-April 2008 service.

50:50 Option

2.0% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option.

Note 28: Actuarial present value of promised retirement benefits

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 24). The following is the full Pension Fund Accounts Reporting Requirement provided by the fund actuary.

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2018/19 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the Warwickshire Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

31 March 2018 £m		31 March 2019 £m
1,307	Active members	1,593
597	Deferred pensioners	670
954	Pensioners	948
2,894	**Present value of promised retirement benefits**	**3,211**

The promised retirement benefits at 31 March 2019 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2019 and 31 March 2018. I estimate that the impact of the change in financial assumptions to 31 March 2019 is to increase the actuarial present value by £246m. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

Financial assumptions

Year ended (% p.a.)	31 March 19	31 March 18
	%	%
Inflation/pensions increase rate	2.5%	2.4%
Salary increase rate	3.1%	3.0%
Discount rate	2.4%	2.7%

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.5 years	24.7 years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	24.3 years	26.7 years

Please note that the longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

Commutation assumptions

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

Sensitivity analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2019	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	271
0.5% p.a. increase in the Salary Increase Rate	2%	49
0.5% p.a. decrease in the Real Discount Rate	11%	341

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2019 for accounting purposes'. The covering report identifies the appropriate reliance's and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

Robert Bilton

13 April 2019

For and on behalf of Hymans Robertson LLP

Note 29: Current assets

31 March 2018 £m		31 March 2019 £m
	Debtors:	
1.1	Contributions due: Employees	1.4
7.0	Contributions due: Employers	6.1
1.7	Invoiced debtors	1.7
0.3	Sundry debtors	0.6
2.3	Cash balances	1.7
12.6	**Total**	**11.5**

Note 30: Current liabilities

31 March 2018 £m		31 March 2019 £m
	Liabilities:	
15.1	Owed to administering authority	1.0
1.7	Sundry Creditors	1.6
0.8	Benefits Payable	1.1
17.6	**Total**	**3.8**

Note 31: Additional Voluntary Contributions

31 March 2018 £m		31 March 2019 £m
2.5	Standard Life	2.6
0.2	Equitable Life	0.2
3.0	**Total**	**2.8**

31 March 2017 £m		31 March 2018 £m
2.7	Standard Life	2.5
0.3	Equitable Life	0.2
3.0	**Total**	**2.9**

AVC contributions of £0.3 m were paid directly to Standard Life and £2000 was paid directly to Equitable Life during the year (2017/18: £0.3m to Standard Life and £2000 to Equitable Life).

Note 32: Related Party Transactions

Warwickshire County Council

The Warwickshire Pension Fund is administered by Warwickshire County Council. Consequently there is a strong relationship between the council and the pension fund.

During the reporting period, the council incurred costs of £892,212 (2017/18: £913,654 restated) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses. The council is also the single largest employer of members of the pension fund. Employee and employer contributions from the council amounted to £36.9m in 2018/19 (2017/18 £35.9 m).

Border to Coast Pensions Partnership

The Warwickshire Pension Fund, through Warwickshire County Council as the Administering Authority, is a shareholder in the Border to Coast Pension Partnership Limited. The partnership is a wholly owned private limited company registered in England and Wales founded to carry out pension fund asset pooling obligations set out by the Government. The company provides the facility to pool the pension fund investments of 12 local authorities in order to gain the benefits of economies of scale and the concentration of expertise, improved ability to manage down investment costs, and the benefits of investing on a larger scale. The company was incorporated in 2017/18 and the first transfers of investment assets into the pool occurred in 2018/19. All 12 partners own an equal 1/12th share of the company.

Governance

There are two member of the pension fund investment sub-committee who are in receipt of pension benefits from the Warwickshire Pension Fund

Each member of the pension fund investment sub-committee is required to declare their interests at each meeting.

There are three members of the local pension board who are active members of the Warwickshire Pension Fund.

Key management personnel

Several employees of Warwickshire County Council hold key positions in the financial management of the Warwickshire Pension Fund, alongside responsibilities for Warwickshire County Council directly. These employees and their financial relationship with the fund (expressed as cash-equivalent transfer values, as an appropriate approximation for an IAS19 exercise) are set out below.

	2018/19	2017/18
	£	£
Head of Finance	*n/a	749,900
Strategic Finance Manager	476,557	384,576
Treasury and Pension Fund Manager	**n/a	187,205
Principal Accountant	62,605	43,346

*The replacement for the Head of Finance was not in position until 1st April 2019

**Interim Treasury & Pension Fund Manager in place.

Glossary

A

Actuarial valuation

A review of the assets and ***liabilities*** of a pension fund to determine the surplus or deficit, and the future rate of contributions required.

Alternative investments

Investments other than the mainstream ***asset classes*** of ***equities*** and ***bonds***. Alternatives include ***hedge funds, private equity***, ***infrastructure*** and ***commodities***. Property is also sometimes described as an alternative.

Asset allocation

The apportionment of a fund's assets between ***asset classes***.

B

Benchmark

A yardstick against which the investment policy or performance of a fund manager can be compared.

C

Currency risk

Investing in any securities not denominated in the investor's own base currency introduces currency risk due to the ***volatility*** of foreign exchange rates.

D

Defined benefit scheme

A type of pension scheme where the pension that will ultimately be paid to the employee is fixed, usually as a percentage of final salary. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the pension promised. Compare with ***defined contribution scheme***.

Diversification

The spreading of investment funds among different types of assets, markets and geographical areas in order to reduce ***risk***.

H

Hedge Funds

A hedge fund is a capital pool that has the ability to use ***leverage*** and to take both ***long*** and ***short*** positions with the aim of achieving an ***absolute return***. A large variety of hedge fund strategies exists and the level of ***risk*** taken will vary. Investors looking for a diversified exposure to hedge funds will normally opt for a fund of hedge funds – a fund with underlying investments in several hedge funds covering different strategies and geographical areas.

I

IAS19

An accounting standard which requires organisation's to incorporate their pension funds into their balance sheets and specifically that all pension fund ***liabilities*** should be valued using an AA corporate bond yield. Any mismatch between assets and liabilities is effectively brought on to the organisation's balance sheet.

P

Private equity

Funds put up by investors to finance new and growing businesses. Also known as venture capital.

Private Debt

Private debt comprises mezzanine and other forms of debt financing that comes mainly from institutional investors such as funds and insurance companies – but not from banks.

R

Risk

In its simplest sense, risk is the variability of ***returns***. Investments with greater inherent risk must promise higher expected returns if investors are to invest in them. Risk management is an important aspect of portfolio management and involves the use of complex statistical models.

S

Statement of Investment Principles (SIP)

Trustees of pension funds are required under the Pensions Act 1995 to prepare and keep up to date this written statement of how their scheme's assets are invested. Essentially, it provides evidence that the trustees have thought through the suitability of their scheme's investment policy and how that policy is implemented.

Stocklending

The lending of a ***security*** by the registered owner, to an authorised third party, for a fixed or open period of time, for an agreed consideration secured by ***collateral***. The demand to borrow ***securities*** comes mainly from ***market makers*** to cover ***short positions*** or take ***arbitrage*** opportunities.

T

Transaction costs

Those costs associated with trading on a portfolio, notably ***stamp duty*** and ***commissions***.

Communications

We communicate with our scheme members and employers in various ways:

- Periodic newsletters are produced for scheme members, pensioners and preserved beneficiaries. These are either sent to their home address or are made available online and via employer intranets.
- All new employees have the opportunity to opt out of the pension scheme by completing an online form.
- A brief guide is available online for all new employees.
- Comprehensive guides are available online for all members.
- The Fund's website is available allowing employers and members to access key information and to stay up to date with changes to the scheme. Updates are made available on employer intranets.
- Factsheets are produced on a variety of circumstances such as, divorce/dissolution, dependant benefits, TUPE etc. These are available online.
- Online newsletters are issued periodically to our employers.
- Campaigns notifying members of specific scheme benefits; for example nominated cohabiting partners and expressions of wish (death grants) are issued on employer intranets.
- An annual benefit statement is issued to the home address of all current active and preserved members.
- All our benefit statements, newsletters and factsheets are produced in partnership with several neighbouring pension funds including Staffordshire, Shropshire, Cheshire West, Worcestershire, Cambridgeshire and Northamptonshire (LGSS), Oxfordshire, Bedfordshire and Surrey.
- An annual meeting is held for all pension fund employers to attend.
- Pension administration staff are available to present to employers and members. We hold pension surgeries providing members with the opportunity to discuss their benefits in confidence.
- An annual training forum is held for all scheme employers.
- Staff are available to discuss general enquiries from 8am to 5:30pm at our office either by telephone or to visit. In exceptional circumstances we are available for home visits.
- Quarterly bulletins on the investment performance of the fund are distributed to all members of the Pension Fund Sub-Committee.
- An annual report is made available online.
- The report is produced on our website and hard copies are available on request.

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Glossary

An A to Z of Investment terms used

Absolute Return
Absolute return investing aims to produce a positive return over time, regardless of the prevailing market conditions.

Active management
A style of investment management where the fund manager aims to outperform a ***benchmark*** by superior ***asset allocation***, market timing or ***stock selection*** (or a combination of these). Compare with ***passive management***.

Active risk
A measure of estimated ***volatility*** of fund performance against the ***benchmark***. Also known as forecast ***tracking error*** or ***relative risk***. In technical terms, it is defined as the forecast standard deviation of annual returns versus the ***benchmark***. Active risk is usually quoted ***ex-ante***, the ***ex-post*** measure of ***volatility*** of actual returns more usually being referred to as realised ***tracking error***.

Actuarial valuation
A review of the assets and ***liabilities*** of a pension fund to determine the surplus or deficit, and the future rate of contributions required.

Alternative investments
Investments other than the mainstream ***asset classes*** of ***equities*** and ***bonds***. Alternatives include ***private equity***, ***infrastructure, private debt, gold*** and ***commodities***. Property is also sometimes described as an alternative.

Asset allocation
The apportionment of a fund's assets between ***asset classes***. See ***strategic asset allocation*** and ***tactical asset allocation***.

Benchmark
A yardstick against which the investment policy or performance of a fund manager can be compared.

Corporate governance
Issues relating to the way in which a company ensures that it is attaching maximum importance to the interests of its shareholders and how shareholders can influence management. Governance issues include executive pay levels and how institutional investors use their votes.

Currency risk
Investing in any securities not denominated in the investor's own base currency introduces currency risk due to the ***volatility*** of foreign exchange rates.

Defined benefit scheme
A type of pension scheme where the pension that will ultimately be paid to the employee is fixed, usually as a percentage of final salary. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the pension promised. Compare with ***defined contribution scheme***.

Defined contribution scheme
A type of pension scheme where employees' and the employer's contributions are fixed but the pension ultimately paid to the employee depends on the investment returns achieved by the contributions and annuity rates at retirement. Compare with ***defined benefit scheme***.

Derivatives
Financial instruments that are based on the movements of underlying assets. They allow exposures to markets and individual assets to be adjusted, thereby adjusting the ***risk*** characteristics of a fund. Common types of derivative include ***forward*** contracts, ***futures***, ***options***, and ***swaps***. Derivatives may be traded on an exchange, ***or over the counter*** (OTC).

Diversification
The spreading of investment funds among different types of assets, markets and geographical areas in order to reduce ***risk***.

FRS 17/IAS19
An accounting standard which requires companies to incorporate their pension funds into their balance sheets and specifically that all pension fund ***liabilities*** should be valued using an AA corporate bond yield. Any mismatch between assets and liabilities is effectively brought on to the company's balance sheet, and can potentially increase the ***volatility*** of a company's share price.

FTSE All-Share Index
An arithmetically weighted index of leading UK shares (by market capitalisation) listed on the ***London Stock Exchange***, the UK's main exchange for trading in shares. Updated daily. The FTSE 100 Index (or "Footsie") covers only the largest 100 companies.

Hedging
A strategy that aims to reduce ***risk***. For example, a ***forward*** currency transaction might be executed when investing in overseas ***shares*** or ***bonds*** to avoid volatility of returns due to exchange rate movements.

LIBID
London Inter-Bank Bid Rate. Interest rate at which prime banks will offer to take funds on deposit from other banks in the London Inter-Bank market.

LIBOR
London Inter-Bank Offer Rate. Interest rate at which prime banks will offer to lend money in the London Inter-Bank market.

Myners Report
Paul Myners published a review of issues affecting the pension fund industry on behalf of the government in 2001. His report and subsequent documents have undergone consultation and the Myners' Principles established. These are in the process of being implemented in the industry.

Passive Management
A management strategy that seeks to match the return and risk characteristics of a market segment or index, by mirroring its composition.

Private equity
Funds put up by investors to finance new and growing businesses. Also known as venture capital.

Risk
In its simplest sense, risk is the variability of ***returns***. Investments with greater inherent ***risk*** must promise higher expected returns if investors are to invest in them. Risk management is an important aspect of portfolio management and involves the use of complex statistical models. See also ***active risk***.

SORP

Statements of Recommended Practice issued by the accountancy profession. One SORP sets out recommendations on the form and content of the financial statements of pension schemes.

Statement of Investment Principles (SIP)

Trustees of pension funds are required under the Pensions Act 1995 to prepare and keep up to date this written statement of how their scheme's assets are invested. Essentially, it provides evidence that the trustees have thought through the suitability of their scheme's investment policy and how that policy is implemented.

Stocklending

The lending of a ***security*** by the registered owner, to an authorised third party, for a fixed or open period of time, for an agreed consideration secured by ***collateral***. The demand to borrow ***securities*** comes mainly from ***market makers*** to cover ***short positions*** or take ***arbitrage*** opportunities.

Strategic Asset Allocation

Strategic asset allocation is a portfolio strategy that involves setting target allocations for various asset classes, then periodically rebalancing the portfolio to maintain these original allocations.

Transaction costs

Those costs associated with trading on a portfolio, notably stamp duty and commissions.

Transition

The transfer of assets from one fund manager to another which may involve buying and selling assets.

Value Manager

The strategy of selecting stocks that trade for less than their intrinsic values. Value investors actively seek stocks of companies that they believe the market has undervalued.

WARWICKSHIRE
pension fund

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Division: Treasury and Pensions
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Local Pension Board of the Warwickshire Pension Fund

8 July 2019

LGPS Development update

Recommendation

That the Local Pension Board of the Warwickshire Pension Fund note and comment on the report.

1.0 Introduction

1.1 This report seeks to update the Board on a number of different areas relating to the administration of the Warwickshire Pension Fund. Board members are requested to note the report and comment on any areas of interest or concern.

2.0 Matters arising from the meeting of 11 March 2019

2.1 None.

3.0 Scheme Advisory Board - Cost Valuation

3.1 Background

3.1.1 Members will recall from the last meeting that the Local Government Pension Scheme Advisory Board (SAB) were in the process of reviewing the cost of the Local Government Pension Scheme (LGPS) following HM Treasury's review of the Public Sector Pension Schemes.

3.1.2 Members will also recall that the LGPS has an additional cost management mechanism because it is a funded public sector pension scheme.

3.1.3 In December the SAB issued its proposals for amendments to the LGPS to bring the benefit structure back within the 19.5% cost umbrella for future accrual and came forward with a number of proposals for consideration:

- Removal of the third tier of ill health (a temporary entitlement limited to a maximum of three years' pension)
- The introduction of a minimum death in service payment of £75,000 per member. The current death in service entitlement is 3 x pay.
- Enhanced early retirement factors for all members who are active on 1 April 2019. The enhanced factors should apply to all service.

- The introduction of revised bands for member contributions (attached). The revision of the lowest band reflects the lack of tax relief for the lowest paid members. And the expansion of band two will benefit the lowest paid members and the revision band four to reflect increases in the higher tax bracket.

3.2 Members will also recall that following the Government's decision to appeal the McCloud ruling the above proposals in 3.1.3 were suspended.

3.3 The Fund understands that a Judge is due to review the case in early July, whether the case should be referred to the Supreme Court or if there is a case or for mediation.

3.4 It is difficult therefore to give an indication of any possible impact on local authority funds as to whether benefits will need recalculating or whether the changes shown above are introduced retrospectively.

3.5 The problem for the Fund is how to allow for any impact with the determining of employer contribution rates and deficits in the ongoing triennial valuation and should the results be caveated because of McCloud.

3.6 There is a further problem in calculating cessation payments for employers exiting the Fund.

4.0 LGPS Consultation on valuation cycles / managing employers

4.1 Background

4.1.1 Transitioning local government pension funds from a three yearly to four yearly valuation cycle so that the national LGPS cost management valuation and local LGPS valuations are aligned from 31 March 2024 onwards. This change is being brought in to match the same four yearly cycle that applies to the non-funded public service schemes.

4.1.2 Allow Funds to carry out interim valuations between formal valuation dates, and adjust employer contribution rates upwards or downwards to reflect changing circumstances.

4.1.3 Allow Funds more flexibility around the way in which they manage employers that exit the LGPS by spreading cessation debt repayments or setting up deferred debt arrangements.

4.1.4 Removing the requirement for further education, higher education and sixth form colleges in England to offer new employees access to the LGPS.

5.0 Exit Payment Cap

5.1 The government first introduced the idea of capping exit payments to £95k in 2015 and have now issued final consultation for introduction later this year.

5.2 The £95k exit cap applies to most public sector employers and simply means the total exit payments which can be made to an employee must not exceed £95,000.00 in total

5.3 For the LGPS this cap also includes any actuarial strain incurred if the benefits are released early on the grounds, for example, redundancy or efficiency etc

5.4 It remains unclear as to the precise impact on the LGPS benefits and funds are waiting for further guidance. One issue however, is that the calculation of the actuarial strain is at fund level (i.e. there is not a national approach) and therefore the amount of the strain can differ from one fund to another. This could mean a member in one fund may be affected and not in another.

6.0 Financial Implications

6.1 There are no direct implications at this point in time.

7.0 Background papers

None

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The report was not circulated to elected members prior to publication.