

WARWICKSHIRE

pension fund

Business Plan

2021/2022

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1. Introduction

This document sets out the business plan for the Warwickshire Pension Fund for 2021/22, including objectives, strategic priorities, and an action plan to achieve them.

Warwickshire County Council (WCC) is the Administering Authority of the Warwickshire Pension Fund ('the Fund') administering both the Local Government and Firefighter Pension Schemes. This business plan relates to the Local Government Pension Scheme only.

The Warwickshire Pension Fund is administered by the Strategic Director for Resources on behalf of Warwickshire County Council (the scheme manager), five district councils and other scheduled and admitted public service organisations and their contractors.

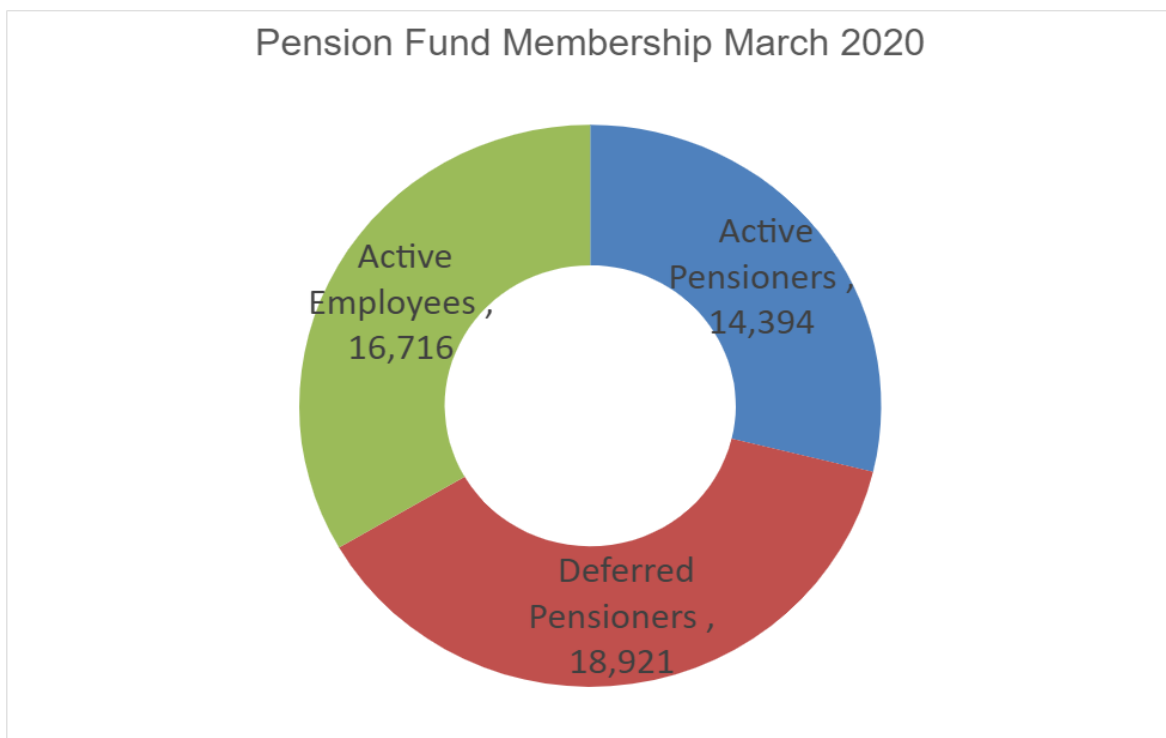
The administration of the fund is carried out through Warwickshire County Council's Staff and Pensions Committee, the Pension Fund Investment Sub Committee, and the Local Pension Board.

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.

2. Activity

2.1 Membership Activity

At March 2020, the total membership of the fund stood at 50,031 (including 1711 dependants).

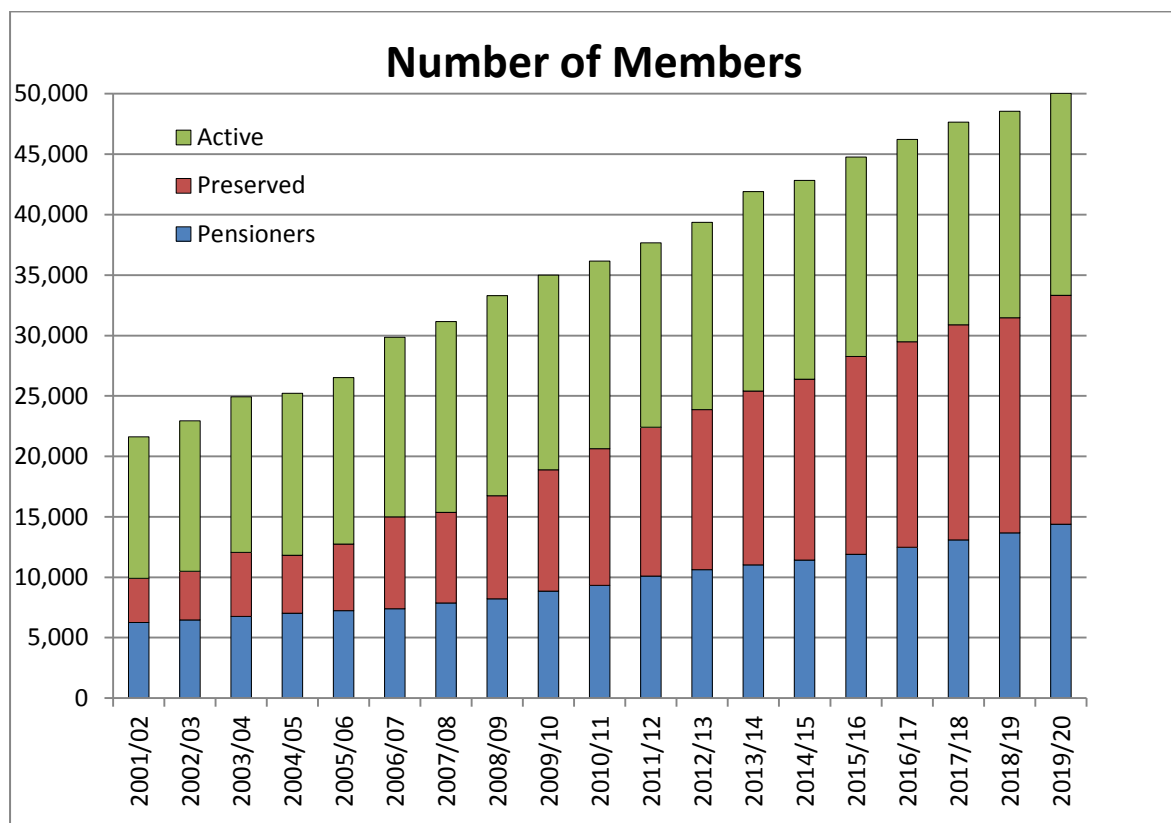


Of the total membership, 16,716 are active members currently contributing to the fund, 14,394 are members with a preserved benefit and 18,921 retired or dependant members are in receipt of a pension.

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

Pension fund membership has increased over the long-term and this increase places increasing demands upon the service. The chart below illustrates this trend.



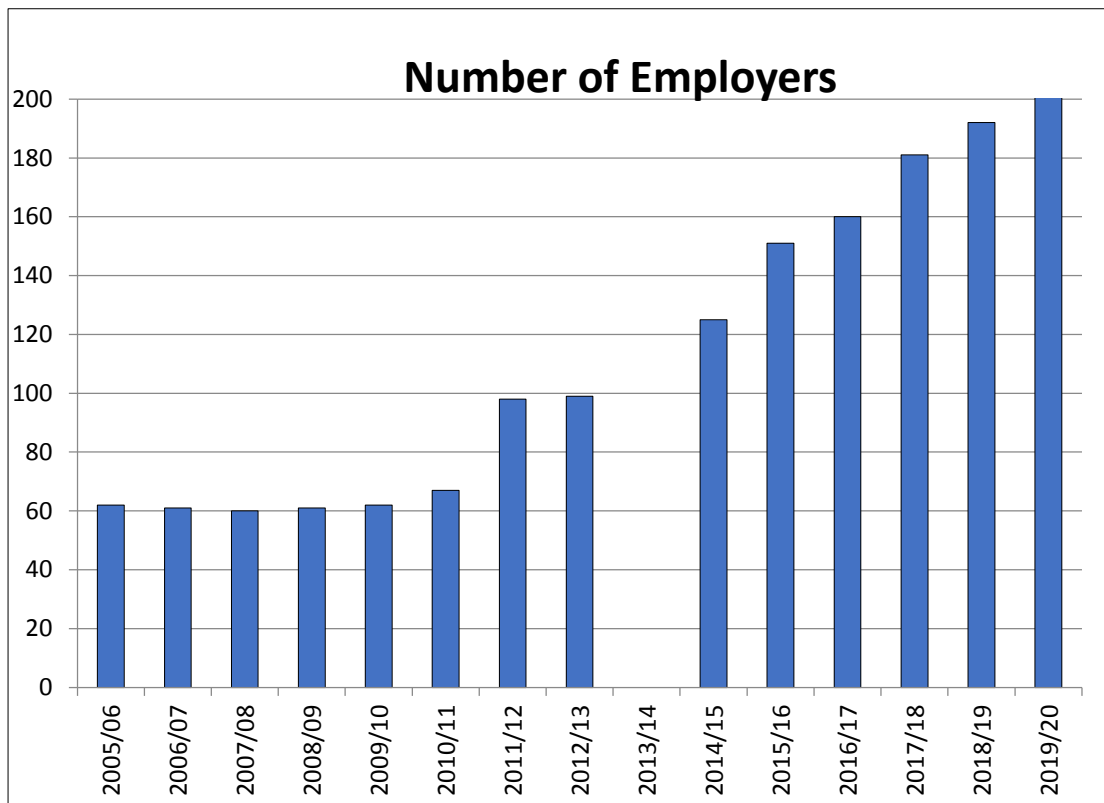
The following figures show the average annual change in activity over the last 5 years:

- Active Employees +4.7% p.a.
- Deferred Members +4.3% p.a.
- Pensioners +0.3% p.a.

This increase is expected to continue due to automatic enrolment and increased public awareness of pensions.

2.2 Employer Activity

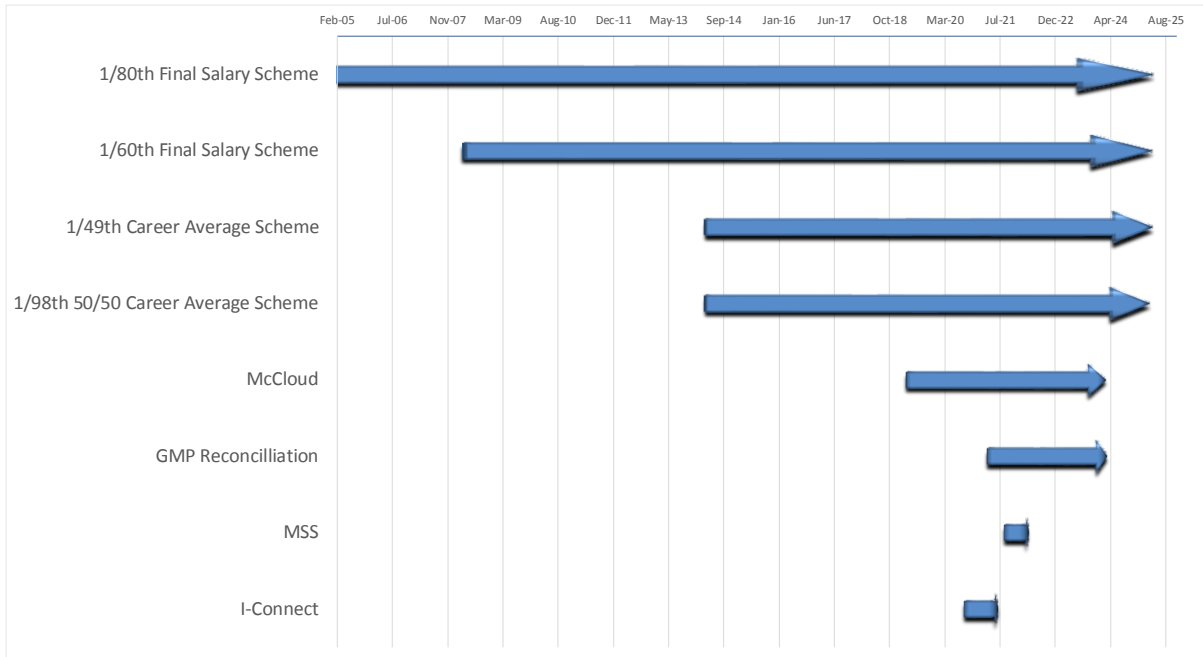
In addition to increases in membership, the number of employers is also increasing as illustrated in the chart below (driven largely by academisation of schools and the contracting out of services).



**2013/2014 data not available*

2.3 Administration Complexity

The LGPS is increasing in complexity over time as regulations evolve. The pictorial below illustrates this change over time:

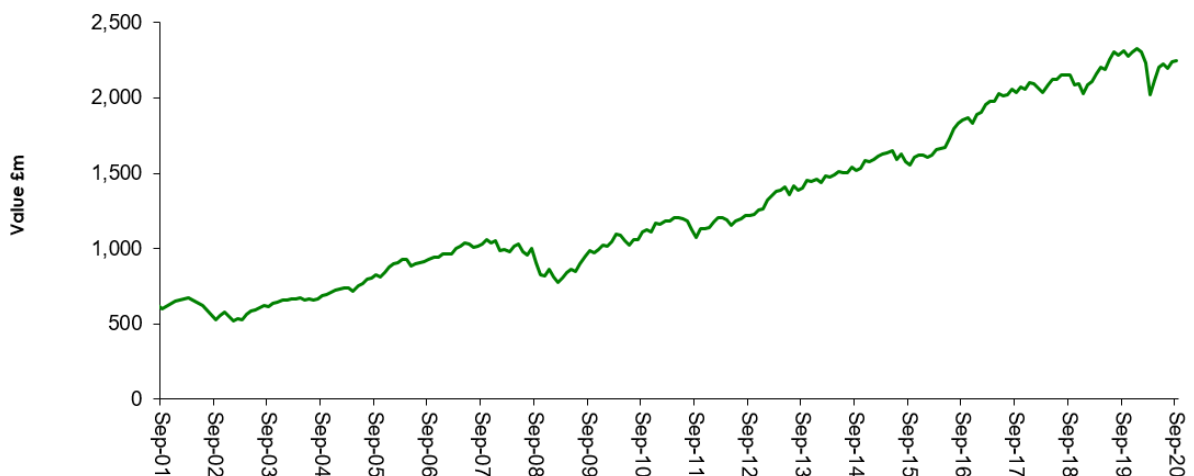


The introduction of the McCloud remedy to prepare for, and the complexity of the remedy will need to be administrated for many years into the future as affected members retire.

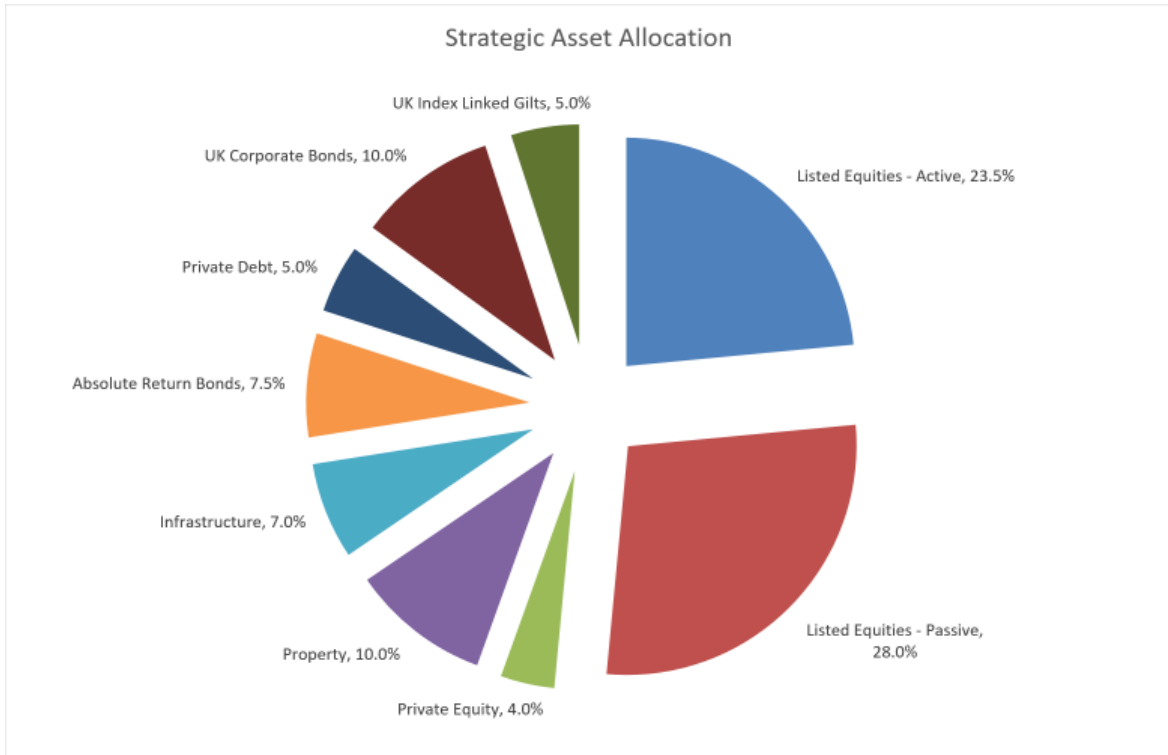
2.4 Investment Activity

Fund investments stand at over £2bn, with the fund value continuing to increase over the long term.

Growth of Total Fund Value (since 30 September 2001)

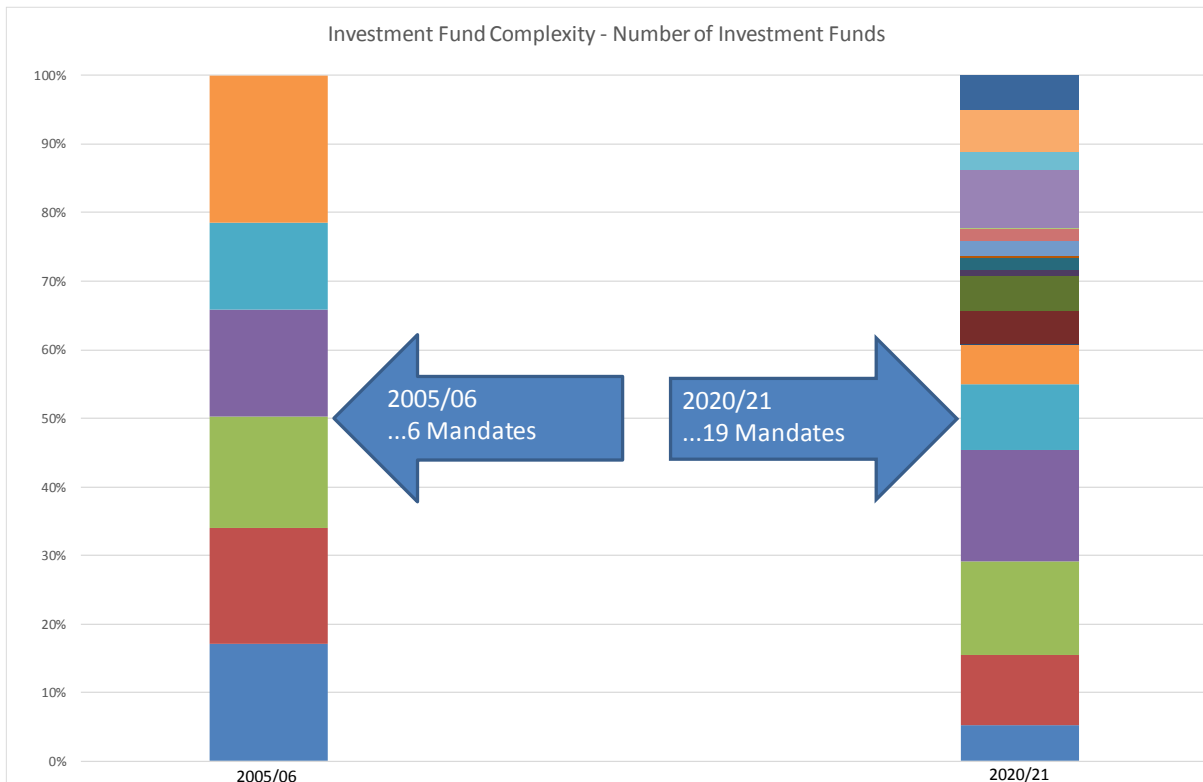


The Fund has a strategic asset allocation primarily weighted towards growth; this is in line with the revised Investment Strategy that was approved in March 2020. The shape of the strategic asset allocation has changed, and the exposure to growth assets is reducing driven by the funding level increasing.



The complexity of investment activity has steadily increased over time. The introduction of a variety of “alternatives” funds being introduced over time, and more recently the implementation of pooling means that, temporarily at least, investments have become significantly more complex.

The chart below shows how the fund’s assets were allocated between 6 mandates in 2005/06, compared with 19 mandates in 2020/21.



In the longer term, pooling will reduce the amount of fund managers that the Fund commissions directly, however the increased complexity in terms of the number of different mandates invested in is likely to remain.

2.5 Governance Activity

The governance of the Fund was reviewed in 2019, in particular a review was undertaken against the Pension Regulator's Code of Practice 14. An action plan was created and has been delivered. Some of the actions arising included a higher level of activity in respect of the review and maintenance of fund policies and contracts for services provided to the Fund. This is an area of very significant increase in activity.

The Fund will also take stock of recent and emerging good governance guidance from the Scheme Advisory Board.

3. Long term objectives

The Fund's fundamental objectives are:

- That pension benefits are paid to members accurately and on time.
- That the funds are available to pay benefits when they are due.

To do this we will:

- Ensure the governance arrangements of the Pension Fund allow officers, employers, Pension Fund Committee and Pension Board members to discharge their responsibilities efficiently and effectively.
- Deliver a high-quality benefit administration service, working effectively with scheme employers and maintaining a constant focus on data quality and customer service.
- Ensure the financial sustainability of the Fund through effective forecasting of long-term liabilities, determination and collection of appropriate contributions and generation of an appropriate risk-adjusted return of the Fund's investments

4. Key Performance Measures

Key performance indicators for the Fund are organised into the categories of administration, investment, and governance.

4.1 Administration

Administration service indicators have been developed to track workflow of the administration team and monitor performance, and the indicators used are set out at

Appendix A. Monitoring against these indicators will be undertaken through the year, and reported quarterly to the Local Pension Board and Staff and Pensions Committee.

Particularly high profile measures for the next year relate to:

- Annual Benefits Statements. These enable members to effectively plan and make decisions about retirement. The statements are planned to be issued by 31 August every year (excluding members for whom a current address is not held).
- Breaches Reporting. This ensures that transparency around the performance and governance of the fund, highlighting where regulations have not been met.

4.2 Investments

The Fund needs to ultimately focus on ensuring that the rates of return required by the valuation are achieved and that enough income is generated to cover any shortfall between contributions, benefits and expenses.

To support this aim, investment targets have been set and two key aspects of this are ensuring the allocation of the right amounts to the right investments (the Strategic Asset Allocation), and that within each investment fund a target risk/return profile is delivered over the appropriate timeframe (performance is usually measured over the medium/long term). The asset allocation and investment fund performance targets are set out in Appendix B.

4.3 Governance/Management

In addition to the above, the following performance measures will be monitored:

- Cash flow is managed such that it is not necessary to sell assets inappropriately under distress.
- The pension fund accounts are prepared and published on time, without qualification by external audit.
- A plan for contract review is set and resourced for the year and implemented.
- A plan for policy reviews is set and resourced for the year and implemented.
- All planned quarterly pension committee and Local Pension Board meetings are delivered.
- Deliver a light touch self-assessment Code of Practice 14 governance review.
- Deliver a “Revaluation Preparedness” review, seeking to identify and action any issues that will assist in promoting a smooth revaluation in 2022.
- Risks will continue to be monitored quarterly but using an updated approach as set out at the March 2021 Pension Fund Investment Sub-Committee.
- Completion of the employer covenant work and review of the arrangements for the monitoring of employers

5. Key Business Plan Items

5.1 Ensuring Adequate Capacity

A continuing challenge for the Fund is to ensure that capacity is appropriate to meet demand. The Fund will ensure a focus on predicting longer term trends in demand and planning to ensure capacity is actively managed to match demand rather than reacting to it.

5.2 Ensuring Appropriate Governance

The Fund will seek to continue to proactively monitor governance to maintain the standards that have been reached. Review of activity against the Code of Practice 14, and a Revaluation Preparedness review will assist in this.

The Fund will review the outcomes of the Scheme Advisory Board Good Governance project and take steps to implement any new arrangements that are required.

The Fund will also continue its approach of proactively maintaining a register of policies and contracts, alongside a schedule for their review.

5.3 Developing Improved Systems

The implementation of new systems functionality has been an intention for some time. The implementation of i-Connect, a system to automate the transfer and integrity checking of data from employers should be completed by June 2021 and will provide a more efficient way of collecting and recording member data from fund employers.

Once the i-Connect project is completed, we will then look to start the implementation of an online portal for members, where members can access their pension information, update their personal details and run their own pension estimates. This will be known as Member Self Service (MSS). Subject to formal approval, it is hoped that this will start in September 2021.

5.4 Active Use of Management Information

The Fund will continue to make more use of management information to assist in the management of services and use predictive information and forecasting to foresee and manage potential risks and issues.

The Fund's breaches policy has been shared with employers to remind them of their responsibilities regarding the provision of data to the pensions team.

The breaches log will be regularly reviewed and there is an escalation process for raising concerns with employers. The Fund will support employers as much as possible including offering training or assistance where appropriate.

5.5 Collaboration

As one of over 80 LGPS administering authorities, there is plenty of opportunity to learn from others and share good ideas and to look at best practice elsewhere and share our best practice too.

We will do this in several ways:

- CIPFA Benchmarking
- Regional Pension Fund Managers group
- Joint communications working group
- Pooling administration management group
- Software provider user groups

5.6 Strong Investment Management

The 2019 valuation presented a significantly improved funding level, however the impact of Covid on investments, and upon the calculation of liabilities has been significant. The fund intends to review the Strategic Asset Allocation in light of this. The Fund will also consider whether to review the Funding Strategy as part of the revaluation preparedness work and if this is undertaken it can be co-ordinated with the investments review.

Significant amounts of the Fund's investments remain outside of the pool. The Fund will ensure it retains strong links with fund managers outside of the pool to exercise appropriate stewardship of all its assets.

5.7 Pooling

The Border to Coast Pension Partnership will be launching the Multi Asset Credit offering during 2021/22. The Warwickshire Pension Fund plans to join this fund and will also continue to work with Border to Coast in the development of future offerings, for example a property fund.

5.8 Investing in Employer Liaison

The Fund will continue to work closely with employers, providing information, support, signposting, and training to help employers to meet their responsibilities. Covid has increased certain employer risks, and government regulations are changing how employers and Funds interact. A covenant review will help to manage these new risks.

5.9 Review of Cashflow Requirements

Cash flow management will remain a high priority. Underlying cash flows from employer contributions and member payments remains relatively balanced (i.e., the Fund is currently broadly cashflow neutral excluding investment cashflows), however asset value volatility remains a risk and therefore cashflow management remains a high priority to ensure that there is no need to sell assets under distress. Officers will continue to monitor cash balances in order to be able to meet operating and investment cashflow requirements.

5.10 Climate Change / ESG Policy

Climate change continues to increase in seriousness, the Fund now has a Climate Risk Strategy, and will seek to update this and identify specific actions that may be pursued to express it.

The Fund is aware there are opportunities to consider social impact investing and will take steps to further understand the opportunities that could be taken forward.

The Fund will continue to develop and enhance its approach to ESG related risks and opportunities.

6. Actions

Appendix C sets out a summary of the actions planned for the coming year. Actions are grouped into the following categories:

- Ensuring a high-quality administration service
- Actuarial activities
- Maximising Investment Benefits
- Ensuring Good Governance

Appendix A – Administration Performance Measures

Key Performance Indicator	Fund Target (95%)
Letter detailing transfer in quote	10 days
Letter detailing transfer out quote	10 days
Process and pay a refund	10 days
Letter notifying estimate of retirement benefits (Active)	15 days
Letter notifying actual retirement benefits (Active)	15 days
Process and pay lump sum (Active)	10 days
Process and pay death grant	10 Days
Initial letter notifying death of a member	5 days
Letter notifying amount of dependents benefits	10 days
Divorce quote letter	45 days
Divorce settlement letter	15 days
Send notification of joining scheme to member	40 days
Deferred benefits into payment	15 days
Calculate and notify deferred benefits.	30 days
Average days from retirement to payment of lump sum.	Measure of member experience

Appendix B - Investment Performance Measures

B1 – Strategic Asset Allocation

Asset class	Current Target Asset Allocation (%)	Asset Allocation Range (%)	Long term Target Asset Allocation (%)
UK equities	16.0	+/-2.5	13.0
Overseas equities	25.5	+/-2.5	21.5
Fundamental global equity*	10.0	+/-2.5	10.0
Private equity	4.0	n/a	4.0
Total Growth	55.5		48.5
Property	10.0	n/a	12.5
Infrastructure	7.0	n/a	7.0
Private debt	5.0	n/a	7.0
Alternative credit	7.5	n/a	10.0
Total Income	29.5		36.5
UK corporate bonds	10.0	+/-1.5	10.0
UK index linked bonds	5.0	+/-0.5	5.0
Total Protection	15.0		15.0
Total	100.0		100.0

*Refers to passive global equities invested in line with the RAFI All World 3000 index, which weights underlying constituents by fundamental factors as opposed to traditional market capitalisation weightings.

B2 – Fund Performance Benchmarks and Targets

Fund	Mandate	Benchmark (note 1)	Target (note 2)
BCPP	UK Equity Alpha	FTSE All-Share GBP	Benchmark +2% over rolling 3 year period (net)
BCPP	Global Equity Alpha	MSCI ACWI ND	Benchmark +2% over rolling 3 year period (net)
BCPP	Investment Grade Credit	iboxx Non-Gilts All Maturities GBP	Benchmark +60bps pa rolling 5 years (net)
L&G	UK Equity	UK Equity Index	Benchmark
	Global Equity	North America Equity Index	
		Europe (ex UK) Equity Index	
		Japan Equity Index	
		Asia Pac exJap Dev Eqty Index	
		World Emerging Markets Equ Ind	
Fundamental Global Equity	RAFI AW 3000		
L&G	Passive Corporate Bonds	Invnt Grade Cp Bnd All Stks Ind	Benchmark
	Index Linked Bonds	All Stocks Index-Linked Gilts	
Threadneedle	Property	MSCI All Balanced Property Fund Index Weighted Average Month	Benchmark +1% over rolling 3 year period
Schroders	Property	AREF/MSCI UK Quarterly Property Fund Index Median	Benchmark +1% over rolling 3 year period
JP Morgan	Absolute Return Bond	ICE LIBOR GBP 1 Month	Benchmark +3% over rolling 3 year period
Partners	Infrastructure	None	Absolute return 7%
SL Capital	Infrastructure	None	Absolute return 7%
BCPP	Infrastructure	None	Absolute return 7%
Partners	Private Debt	None	Absolute return 5%
Alcentra	Private Debt	None	Absolute return 5%
Harbourvest	Private Equity	MSCI World Index	None
BCPP	Private Equity	MSCI World Index	None
Aberdeen Standard	Infrastructure	None	Absolute return 7%

Overall Anticipated Discount Rate (Investment Return)	3.70%
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Note 1 - Benchmark - this describes the investment benchmark that the performance of the mandate is associated with.

Note 2 - Target - this describes the target return that the mandate is expected to make. The return could simply be to match a benchmark, or to exceed a benchmark. Absolute returns are target returns that are independent of any benchmark.

Appendix C – Single Action Plan

C1. Ensuring a high quality administration service

Ref	Action	Timescale
1	Annual Pensioners Newsletter issued	April-June 2021
2	Annual benefit statements issued	By 31 August 2021
3	Completion of i-Connect implementation	June 2021
4	Begin implementation of Member Self Service	September 2021
5	Annual Allowance statements issued	By 5 th October 2021
6	Employer Engagement/training event	November 2021
7	Monitoring meeting of Pensions administration activity and performance	Monthly
8	Liaison meeting with Warwickshire County Council Payroll	Monthly
9	Breaches monitoring and reporting (process to be reviewed and updated)	Monthly
10	Administration performance - KPIs reported to Local Pensions Board	Quarterly
11	Review of Pension Fund website	Quarterly
12	Review of complaints received	Quarterly
13	McCloud Project	April 2021 to April 2023
14	Data quality review	Annual

C2. Actuarial Activities

Ref	Action	Timescale
15	Monitor employer contribution performance through the year	Monthly
16	Review employer covenants and risk management for non-statutory employers and review of employer monitoring arrangements	July 2021
17	2022 Revaluation Preparedness Review (this may potentially include a funding review)	September 2021

C3. Optimising Investment Risk and Return

Ref	Action	Timescale
18	Implement transfer to the Border to Coast Multi Asset Credit fund.	July 2021
19	Support the development of new Border to Coast fund products, for example the property fund.	As funds launch
20	Ensure the fund remains MIFID2 compliant	Annual
21	Continue the growth of alternative asset classes towards their new strategic asset allocation	Annual
22	Undertake a light review of the Fund's Strategic Asset Allocation	September
23	Appropriate engagement with the governance of Border to Coast via the Joint Committee, Operational Officers Group, and Section 151 Meetings, and through the exercising of shareholder voting rights.	Annual
24	Further develop the Fund's Climate Risk Strategy and the Fund's approach to Environmental, Social and Governance factors, (ESG) including the development of goals and milestones	Annual
25	Plan cashflow strategy to avoid the need to sell assets under time pressure	Annual
26	Become a signatory to the 2020 UK Stewardship Code	September 2021
27	Review of Task force for Climate-Related Financial Disclosures (TCFD) requirements	December 2021
28	Engage with pooling partner funds and Border to Coast on climate change and Responsible Investment (RI) developments	Quarterly

C4. Ensuring Good Governance

Ref	Action	Timescale
29	Pension Fund Annual General Meeting	November
30	Production of statement of accounts	May-21
31	Publication of Annual Pension Fund Report	Nov-21
32	Ensure Fund risks are reviewed annually, and investigate formalising a risk appetite for the Fund	Annual
33	Ensure a risk register is maintained and monitored	Quarterly
34	Maintenance of a contracts register and a schedule for contract reviews	Quarterly
35	Maintenance of a Policy Register and a schedule for policy review.	Quarterly
36	Light touch internal governance review against Code of Practice 14 requirements and any new/emerging SAB Good Governance guidance	September 2021
37	First review of the operation of the cyber security policy	March 2022
38	Completion of the documentation of investment practices	March 2022
39	Review long term trends in activity and demand for pension fund services in administration, investments, and governance and ensure appropriate medium term resource planning.	September 2021
40	Review of disaster recovery planning	March 2022
41	Review electronic signatory/approval processes	December 2021
42	Implement training plan arising from the National Knowledge Assessment feedback	March 2022