

AGENDA

Meeting: Investment Sub-Committee

Place: [View the Online Meeting of the ISC Here](#)

Date: Thursday 25 February 2021

Time: 10.00 am

Please direct any enquiries on this Agenda to Ellen Ghey, of Democratic Services, County Hall, Bythesea Road, Trowbridge, direct line 01225 718259 or email ellen.ghey@wiltshire.gov.uk

Press enquiries to Communications on direct lines (01225) 713114/713115.

This Agenda and all the documents referred to within it are available on the Council's website at www.wiltshire.gov.uk

Membership:

Cllr Pauline Church (Vice-Chairman)
Cllr Tony Deane (Chairman)

Cllr Robert Jandy
Cllr Gordon King

Substitutes:

Cllr Derek Brown OBE
Cllr Matthew Dean
Cllr Sarah Gibson
Cllr Gavin Grant

Cllr Bob Jones MBE
Cllr Fleur de Rhé-Philippe MBE
Cllr Ian Thorn
Cllr Brian Ford

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AGENDA

Part 1

Items to be considered when the meeting is open to the public

1 **Membership**

To note any changes to the membership of the Sub-Committee.

2 **Apologies**

To receive any apologies for absence or substitutions for the meeting.

3 **Minutes** (*Pages 7 - 10*)

To approve and sign as a true and correct record the Part I (public) minutes of the previous meeting held on 2 December 2020.

4 **Declarations of Interest**

To receive any declarations of disclosable interests or dispensations granted by the Standards Committee.

5 **Chairman's Announcements**

To receive any announcements through the Chairman.

6 **Public Participation and Councillor Questions**

The Council welcomes contributions from members of the public. During the ongoing COVID-19 situation the Council is operating revised procedures and the public are able participate in meetings online after registering with the officer named on this agenda, and in accordance with the deadlines below.

[Guidance on how to participate in this meeting online.](#)

Statements

Members of the public who wish to submit a statement in relation to an item on this agenda should submit this electronically to the officer named on this agenda no later than 5pm on **Tuesday 23 February 2021.**

Statements should:

- State whom the statement is from (including if representing another person or organisation)
- Clearly state the key points
- If read aloud, be readable in approximately 3 minutes

Up to three speakers are allowed for each item on the agenda.

Questions

Those wishing to ask questions are required to give notice of any such questions electronically to the officer named on the front of this agenda no later than 5pm on **Thursday 18 February 2021** in order to be guaranteed of a written response. In order to receive a verbal response questions must be submitted no later than 5pm on **Monday 22 February 2021**.

Please contact the officer named on the front of this agenda for further advice. Questions may be asked without notice if the Chairman decides that the matter is urgent. Details of any questions received will be circulated to members prior to the meeting and made available at the meeting and on the Council's website; they will be taken as read at the meeting.

7 **Investment Strategy Statement Review** (*Pages 11 - 50*)

To receive a report that explains the process in place to update the Investment Strategy Statement for consideration and approval.

8 **Responsible Investment Quarterly Update** (*Pages 51 - 94*)

To receive a report updating members on responsible investment issues.

9 **Date of Next Meeting**

The next ordinary meeting of the Investment Sub-Committee will be held on 10 June 2021.

10 **Urgent Items**

Any other items of business which, in the opinion of the Chairman, should be considered as a matter of urgency. Urgent items of a confidential nature may be considered under Part II of this agenda.

11 **Exclusion of the Public**

To consider passing the following resolution:

To agree that in accordance with Section 100A(4) of the Local Government Act 1972 to exclude the public from the meeting for the business specified in Item Numbers 12 – 16 because it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in paragraphs 3 of Part I of Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.

Part 2

Items during consideration of which it is recommended that the public should be excluded because of the likelihood that exempt information would be disclosed.

12 **Presentation from Partners Group**

To consider a presentation from Partners Group.

13 **Presentation from Brunel**

To consider a presentation from Brunel.

14 **Investment Quarterly Progress Report** (*Pages 95 - 116*)

To receive a report in relation to the Fund's investment performance to 31 December 2020.

15 **Sustainable Equities** (*Pages 117 - 130*)

To receive a report providing members with information regarding Brunel's Sustainable Equities portfolio.

16 **Minutes** (*Pages 131 - 138*)

To approve and sign as a true and correct record the Part II (private) minutes of the previous meeting held on 2 December 2020.

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Investment Sub-Committee

MINUTES OF THE INVESTMENT SUB-COMMITTEE MEETING HELD ON 2 DECEMBER 2020 AT ONLINE MEETING.

Present:

Cllr Tony Deane (Chairman), Cllr Brian Ford (Substitute) and Cllr Gordon King

Also Present:

Mandy Adamou, Andy Brown, Jennifer Devine, Robert Eamey, Anthony Fletcher, Stephen Lee, Shruti Moraes, Ross Palmer, Mike Pankiewicz, Susan Tompkins, Grant Webster

50 **Membership**

There were no impending changes to the membership of the Investment Sub-Committee.

51 **Apologies**

Apologies were received from:

- Cllr Pauline Church
- Cllr Robert Jandy

Cllr Robert Jandy was substituted by Cllr Brian Ford.

52 **Minutes**

The minutes of the previous meeting held on 10 September 2020 were considered, and it was:

Resolved

The Part 1 (public) minutes of the previous meeting held on 10 September 2020 were approved as a true and correct record.

53 **Declarations of Interest**

There were no declarations of interest.

54 **Chairman's Announcements**

The Chairman made reference to the Climate Change Risk Workshop delivered by Mercer held on 19 November 2020 in which the findings of their climate

change modelling was presented to members of the Wiltshire Pension Fund Committee. It was noted that members of the Committee would meet in January 2021 to further explore responsible investment strategies following on from discussions in the next meeting of the Committee on 17 December 2020.

The Chairman additionally requested that members consider and undertake general research into responsible investing to support any discussions in the January meeting of Committee members.

55 **Public Participation and Councillors Questions**

There were no statements or questions from the public or Councillors.

56 **Date of Next Meeting**

The next meeting of the Investment Sub-Committee would be held on 25 February 2021.

57 **Urgent Items**

There were no urgent items.

58 **Exclusion of the Public**

Resolved

To agree that in accordance with Section 100A(4) of the Local Government Act 1972 to exclude the public from the meeting for the business specified in Item Numbers 10 – 15 because it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in paragraph 3 of Part I of Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.

59 **Presentation from PineBridge**

Robert Eamey and Mandy Adamou delivered a presentation providing an overview of PineBridge Investments.

60 **Presentation from Ninety One**

Grant Webster and Steven Lee delivered a presentation on Ninety One's emerging markets multi-asset (EMMA) portfolio.

61 **Investment Quarterly Progress Report**

Jennifer Devine, Head of Pension Fund Investments, introduced a report in relation to the Fund's investment performance to 30 September 2020.

Resolved:

The Sub-Committee noted the investment reports and the update provided by officers and advisers at the meeting.

62 **COVID-19 Impact Report**

Jennifer Devine, Head of Pension Fund Investments, introduced a report that summarised the impact of the pandemic on the investment portfolios.

Resolved:

The Sub-Committee noted the report.

63 **Responsible Investment Quarterly Update**

Jennifer Devine, Head of Pension Fund Investments, introduced a report that updated the Sub-Committee on responsible investment issues.

Resolved:

The Sub-Committee noted the report and the progress that is being made towards implementing responsible investment related issues.

64 **Minutes**

The minutes of the previous meeting held on 10 September 2020 were considered, and it was:

Resolved:

The Part 2 (private) minutes of the previous meeting held on 10 September 2020 were approved as a true and correct record.

(Duration of meeting: 10.30 am - 1.05 pm)

The Officer who has produced these minutes is Ellen Ghey of Democratic Services, direct line 01225 718259, e-mail ellen.ghey@wiltshire.gov.uk

Press enquiries to Communications, direct line (01225) 713114/713115

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WILTSHIRE COUNCIL

INVESTMENT SUB COMMITTEE
25 February 2021

INVESTMENT STRATEGY STATEMENT

Purpose of the Report

1. This report explains the process in place to update the Investment Strategy Statement (ISS) for consideration and approval. It is a minor update to the 2020 version following on from a full assessment of climate change risk.

Background

2. The formulation, publication and maintenance of an Administering Authority's Investment Strategy Statement is required by Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
3. Under Regulation 7(6) and (7), the statements must be published by 1st April 2017 and then kept under review and revised from time to time and at least every three years. The ISS was last comprehensively revised in July 2020, and the current review is intended to incorporate some minor changes.
4. The Wiltshire Pension Fund Committee has been undertaking significant research into the issue of climate change risk. This has included several training sessions, both from an investment manager and from the Fund's investment advisors, Mercer. The Committee also commissioned Mercer to carry out climate change scenario modelling, in order to put some figures around the risk. The Committee held a climate change workshop on 19 November 2020 to discuss the findings of the modelling, and following on from this, the Committee members participated in a responsible investment beliefs survey, which was discussed at the 17 December 2020 meeting. The Committee then called an extraordinary Committee meeting on 14 January 2021 to further discuss the next steps, supported by Mercer. In addition, a training session will be held on 10 March 2021, to share the views of another investment manager with a long term growth philosophy, on considering climate change in an investment approach and identifying opportunities, and for the Fund's actuaries to also share some modelling which will demonstrate the effects of varying degrees of policy response to climate change risk on the funding level.
5. Mercer's climate change scenario modelling examined the potential effects on the Fund's investment returns under 3 different warming scenarios to 2100, 2°C or under, 3°C and 4°C. The modelling looked at the impact on the current strategic asset allocation, and one with a more sustainable tilt (specifically, allocations to sustainable equities and renewable infrastructure). The modelling indicated that the fund would be materially financially better off under a 2°C warming scenario, regardless of the strategic asset allocation, and that there were also opportunities to be taken advantage of by investing in more sustainable investments.
6. A 2°C or lower warming scenario is consistent with the goals of the Paris agreement and that of the UK government, and would be supported by an ambition of achieving net-zero carbon emissions in the investment portfolios by 2050, as well as an explicit statement that the Pension Fund supports a 2°C or lower warming scenario.

7. At the 17 December 2020 Committee meeting, members agreed that the ISS should be updated and brought back for debate and review. As instructed by the Committee, the updated version of the ISS incorporates the following changes:
 - An additional investment belief, which states that “In order to protect the Fund’s investments into the future, the Fund supports a global warming scenario of 2°C or lower, and states an ambition to achieve net-zero carbon emissions across all investment portfolios by 2050”;
 - An update on the work done on climate change risk;
 - A statement that the Fund will follow the TCFD reporting guidelines in the 2020/21 annual report.
8. As dealt with in the Responsible Investment Quarterly Update Report, elsewhere on this agenda, members are asked to endorse a proposed approach to engaging with the scheme membership on responsible investment issues. If this is approved, then it would be appropriate to add this information to the draft ISS.

Main Considerations for the Sub Committee

9. The draft ISS is attached as Appendix 1.
10. The 2020 version has been updated for the changes detailed above.
11. The draft will be taken to Full Committee on 30 March 2021 for review and approval.
12. The Local Pension Board were asked to consider the process that has been followed, and to confirm that this is in line with best practice and expectations.

Financial Considerations

13. The Financial considerations are considered within the draft ISS.

Safeguarding Considerations/Public Health Implications/Equalities Impact

14. There are no known implications at this time.

Reasons for Proposals

15. To keep the Investment Strategy Statement up to date.

Environmental Impact of the Proposals

16. Environmental considerations are dealt with within the draft ISS.

Proposal

17. The Investment Sub Committee is asked to recommend to the Pension Fund Committee that:
 - the revised ISS be approved;
 - if endorsed, the membership engagement plan is added to the ISS.

JENNIFER DEVINE
Head of Pension Fund Investments

Report Author: Jennifer Devine, Head of Pension Fund Investments

Unpublished documents relied upon in the production of this report: None

Appendices

Appendix 1 – draft amended ISS (with tracked changes)

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Wiltshire Pension Fund

Investment Strategy Statement



May 2020 March 2021

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WILTSHIRE PENSION FUND (“the Fund”)

1. Introduction and Background

Outline of Local Government Pension Scheme

The Local Government Pension Scheme (LGPS) is available to all local authority employees and the staff of certain other public and associated bodies, apart from police and fire officers and teachers, who have their own specific schemes.

The LGPS is a funded defined benefit scheme. The rate of contributions paid by Scheme members and the calculation of benefits paid to them are contained in the statutory provisions. Employer bodies also contribute to the cost of the Scheme.

Role of the Administering Authority

The LGPS is administered by individual “administering authorities”, these being prescribed in statute. Wiltshire Council is the administering authority for the County area of Wiltshire, including Swindon. It has delegated this function to the Wiltshire Pension Fund Committee (the Committee).

Administering authorities are responsible for the administration of a Pension Fund established on behalf of all employer bodies in their Scheme. The Funds are not separate legal entities from administering authorities and therefore are not covered by trust law. Nevertheless, the role of the administering authority is very similar to that of a trustee and members of the Committee therefore act in a quasi trustee role.

Statutory Background

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 required administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State. A link to the guidance on maintaining the ISS can be found at the link below:

<https://www.gov.uk/government/publications/local-government-pension-scheme-guidance-on-preparing-and-maintaining-an-investment-strategy-statement>

This ISS is a living document and is an important governance tool for the Fund. This document sets out the investment strategy of the Fund, based on its current policies and provides transparency in relation to how the Fund investments are managed, acts as a

risk register, and has been kept short, in order to be read in as user-friendly manner as is possible.

This statement will continue to be reviewed by the Wiltshire Pensions Committee at least triennially or more frequently should any significant change occur. The Wiltshire Pension Fund is currently involved in the Brunel Pension Partnership (BPP) for investment pooling which commenced implementation in 2018.

2. Investment of Money in a wide variety of investments

Objectives of the Pension Fund

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death before or after retirement for their dependants, in accordance with LGPS Regulations, whilst at the same time seeking to minimise the contributions that need to be paid in to the Fund by employer bodies.

The level of employer contribution is assessed every three years through an actuarial valuation of the Fund. This valuation establishes the solvency position of the Fund, that is, the extent to which the assets of the Fund are sufficient to meet the Fund's pension liabilities accrued to date. The objective is that the Fund should be at least 100% funded on an ongoing basis, taking account of any additional contributions paid by employer bodies to cover any past service deficit. The projection is that full funding is achieved over a time frame agreed appropriate by the Actuary for each employer, as set out in the Funding Strategy Statement.

Funding Strategy Statement

All Local Government Pension Scheme (LGPS) funds have to produce, consult on and publish a document called a "Funding Strategy Statement" (FSS). The purpose of the FSS is:

- a) To establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- b) to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
- c) to take a prudent longer-term view of funding those liabilities.

However, there will be conflicting objectives which need to be balanced and reconciled. For example, for most employers, objective a) implies low contribution rates, because they would see pension liabilities being "best met" by gaining as much help as possible from the investment strategy over the long term, which would lead you towards an equity-biased investment strategy. By contrast, objectives b) and c) imply stability and prudence of employer contribution rates, which would lead you towards a bond biased investment strategy.

Therefore, the best that can be achieved is a sensible balance between these different objectives, while considering the affordability of employer contributions.

The FSS and ISS are intrinsically linked and together aim to deliver stable contribution rates for employers and a reduced reliance on employer contributions over time. The FSS can be viewed at the link below:

<https://www.wiltshirepensionfund.org.uk/media/5113/funding-strategy-statement-final.pdf>

Investment Powers

These are set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, which outline the wide investment powers allowing committees to invest in line with its ISS, with certain restrictions as long as proper advice has been obtained.

The Secretary of State also now has the power to direct should an authority fail to act in accordance with the guidance issued under these regulations.

Responsibility for Decisions

The Committee is responsible for overall investment policy and for the implementation of appropriate investment management arrangements. In carrying out this role, the Committee receives advice from independent external advisors (Mercer) and from the Head of Pension Fund Investments and the Treasurer to the Pension Fund (the Director of Finance and Procurement). The Committee is also supported by its Independent Adviser (Anthony Fletcher). It appoints external investment managers to implement investment policy, who are therefore responsible for day to day investment decisions. Increasingly, as implementation of pooling takes place, the Brunel Pension Partnership Limited (“the pool”) will be responsible for the appointment of external investments managers to implement the Fund’s investment policy.

The Committee believes these arrangements strike the right balance between their own overall responsibilities in acting in a quasi trustee role and having decisions taken with the most appropriate level of expertise available.

Types of Investments held

The Committee has freedom to operate within the Regulations and its policy is outlined below. Its expectation, however, is that the majority of assets are invested in major stock markets, where the underlying investments can be easily traded if required.

The Fund therefore invests in pooled funds managed by properly authorised organisations (equities, property, infrastructure and government bonds) and sterling and overseas cash deposits. The Fund also hedges a proportion of its overseas currency exposure to equities. It may also invest in futures and options, as well as limited investment in direct property. The Fund also invests and has commitments to private markets mandates, including Infrastructure, Private Equity, Private Lending & Secured Finance.

Balance between the Various Types of Investments

An explanation of the relative amount to be invested in each asset class (type of investment) is provided below by the strategic benchmark adopted by the Committee. However, that does not mean that these percentages need to be rigidly maintained and ranges are shown to outline the maximum and minimum investments.

Based on the Fund's interim target portfolio, the Fund invests 40% on a passive (index tracking) basis and 60% on an active basis (to outperform the benchmark). In the long-term investment strategy the Fund's passive (index tracking) investment allocation is 27% and therefore 73% on an active basis.

Expected Returns on Investments

The Committee recognises that the past is not a reliable guide to the future in respect of predicted returns on investment. In addition, it recognises that the range of expected returns is greater for some asset classes than others and that the prospect of higher returns is usually accompanied by higher levels of risk. The target return set by the actuary at the valuation is 1.6% per annum in excess of gilt yields. Based on the Actuarial valuation carried out by Hymans, this is currently estimated at 3.8% p.a.

Risk Control

The Committee regards the major control of risk to be required at the strategic asset allocation level and this has been taken into account in setting its overall investment strategy. This is explored later in the document, but the key themes for the Fund include equity risk, inflation and interest rate protection.

The Committee is less attracted to tight regional benchmarks that encourage managers to stay close to the benchmark for their own risk control reason, so the Fund's investments are increasingly moving towards unconstrained approaches, typically benchmarking against World Indices or Inflation plus targets.

All risks are continually monitored and a high level asset allocation review is undertaken annually to check the appropriateness of the Fund's current strategy.

Investment Beliefs and Objectives

The investment objective is therefore to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers, and minimising the long term cost of the Fund. Having a thorough understanding of the risks facing the Fund is crucial and these are covered later in this statement.

The Fund has formed the following investment beliefs which help to inform the investment strategy derived from the decision making process.

- Funding, investment strategy and contribution rates are linked.
- The strategic asset allocation is the key factor in determining the risk and return profile of the Fund's investments.
- Investing over the long term provides opportunities to improve returns.
- Diversification across asset classes can help to mitigate against adverse market conditions and assist the Fund to produce a smoother return profile due to returns coming from a range of different sources.
- Managing risk is a multi-dimensional and complex task but the overriding principle is to avoid taking more risk than is necessary to achieve the Fund's objectives.
- Environmental, Social and Governance factors, including Climate Change are important factors for the sustainability of investment returns over the long term.
- In order to protect the Fund's investments into the future, the Fund supports a global warming scenario of 2°C or lower, and states an ambition to achieve net-zero carbon emissions across all investment portfolios by 2050.
- Value for money from investments is important, not just absolute costs. Asset pooling is expected to help reduce costs over the long-term, whilst providing more choice of investments, and therefore be additive to Fund returns.
- High conviction active management can add value to returns, albeit with higher short-term volatility.

Securities Lending

The Fund does not currently engage in any securities lending as all the equity holdings are now held within pooled fund structures. The intention going forwards is to increase returns through employing securities lending through the Brunel portfolios, when viable.

3. Investment strategy and the process for ensuring suitability of investments

Funding Policy

The objectives of the Wiltshire funding policy are expressed in its FSS. The Fund has a very strong employer covenant, being funded substantially by tax-raising local authorities. Therefore, the Committee can adopt a long-term view, without concern about the ability of its sponsors to meet their liabilities.

Given the on-going restructuring of public bodies the Fund is now maturing increasingly faster. The positive cashflow position is declining (investment income is available if the Fund does go cashflow negative) and this position is being closely monitored. The recent changes made to the Fund's long-term investment strategy, with increased allocations to income generating assets, will help with ongoing cashflow needs, and at this time it is not felt necessary to change the investment strategy of the Fund any further.

As the Fund has a deficit of assets against liabilities (97% funded at the 31 March 2019 Triennial Valuation), the Committee wishes to employ the appropriate amount of risk in order to facilitate the closure of this deficit. Over time as the funding level has increased, the Committee have reduced the level of risk inherent in the investment strategy, in order to protect the strong funding position, whilst being mindful that a degree of future investment return and therefore risk is necessary to maintain the funding level over time.

It is all the employer organisations in the Fund who feel the result of unstable employer rates, and for the precepting authorities, ultimately the local tax payer either through the Council Tax or through service levels. Therefore, another very important consideration is the need for relative stability of investment returns, given that employee rates are fixed by statute and the tools available in the actuarial valuation process for smoothing of returns are limited. This can be achieved by investments that are inherently more stable, such as bonds. However, it is also aided by diversification (so that the ups and downs on particular investments do not arise together), and by seeking returns from both passive investments (market based risk) and additional returns from active investment management.

Consequently, the Committee has set an overall investment goal that reflects these four factors.

Investment Goal

The Wiltshire Pension Fund's investment objective is to achieve a relatively stable "real" return above the rate of inflation over the long term, in such a way as to minimise and stabilise the level of contributions required to be paid into the Fund by employer bodies in respect of both past and future service liabilities.

Investment Strategy

The Wiltshire Fund Pension Committee has put in place a strategy to achieve this goal through use of the following elements:

- A relatively large allocation to equity investment to achieve higher returns;
- Allocations to more diversified and less correlated asset classes such as bonds, property, infrastructure, multi-asset credit and private markets to achieve to achieve stabilisation; and

The Committee took the decision to decision to de-risk the Fund's investment strategy, which involves a reduction in the allocation to equities and alternative growth assets, in order to increase the allocation to income generating assets and protection assets. It will take some time to move towards the new long-term strategic asset allocation; therefore an interim asset allocation will be used to benchmark progress towards the long-term asset allocation.

Agreement has been reached to implement one new alternative investment strategy following modelling and discussions with employers. This lower risk strategy is split between the following high level investment categories, Growth, Income/Mid-Risk and Protection split 20%, 25%, 55% respectively. Adoption of a lower risk strategy will be dependent on an employer's individual circumstances, and will result in higher employer contributions in order to make up for the lower anticipated investment returns, but will provide more certainty and a lower risk of short term falls in investment performance, which would adversely impact the employer's funding level.

Where commitments to private market mandates have been made, the Fund seeks to attain exposure to these asset classes in the interim to their drawdown of commitments through the use of asset classes that have moderate to strong correlation (risk and return) to that of the private market asset class, while being sufficiently liquid to ensure monies can be sourced efficiently for drawdowns.

The Fund's interim and long-term target strategic asset allocations, along with an overview of the role each asset class plays is set out in the table below:

ASSET CLASS	INTERIM TARGET ALLOCATION %	INTERIM CONTROL RANGES %	LONG-TERM TARGET ALLOCATION %	LONG-TERM CONTROL RANGES %	ROLE (S) WITHIN STRATEGY
Global Equity (Active)	16.0	26.0 – 36.0	10.0	18.5 – 25.5	Long-term growth in excess of inflation expected. Reduce carbon footprint through low carbon mandates
Low Carbon Equity (Passive)	15.0		12.0		
Emerging Markets Equity	5.0	3.0 – 7.0	5.0	3.0 – 7.0	
Private Equity	–	–	7.5	6.0 – 9.0	
Equity	36.0	29.0 – 43.0	34.5	27.5 – 41.5	
Infrastructure (Unlisted)	2.5	6.5 – 9.5	8.0	6.5 – 9.5	Provides access to a diversified (but long term, illiquid) return source and a stream of inflation related income.
Infrastructure (Listed)	5.5		–	–	Serves as a warehouse for capital that has yet to be drawn down into the Unlisted Infrastructure mandate, allowing interim exposure to the asset class.
Alternative Growth Assets	8.0	6.5 – 9.5	8.0	6.5 – 9.5	
Multi Asset Credit	5.0	4.0 – 6.0	5.0	4.0 – 6.0	Diversified source of income and provides a degree of protection from interest rate changes. Some return above gilts expected.
Emerging Markets Debt	5.0	4.0 – 6.0	5.0	4.0 – 6.0	Exposure to fixed income in emerging markets, serving as a good source of diversified return.
Property	13.5	11.5 – 15.5	15.0	13.0 – 17.0	Diversification; income; some inflation sensitive exposure; illiquidity premium.
Private Lending	–	–	7.5	6.5 – 8.5	Offer a wide range of long-term investment opportunities; return diversification; as well as returns from expected illiquidity premium.

ASSET CLASS	INTERIM TARGET ALLOCATION %	INTERIM CONTROL RANGES %	LONG-TERM TARGET ALLOCATION %	LONG-TERM CONTROL RANGES %	ROLE (S) WITHIN STRATEGY
Bank loans	7.5	6.5 – 8.5	–	–	Serves as a warehouse for capital that has yet to be drawn down into the Private Lending mandate, allowing interim exposure to the asset class.
Income Generating Assets	31.0	26.0 – 36.0	32.5	27.5 – 37.5	
Secured Income	–	–	10.0	9.0 – 11.0	Relatively low volatility asset class, aims to help service the Fund's increasing cash requirements through investing in secure inflation linked cashflows.
Gilts	25.0	22.5 – 27.5	15.0	13.5 – 16.5	Provide protection from changes in real yields both in terms of capital value and income.
Protection Assets	25.0	22.5 – 27.5	25.0	22.5 – 27.5	
Total	100.0	–	100.0	–	

The maximum allocations outlined in the table above may be amended with the approval of the Pension Fund Committee for specific transition events when terminating or changing investment managers. The table below sets out the Benchmark/Target of each respective mandate:

Current Investment Management Mandates

MANAGER/MANDATE ALLOCATION	INTERIM / LONG TERM ASSET ALLOCATION	BENCHMARK / TARGET P.A.
Brunel High Alpha Fund Global Equities	16% / 10%	MSCI World +2-3% p.a.
Brunel Low Carbon Passive Equities Fund Passive Equities	15% / 12%	MSCI World Index (long-term) – match but with lower carbon
LGIM Passive Index-Linked Bonds (UK)	25% / 15%	FTSE A Index-Linked Gilts

Loomis Sayles Multi Asset Credit	5% / 5%	50% Barclays Global Agg, 25% Barclays Global HY, 15% JPM CEMBI, 10% S&P/LSTA Leveraged Loan
Ninety One Emerging Market Multi Asset Mandate*	10% / 10%	50% MSCI Emerging Market Equity NDR Index, 25% JP Morgan EMBI Global Diversified Index, & 25% JP Morgan GB-EM Global Diversified Index +2-4% p.a.
CBRE Global Multi Manager Property Fund of Funds (UK & Europe)	13.5% / 15%	IPD UK Quarterly Property Fund Index +0.4% p.a.
Partners Group / Brunel Infrastructure once launched Infrastructure	2.5% / 8%	8-12% p.a. net IRR
Magellan Listed Infrastructure	5.5% / 0%	CPI + 5% p.a. over the business cycle
Brunel Private Equity	0% / 7.5%	MSCI ACWI +3% p.a.
Brunel Private Debt	0% / 7.5%	GBP 3M LIBOR + 4% p.a.
Pinebridge Bank Loans	7.5% / 0%	80% S&P LLI / 20% S&P ELLI Index + 0.5-1.0% p.a.
Brunel Secured Income	0% / 10%	CPI + 2% p.a.
TOTAL	100% / 100%	

*BPP have not initially offered an Emerging Markets Multi-Asset Fund, so the Fund will need to go through the Create/Amend/Delete ('CAD') process for this mandate.

Timeframe for Investment Managers' Targets

Three year targets are generally preferred when monitoring investment managers because of the need to see clear evidence of added value as soon as possible. The Committee recognises, however, that three year periods may not be appropriate for particular managers' styles, or for specific asset classes. Five year rolling periods, rather than three year periods, are therefore adopted where appropriate. Further, even longer measurement periods may be appropriate for the Fund's investments in private markets (for example 7-10 years for private equity).

Review and Policy

The Pensions Committee is responsible for the Fund's strategic asset allocation which is determined via a triennial strategy review as part of the valuation process. The review is both qualitative and quantitative and is undertaken by the Pension Committee in conjunction with the actuary, officers and independent advisers. The review considers:

- The required level of return that will ensure that the Fund can meet its future benefit obligations as they fall due.
- The level of risk that the Fund can tolerate in absolute terms, and in relation to its funding level and deficit.
- An analysis of the order of magnitude of the various risks facing the Fund is established so that a priority order for mitigation can be determined.
- The desire for diversification across asset class, region, sector, and type of security.
- Approach to how environmental, social or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.

The Committee takes the view that the Fund should only take as much risk as is necessary to recover the deficit and maintain contribution rates at an affordable, sustainable level.

The Investment Sub-Committee formally monitors the investment performance of the managers against their individual performance targets and meets them on an annual basis, reporting back to the main pension committee. All Members of the Committee receive quarterly performance and asset allocation figures based on reports provided by the Council's global custodian, State Street.

A quarterly check is made on how the overall strategic benchmark of the Fund is performing, relative to other funds, and in relation to the financial assumptions contained in the previous actuarial valuation.

The Committee also undertakes a high level asset allocation review once a year.

Fee Structures

The Committee generally has an ad-valorem fee scale applied in respect of the investment management services it receives. This is generally accepted practice for passive tracking mandates and is easily understood. A performance related fee basis is sometimes set, however, if it is believed to be in the overall financial interests of the Fund, particularly for active mandates where higher fees are paid for more consistent outperformance of market indices. The approach taken varies depending on the type of investment and the target being set.

The Fund pays special attention to the monitoring of fees paid in respect of private markets mandates, as these typically have more complicated fee structures. An additional layer of complexity is also added from having a fund of fund structure, which requires further oversight.

The Fund is required to report in line with the CIPFA requirements under the Transparency Code and requires its investment managers to provide sufficient information to fulfil this requirement.

4. Approach to risk and how its measured & managed

Risk measurement and management

Risks are assessed both qualitatively and quantitatively as part of regular investment strategy reviews, and prioritised accordingly forming a key element in setting its strategy. Sufficient risk is needed to achieve long term returns expectations but mitigated as appropriate to allow as far as possible stable employer contribution rates. This approach to risk is reviewed at least annually.

(a) Investment Risks

Provided below is commentary on the major investment risks the Fund is running:

Liability related interest rate and inflation risks – One of the largest risks the Fund is running is in relation to its liabilities and the sensitivity of these to changes to long-term interest rates and inflation expectations. The Fund mitigates these risks to a degree through its holdings in index linked gilts, other bonds and other sources of secured cashflow. The Committee is looking further at these risks as part of the current strategy review.

Equities – The other large risk that the Fund is running is in relation to its equity holdings. Should equity market conditions deteriorate significantly this will have a large negative impact on the Fund's assets. The Fund holds equities in order to provide the necessary long-term expected returns to help ensure that the Fund remains affordable. The Committee believes that the extra returns that are expected to be generated by equities compensate for the level of risk equities bring to the Fund. As shown by the long term Strategic Asset Allocation above, the Committee is working towards a reduction in equity exposure, helping to bring down the overall risk contributed from equities accordingly.

Active manager risk – Investment managers are appointed to manage the Fund's assets on its behalf. This risk is small relative to other risks; however the Fund still addresses this risk. Extensive due diligence is undertaken before managers are selected, with a number of different managers chosen to mitigate against concentration risk. The investment managers are also monitored regularly by the Committee and by the Fund's Investment Consultant.

Liquidity risk – the Committee recognises that there is liquidity risk in holding assets that are not readily marketable and realisable. Given the long term investment horizon, the Committee believes that a degree of liquidity risk is acceptable, given the potential return. The majority of the Fund's assets are realisable at short notice. Where commitments have been made to private market mandates that have not yet drawn down all of the committed capital, the Fund has invested these assets in liquid interim asset classes that have a moderate degree of risk & return correlation to the private markets assets. In this

way, some exposure to the desired asset class is retained and as the interim asset classes are liquid, the risk that the Fund would have to be a forced seller to meet these drawn downs, is mitigated.

Exchange rate risk – this risk arises from investing in unhedged overseas (non GBP denominated) assets. The Fund has a currency hedging policy in place to hedge c.50% of the overseas equity exposure. For other asset classes, currency hedging is reviewed on a case-by-case basis.

The Fund’s portfolio is well diversified across asset classes, geography and asset managers. As different asset classes have varying correlations with other asset classes, the Fund can manage the level of risk run to the extent desired.

Asset Class	DME	EME	PE	Infra	MAC	EMD	SPD	Prop	LLP	Corp	FIG	ILG
Developed Global Equity	1.00	0.63	0.62	0.75	0.59	0.37	0.21	0.27	0.26	0.32	0.10	0.10
Emerging Market Equity	0.63	1.00	0.56	0.57	0.53	0.55	0.13	0.29	0.28	0.29	0.13	0.11
Private Equity	0.62	0.56	1.00	0.56	0.55	0.34	0.25	0.24	0.22	0.28	0.09	0.06
Infrastructure	0.75	0.57	0.56	1.00	0.59	0.36	0.24	0.44	0.39	0.30	0.08	0.14
Multi-Asset Credit	0.59	0.53	0.55	0.59	1.00	0.64	0.53	0.38	0.34	0.31	-0.04	0.08
Emerging Market Debt	0.37	0.55	0.34	0.36	0.64	1.00	0.15	0.16	0.19	0.22	0.03	0.11
Senior Private Debt	0.21	0.13	0.25	0.24	0.53	0.15	1.00	0.27	0.22	0.11	-0.14	-0.01
Conventional Property	0.27	0.29	0.24	0.44	0.38	0.16	0.27	1.00	0.74	0.11	-0.03	0.03
Long Lease Property	0.26	0.28	0.22	0.39	0.34	0.19	0.22	0.74	1.00	0.24	0.12	0.37
UK Corporate Bonds	0.32	0.29	0.28	0.30	0.31	0.22	0.11	0.11	0.24	1.00	0.78	0.32
Fixed Interest Gilts	0.10	0.13	0.09	0.08	-0.04	0.03	-0.14	-0.03	0.12	0.78	1.00	0.30
Index-Linked Gilts	0.10	0.11	0.06	0.14	0.08	0.11	-0.01	0.03	0.37	0.32	0.30	1.00

Source: Mercer Asset Model correlations as at 31 March 2020 (note that figures are estimates for modelling purposes and may not be a true reflection of actual asset correlations in the future, particularly for illiquid asset classes).

(b) Cashflow management risks

The Fund is becoming more mature and although it is cashflow positive after taking investment income, managing cashflow will become an increasingly important consideration in setting the investment strategy. Specifically should this position ever reverse, mitigating actions would be taken to manage the cashflow shortfall such as investing in assets that produce cashflows that could be used to meet these payments.

(c) Demographic risks

The Fund is subject to a range of demographic risks, but with particular reference to investment strategy, the Committee is aware of the potential for the Fund to mature over

time as pensioner liabilities increase. A mature pension fund is likely to take less investment risk over time and this is considered at each strategy review. The more mature a pension fund, the more likely it is that disinvestments would need to be made to pay benefits. The Fund is not in that situation at present as income from contributions and investments are greater than benefit payments. However, this situation is monitored regularly and formally as part of the actuarial valuation and strategy review.

(d) Governance risks

The Pension Fund Committee believes that there is a benefit to the Fund to be gained from good governance in the form of either (or both) of an increased return and/or decreased risk. Poor governance can lead to opportunities and risks to be missed, and have a detrimental effect on the funding level and deficit. The current delegations and use of an investment sub-committee assist in managing this risk. There is also additional governance risk from the Fund's participation in the BPP and the ways this can be mitigated and managed were developed.

(e) Financial ESG risks

The Committee believes that in order to carry out their fiduciary duty by acting in the interest of its members, that effective management of Environmental, Social & Corporate Governance management (ESG) issues, including climate change, which are financially material to the Fund is essential. In order to protect the Fund's investments into the future, the Fund supports a global warming scenario of 2°C or lower, and states an ambition to achieve net-zero carbon emissions across all investment portfolios by 2050.

ESG risks should be taken into account on an ongoing basis and are an integral part of the Fund's strategy and objective of being a long term investor.

The Committee believes that engagement is crucial in relation to strong corporate governance, which in turn is expected to help enhance returns. Details of the Fund's policies can be found later in this statement.

~~One area of focus of the 2017 strategy review is the risks caused by Climate Change and the associated issue of stranded assets. The strategy review looked at the carbon footprint of the Fund's equity portfolio and considered reduction options, as well as conducting climate change scenario analysis and the potential impacts that a range of climate pathways could have on the Fund's asset allocation. The Fund will consider an appropriate process for the management of climate change risk for its active and passive equity mandates in the future. For example the Fund will carry out some scenario modelling in relation to Climate Change and its impact on the Fund's investments in 2020. The Fund has carried out scenario modelling in relation to climate change and its impact on the Fund's investments, and Committee members have participated in a responsible investment beliefs survey. The Fund included a specific section in its annual report for 2019/20 on the policies and actions taken with regard to climate change.~~

Scheme members have been and will continue to be kept informed on the work done in this area via a webinar at the annual employer conference. The Fund continues to develop the approach in this area, with a strong focus on ensuring that Committee members are properly informed in order to make decisions on the best direction for the Fund.

Contingency Plans

The investment risk is mitigated by regular monitoring of investment managers performance and review of the Fund's strategy on a quarterly basis. These, along with the other risks are monitored quarterly as part of the Fund's Risk Register and on-going funding level analysis undertaken by the actuary.

The Fund also monitor the funding level and if it falls by more than 20% from the funding position recorded at the last actuarial valuation, this triggers an immediate review. This review is undertaken in conjunction with the Fund's investment consultants and Actuary, with appropriate action taken. Given that a fall in the funding level could be realised through a number of different channels, there is no set framework here, with actions tailored to the individual circumstances the Fund finds itself in.

As outlined in the FSS, the Fund is also committed to providing some different investment strategies in the future to assist employers in managing and mitigate their exposure to investment risk where this is most appropriate for their specific liabilities.

5. Approach to Pooling Investments, use of collective investment vehicles & shared services

The Fund pools investments with 8 other local authorities and the Environment Agency through the Brunel Pension Partnership and its operator Brunel Ltd.

The Fund first transferred assets to BPP Ltd in July 2018 and, through the Pension Committee, will retain the responsibility for setting the detailed Strategic Asset Allocation for the Fund and allocating investment assets to the portfolios provided by BPP Ltd. However, the fiduciary responsibility dictates that the Pension Fund Committee must always act in the best interest of the Fund and it will need to ensure the most appropriate investments are used in the implementation of its investment strategy. This includes ensuring BPP Ltd are able to implement the Committees strategic decisions, that they are held to account for performance and in extremis, potentially consider other investments if the value for money opportunity cannot be delivered through BPP Ltd in terms of collective and individual basis.

BPP Ltd is a company which is wholly owned by the Administering Authorities. The company is authorised by the Financial Conduct Authority (FCA) to act as the operator of an unregulated Collective Investment Scheme. It is responsible for implementing the detailed Strategic Asset Allocations of the participating funds by investing Funds assets within investment portfolios with defined risk and return characteristics. In particular it researches and selects the underlying investment managers needed to meet the requirements of the detailed Strategic Asset Allocations. These Manager Operated Funds will be operated by professional external investment managers. The Fund is a client of BPP Ltd and as a client has the right to expect certain standards and quality of service. A detailed service agreement is in place which sets out the duties and responsibilities of BPP Ltd, and the rights of Wiltshire Pension Fund as a client. It includes a duty of care of BPP to act in its clients' interests.

The governance of the Brunel partnership is of the utmost important to ensure the Fund's assets are invested well and the needs of the Fund and its beneficiaries are met. Governance controls exist at several levels within Brunel.

- As shareholders in Brunel the Fund entered into a shareholder agreement with the company and the other shareholders. This gives considerable control over Brunel – several matters, including significant changes to the operating model and finances, are reserved matters requiring the consent of all shareholders.
- An Oversight Board comprising representatives from each of the Administering Authorities has been established. Acting for the Administering Authorities, it has a primary monitoring and oversight function. Meeting quarterly, it can request papers from Brunel or interrogate its management. However, it cannot take decisions requiring shareholder approval, which will be remitted back to each Administering Authority individually.

- The Oversight Board is supported by the Client Group, comprised primarily of pension investment officers drawn from each of the Administering Authorities, but also drawing on finance and legal officers from time to time. It will have a leading role in reviewing the implementation of pooling by Brunel, and provide a forum for discussing technical and practical matters, confirming priorities, and resolving differences. It will be responsible for providing practical support to enable the Oversight Board to fulfil its monitoring and oversight function.
- A separate level of governance is provided by the Board of Directors at Brunel, which are appointed by the Fund and the other shareholders. It comprises four highly experienced and independent non-executive directors, chaired by Denise Le Gal and four executive directors.
- Finally, as an authorised firm, Brunel has to meet the extensive requirements of the FCA which cover standards such as conduct, good governance, record keeping, training and competency, policy and process documents, and internal controls.

The arrangements for asset pooling for the Brunel pool were formulated to meet the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and Government guidance.

Wiltshire Council approved the full business case for the Brunel Pension Partnership on 21 February 2017. The Fund's first investment assets were transitioned across to BPP in July 2018. At the time of writing BPP are still working to finalise a number of their portfolio offerings, with the target date for all portfolios operational extending into 2021. An investment timetable can be found in the appendix of this paper which sets out Brunel's current expectations around Fund launches. Until such time as transitions take place, the Fund will continue to maintain the relationship with its current investment managers and oversee their investment performance.

Following the completion of the transition plan outlined in the Appendix, it is currently envisaged that the majority of the Wiltshire Pension Fund's assets will be invested through BPP Ltd. The Fund has certain commitments to long term illiquid investment funds which will take longer to transition across to the new portfolios to be set up by BPP Ltd.

Currently not all proposed portfolios to be offered by BPP Ltd provide a direct substitution for the Fund's investment strategy. For example, there is not a replication of the Fund's Emerging Market Multi Asset mandate, although this could be substituted with the use of separate Emerging Market equities and bond portfolios, and this is one of the ways that BPP can deliver the same outcomes by providing a different solution. In this case, where BPP cannot accommodate a specific solution, these assets would remain outside the Fund and continue to be managed by the Fund until such time as they are liquidated, and capital is returned.

More details on the Brunel Pension Partnership can be found in Appendix B.

6. Social, environmental and corporate governance policy

Approach to Environmental, Social and Governance (ESG)

ESG are important factors for the sustainability of investment returns over the long term. The Fund seeks to use its position as a shareholder to actively encourage good corporate governance practice in those companies in which it invests. As part of owning publicly listed companies Brunel, on behalf of its clients, will have the opportunity to vote at company meetings (AGM/ EGMs). To provide guidance, Brunel has a single voting policy for all assets managed by Brunel in segregated accounts.

Brunel has appointed Federated Hermes EOS as the engagement and voting services provider. The appointment enables a wider coverage of assets and access to further expertise across different engagement themes. The Federated Hermes team is diverse, made up of 11 nationalities with 10 language capabilities, which facilitates engagement in local language and an understanding of cultural customs.

Brunel will publish its voting policy and provide online voting records no less than twice a year.

The Fund is also a member of the Local Authorities Pension Fund Forum (LAPFF), to enable it to act with other local authorities on corporate governance issues. LAPFF's mission is to protect the long-term investment interests of beneficiaries by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies. Details of their activities can be found on the following link:

<http://www.lapfforum.org/about-us>

The Fund has a fiduciary duty to act in the best interest of its members and therefore expects its investment managers to take account of financially material social, environmental and ethical considerations in the selection, retention and realisation of investments as an integral part of the normal investment research and analysis process. The Fund believes that taking account of such considerations forms part of the investment managers' normal fiduciary duty.

As such, the Fund has a commitment to ensuring that the bodies in which it invests adopt a responsible attitude toward the environment, and adopt high ethical standards. Such companies are expected to behave in a socially responsible manner by taking account of the interests of all stakeholders.

In 2019 the Fund transferred the entire allocation to passive equities to a passive global low carbon equity mandate, which reduced the carbon footprint of the portfolio. The long-term allocation to low carbon equity is 12% of total Fund assets.

Non-Financial ESG Considerations

The pursuit of a financial return is the predominant concern for the Fund to address the funding deficit and minimise the on-going cost of pension provision to its 170+ employer organisations. The Fund is aware it may also take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think stakeholders would support the decision.

The Fund's Pensions Committee has two employer representatives and two employer observers, while the Local Pension Board has three employer body and three member representatives who both represent and can engage with beneficiaries and stakeholders to ensure the Fund is aware and can respond effectively to all stakeholders concerns.

The Fund also aims to communicate using its website, newsletters, Annual Report and proposed Annual General Meeting to engage directly with all stakeholders.

When formulating and developing any policy on non-financial social, environmental, and corporate governance factors, the Committee will take proper advice from either its investment consultant or other appropriate expertise in this area and ensure the Local Pension Board and other stakeholder views are considered through the use of specific Board reports and consultations. Any policies once developed would be available on the Fund's website.

Social Investment

The Government considers that social investments are appropriate for LGPS funds where either the social impact is simply in addition to the financial return. It also considers that investments where some part of the financial return is forgone in order to generate the social impact are also appropriate, where the administering authority has good reason to think scheme members share the concern for social impact, and there is no risk of significant financial detriment to the Fund.

The Fund is consistent in the application of risk and returns requirements when evaluating all investment opportunities, including those that address societal challenges. The Fund would invest in opportunities that address societal challenges but generate competitive financial returns.

Seeking such opportunities is generally delegated to our external fund managers.

Sanctions

The Fund does not exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

Brunel Pension Partnership Policy

The Brunel Pension Partnership [Investment Principles](#) clearly articulate our commitment, and that of each Fund in the Partnership and its operator (Brunel Company), to be responsible investors and as such recognise that social, environment and corporate governance considerations are part of the processes in the selection, non-selection, retention and realisation of assets. One of the principal benefits, outlined in the BPP business case, achieved through scale and resources arising from pooling is the improved implementation of responsible investment and stewardship.

Every portfolio, in every asset class, under the Brunel Pension Partnership, explicitly includes responsible investment and includes an assessment of how social, environment and corporate governance considerations may present financial risks to the delivery of the portfolio objectives. These considerations will therefore be taken into account in the selection, non-selection, retention and realisation of assets. The approach undertaken will vary in order to be the most effective in mitigating risks and enhancing investor value in relation to each portfolio and its objectives. For more information is on the [BPP website](#).

As an example the Fund invests in passive low carbon equities through Brunel.

Brunel 2020-22 Climate Change Policy Objectives

[Brunel's Climate Change Policy](#) set's out a plan to build a financial system which is fit for a low carbon future. The Policy explains how Brunel see three areas where they have a particular contribution to make. Namely: they will have significant direct influence over the investment managers they appoint; they can exert broader influence in the investment industry and with policy makers and lastly their ability to influence company practice and performance, in particular in conjunction with their Client Funds and others.

The Committee fully encourages and supports Brunel's 2020-2022 policy objectives on climate change which are set out in their Climate Change Policy below. The Committee are currently supportive of Brunel's approach of not issuing exclusion lists as the Fund believes that simply stating exclusions or requiring divestment from specific stocks or sectors will not compel investment managers to develop their capacity on climate change or drive change in the companies in which they are invested.

Brunel's 2020-2022 climate change policy objectives

We will play an active and leading role in encouraging policy makers to establish comprehensive and robust climate change policy frameworks. Within this, we will focus particular attention on:

- The adoption of a meaningful price on carbon, which is material (i.e. sufficient to drive change at the scale and rate required), progressive over time and widespread (i.e. applies to all major sectors of the economy).
- The removal of fossil fuel subsidies.
- The introduction of policy measures – for example, product standards, limitations on high carbon technologies, support for low carbon technologies – that accelerate the move away from high impact activities and sectors.
- The removal or correction of regulatory barriers to progress and support financial policy makers and regulators in being ambitious and effective in implementation of plans to mitigate climate risk and under the Adaptation Reporting Power.
- The integration of climate change into the mandates and into the oversight and control processes of prudential regulators and other regulatory bodies.
- Ensuring that climate change policy is socially sustainable and takes due account of workers' rights and community interests (the 'Just Transition') when taking action to reduce greenhouse gas emissions and adapt to a changing climate.

We will play an active leading role in encouraging policy makers to integrate climate change into multilateral and bilateral trading frameworks, with a particular focus on the UK post Brexit.

We will encourage policy makers to introduce mandatory climate change disclosure requirements for companies, with a focus on providing clear, decision useful information and encouraging a clear articulation of the risks that companies and their investors face.

We will support the development of skills, knowledge and professional standards of those intermediaries who are critical influencers in the action of investors and companies. These include, but are not limited to, investment consultants, actuaries, lawyers and auditors.

Further details of Brunel's Climate Change policy are set out on its [website](#).

Monitoring of Climate Change Policy and Reporting Progress

Reporting on climate change is an area that is rapidly developing, and the Fund is working with Brunel and other member funds to continue to improve this. The Fund is supportive of Brunel's involvement in initiatives, such as the Institutional Investors Group on Climate Change ("IIGCC") Paris Aligned Investment Initiative, that are working to allow asset owners and investment managers to explain, in a consistent and comparable manner, how their portfolios compare to the goals of a net zero carbon future and of keeping global temperature rise below 2 °C.

The Fund currently undertakes climate change scenario analysis and carbon footprinting (measuring carbon intensity and fossil fuel reserve exposure) to better understand opportunities and risks within the Fund's portfolios. As holdings transition into Brunel portfolios, the Fund will be publishing the following metrics and data, as relevant, for different asset classes and strategies:

- Carbon footprints
- Fossil fuel exposures
- Green and brown share (i.e. the proportion of its portfolios invested in areas such as renewable energy)
- Engagement and voting activities

The Fund will use its website as the primary method of communication. The Fund will publicly report in line with Task Force on Climate Related Financial Disclosures "TCFD" recommendations ~~in due course and are developing an approach in this area~~ for the first time in the 2020/21 Annual Report.

Alongside Brunel and the partner funds, the Fund will look to undertake a full review of our climate change policy approach in late 2022 to early 2023 to provide us with the opportunity to reflect on progress, the effectiveness of our approach, and potentially to raise our ambitions.

One of the key questions the Fund will be answering as part of this review is whether Brunel's decision to engage with investment managers has been effective. Specifically, whether it has been effective in delivering change in the way investment managers work and in their ongoing engagement with companies to drive improvements in corporate strategies on climate change, so that these companies are on a trajectory to be aligned with the transition to a 2°C economy. If the answer is no, the Fund will be expecting Brunel to consider whether they need to change investment managers and/or introduce selective divestment requirements for companies.

The Fund will continue to monitor Brunel's progress on implementing its policy objectives and will work with them to achieve our collective climate change ambitions. If the Fund does not feel action is progressing at an appropriate pace, the Fund will seek to address this with the other partner funds and Brunel.

In addition to the full review, the Committee will be reviewing its beliefs and commitments on an annual basis to ensure that they remain fit for purpose and that strategic objectives are set with these in mind. To support this, the Fund will ensure there is regular training on climate change for the Committee, Board, and Officers so that those in charge of the decision making for the Fund are sufficiently informed.

Responsible Investment Initiatives

To deliver the Fund's Responsible Investment policy the Fund is active in supporting a number of responsible investment initiatives. The Fund plans to become a signatory to the new UK Stewardship code. The Fund is a member of the LAPFF. The Fund supports the Transition Pathway Initiative ("TPI"). In addition, the Fund supports Brunel as a signatory to the UN supported Principles for Responsible Investment ("PRI").

7. Policy for the exercise of rights (including voting rights) attaching to investments

Voting Policy

The fund believes that voting is integral part of the responsible investment and stewardship process.

For assets that have transitioned to Brunel, the Committee has delegated the exercise of voting rights to Brunel on the basis that voting power will be exercised with the objective of preserving and enhancing long-term shareholder value. As part of owning publicly listed companies, Brunel, on behalf of its clients, will have the opportunity to vote at company meetings (AGM/ EGMs). Brunel aims to vote 100% of all available votes. To provide guidance to its managers, Brunel has a single voting policy for all assets managed by Brunel in segregated accounts. Hermes EOS has been appointed to support Brunel as its engagement and voting service provider. Brunel will publish its voting policy and provide online voting records at least annually.

The Fund undertakes its engagement activities through its active membership of the Local Authority Pension Fund Forum which targets specific areas of concern across the holdings of its LGPS membership.

The Fund also expects its asset managers to report on their engagement activities on a regular basis and summarises these in its quarterly updates.

The Fund will publish the voting carried out on its behalf on its website.

Stewardship Code

The introduction of the Stewardship Code in July 2010 by the Financial Reporting Council strongly encouraged best practice in respect of investor engagement. The Fund published its statement of compliance with the code during 2011 and this is reviewed annually. All of our global equities managers currently comply fully with the code. The Fund is rated as Tier 1 compliant by the Financial Reporting Council.

In late 2019, the Financial Reporting Council (“FRC”) published its revised 2020 UK Stewardship Code (“2020 Code”). The latest Code defines stewardship as “*the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.*”

The FRC has described the 2020 Code as ambitious and highlighted the increased focus on ‘activities and outcomes’ as opposed to policy statements alone. As part of this increased remit the 2020 Code covers a wider range of asset classes, requires signatories to consider the systematic integration of ESG and climate change in the

stewardship and investment process, and is based on a more stringent 'comply and explain' basis. The revised 2020 Stewardship Code now has 12 principles for signatories.

The Fund plans to become a signatory to the 2020 Code by the end of 2021, recognising the significant amount of work complying with and reporting on the new Code will entail. The Fund has already had discussions with its partner funds and Brunel to ensure appropriate structures are in place to enable this.

Stewardship in Investment Pooling

As part of Brunel, the Fund is actively exploring opportunities to enhance our stewardship activities. At the same time the Fund will continue to be an active owner in our own right. The Committee believes one of the potential benefits of pooling, achieved through the scale and resources arising from pooling, is the improved implementation of stewardship practices. Brunel has published its Responsible Investment Stewardship Policy which outlines its approach and priorities. The policy reflects the priorities of its underlying clients, and the Fund was active in contributing to the policy.

With the support of the Fund and the other partner funds, Brunel has been using its influence to press for improved stewardship at external investment managers and has been actively involved in government consultations and other initiatives in the area. Once all equity assets have been transitioned, the Partnership and Brunel Ltd will seek to deliver best practice standards in responsible investment and stewardship in terms of company engagement as outlined in the Brunel Pension Partnership Investment Principles. More information is available on the website (www.brunelpensionpartnership.org).

The Committee has delegated investment powers to Brunel and the Fund's investment managers (where assets have not yet transitioned to Brunel) to act in the best interests of the Fund. Brunel and the Fund's investment managers are encouraged to engage in constructive dialogue on behalf of the Fund and to use their influence to encourage companies to adopt best practice in key areas. Brunel and the Fund's investment managers have been asked to report to the Committee on the implementation of their stewardship and engagement activities, which will be reviewed on a regular basis.

A representative from Brunel is also periodically invited to present at Committee meetings to provide updates on developments.

The Fund recognises the importance of collaboration with other investors to achieve more effective and wider reaching outcomes. In this respect, the Fund is a member of the Local Authority Pension Fund Forum ("LAPFF") which aims to protect the long-term investment interests of beneficiaries by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies. Further details can be found on their [website](#).

Advice Taken

In creating this statement, the Fund has taken advice from its Investment Consultant. Also, in relation to each of the constituent parts, such as the asset allocation and risk mitigation, the Fund has taken advice from its Investment Consultant, Mercer, and the Fund Actuary, Hymans Robertson. In providing investment advice, Mercer is regulated by the Financial Conduct Authority.

8. Other Investment Policies

Investment Consultant Objectives

The Fund has set objectives for its Investment Consultant, Mercer, in conjunction with the recent Competition & Markets Authority “CMA” directive. The Fund’s Investment Consultant is measured against these objectives in the Annual Reporting review, which is detailed in a separate document. A statement will be submitted to the CMA annually regarding the Investment Consultant’s compliance with these objectives.

Markets in Financial Instruments Directive (MiFID)

In 2017, when the Markets in Financial Instruments Directive (MiFID) was integrated into UK financial regulation, local authorities were reclassified automatically to ‘Retail clients’ due to the UK local authorities being in the unique position of managing pension funds. Whilst Retail status provides increased investor protection relative to Professional clients, there are a number of disadvantages including:

- Restricted access to investment managers as few firms are authorised to deal with retail clients.
- Limited products and services available as only certain types of investments are deemed suitable for retail clients. Many private markets products are not deemed suitable for Retail clients, namely Infrastructure funds, Private Equity funds, Hedge Funds, this is not consistent with the Fund’s current investment strategy.
- Significant implications for pooling
- Sale of assets not available to retail clients and respective exit charges implications.

For the reasons outlined above, local authorities engaged with the FCA, and whilst the Retail Status will not change, the Fund has been able to ‘opt-up’ to Professional status to ensure none of the aforementioned drawbacks of Retail status apply.

Appendix A

12 Principles of the 2020 Stewardship Code

- 1) Purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.
- 2) Governance, resources and incentives support stewardship.
- 3) Manage conflicts of interest to put the best interests of clients and beneficiaries first.
- 4) Identify and respond to market-wide and systemic risks to promote a well-functioning financial system.
- 5) Review their policies, assure their processes and assess the effectiveness of their activities.
- 6) Take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.
- 7) Systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.
- 8) Monitor and hold to account managers and/or service providers.
- 9) Engage with issuers to maintain or enhance the value of assets.
- 10) Where necessary, participate in collaborative engagement to influence issuers.
- 11) Where necessary, escalate stewardship activities to influence issuers
- 12) Actively exercise their rights and responsibilities.

Appendix B

Brunel Pension Partnership

High Level Investment Principles

Working with all the partner funds and the Brunel Pension Partnership, we have agreed a set of investment principles with the intention that they provide a framework for the investment strategy, operations, manager selection, monitoring and reporting. The principles are also designed to meet the Ministry for Housing, Communities and Local Government - Local Government Pension Scheme: Investment Reform Criteria and Guidance and the requirements and expectations of Financial Conduct Authority. They can be applied to all asset classes, although the detail of operation will vary by asset class.

The principles do not impose any restrictions on type, nature of companies or assets held within the portfolios. The principles do place an expectation that recognised best practice standards in governance, risk management, stewardship and value for money will be delivered.

Long-term investors	We are long-term investors: we implement our funds investment strategies that require productive assets that contribute to economic activity, such as equities, bonds and real assets. This may include the delegated responsibility to provide sustainable and sufficient return on their assets.
Responsible investors	We are responsible investors: we believe that in the long term we will generate better financial returns by investing in companies and assets that demonstrate they contribute to the long term sustainable success of the global economy and society.
Best practice governance	We adopt best practice collective governance with appropriate oversight, prioritisation, delegation and decision making at the right level, and clear accountability.
Decisions informed through experts and knowledgeable officers and committee	We make our decisions based on extensive expertise including trained and insightful operations' governance members, experienced and professional officers and high quality, knowledgeable advisors.
Evidence and research at heart of investments	We take an evidence and research-based approach to investment: continually learning and reappraising from academic research, investment professionals, and our peers, and seek continual development in our understanding of investment.
Leadership and innovation	We are prepared to be innovative and demonstrate thought leadership in collective investment, within the requirement of prudence and our joint fiduciary duty.

Right risk for right return	We will make our collective investments work as hard as possible to meet our funds' objectives: we will provide the right structure of sub funds and managers within asset classes. While we take account of market and economic levels in our decision making, we will avoid making decisions on purely a short term basis.
Full risk evaluation	We will be comprehensive in our consideration of our funds' risks assessed on their liabilities and contributions; consider financial and non-financial risk as appropriate; offer a pooled structure to accommodate the need to diversify risk, but also recognise the limits of that diversification – as long term investors we accept that our investment success depends substantially on the sustainable growth of the economy.
Responsible stewardship	We will enable our funds' to exercise responsible stewardship of the assets they hold, and act as a collective responsible voice in the broader investment community.
Cost effective solutions	We will seek the most cost-effective solutions to achieving our funds' objectives and implementing these principles collectively: we recognise the impact of costs on the Funds, but we are prepared to pay for active management and other services when we believe that the costs incurred are likely to be justified by the benefits. We will seek to gain leverage from our collective status through reduction in fees and avoidance of cost through increased resilience and sharing our peoples' strengths, knowledge and expertise.
Transparent and accountable	We believe in the importance of being transparent and accountable, to ensure correct decisions are taken and to minimise risk. This applies both in our own operations, those we work with, and our investments
Collaborate	We will collaborate with others whenever possible, to share ideas and best practice; to improve effectiveness and to minimise costs.

Implementation: Approach to Asset Pooling

Brunel Pension Partnership Ltd. (Brunel) was launched on 18 July 2017 as a company wholly owned by the ten Administering Authorities. Brunel obtained authorisation from the Financial Conduct Authority (FCA) in March 2018 to act as an investment manager and an Investment advisor.

Brunel is an FCA regulated full scope MiFID investment management firm, established by our 10 owners (9 local authority pension schemes and the Environment Agency) to ensure their pension schemes are sustainable and cost effective. Brunel has currently transitioned ~£15bn of assets from a pool of £30bn. We have an agreed strategic plan to invest the remaining £15bn over the coming two years. Brunel are long term investors

with an influential voice in Responsible Investment and pooling, which is a national initiative with ~£1/4 trillion assets under management.

Brunel has made excellent progress since launch, with key objectives being:

- Offer a client driven range of products and services to ensure our partner funds remain at the forefront of pension fund investment
- Outperform benchmarks in long term (min 3-5 years listed, longer PM)
- Provide additional benefits (beyond financials) including stewardship, responsible investment, influencing policy, diversification and risk analysis
- Taking a prudent approach, managing risk through robust governance and controls
- Make fee savings, whilst maintaining performance, of £27.8m (8.9bp) by 2025 and manage transition and operational costs to achieve breakeven by 2023, and cumulative net savings of £550m to 2036

The arrangements for asset pooling for the Brunel pool have been formulated to meet the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and Government guidance.

The Fund, through the Pensions Committee, retains the responsibility for setting the detailed Strategic Asset Allocation for the Fund and allocating investment assets to the portfolios provided by Brunel. The Fund is also able to suggest new portfolios to Brunel and engage with Brunel on the structure and nature of existing portfolios.

The Fund's first investment assets were transitioned across to BPP in July 2018. At the time of writing BPP are still working to finalise a number of their portfolio offerings, with the target date for all portfolios operational extending into 2021. A full time table can be found below:

Fund Launch/Project	Transition	Fee Savings Start
Emerging Markets	09/10/2019	Nov-19
LDI & Passive Gilts	15/11/2019	Dec-19
Global High Alpha	22/11/2019	Dec-19
DGF	23/03/2020	Apr-20
Sustainable Equities	12/06/2020	Jul-20
Multi Asset Credit	14/08/2020	Sep-20
Smaller Companies	22/05/2020	Jun-20
Sterling Corporate Bonds	25/09/2020	Oct-20
Global Core	18/11/2020	Dec-20
Hedge Funds	22/03/2021	Apr-21
Global Bonds	19/04/2021	May-21
TAA	26/07/2021	Aug-21

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WILTSHIRE COUNCIL

INVESTMENT SUB COMMITTEE
25 February 2021

RESPONSIBLE INVESTMENT QUARTERLY UPDATE REPORT

Purpose of the Report

1. The purpose of this report is to update members on responsible investment issues.

Key Considerations for Committee

Climate risk work and the investment strategy

2. Following on from the Mercer climate change modelling, which was presented to members at a dedicated workshop on 19 November 2020, and the responsible investment beliefs survey, the findings of which were presented at the Committee meeting on 17 December 2020, an extraordinary Committee meeting was held on 14 January 2021. This meeting specifically focussed on responsible investment issues, to help define the way forward for the Fund.
3. Follow-on actions from the recent Committee meetings are as follows:

Recommendation	Action
Members agreed...	
To amend the Investment Strategy Statement (ISS) in line with Mercer's recommendations, i.e. making a commitment to achieve net zero in the portfolios by 2050, in alignment with the Paris agreement and the UK government, and an explicit acknowledgement that warming needs to be kept to sub-2°C.	The draft revised ISS is elsewhere on this agenda, and will be on the agenda for debate at the full Committee meeting in March 2021.
That the Fund should adopt the recommendations of the Task force on Climate related Financial Disclosures (TCFD)	The TCFD reporting will feature in the Fund's annual report for 2020/21, and a commitment to this has been added to the draft revised ISS
That the Fund should aim to sign up to the 2020 Stewardship Code during 2021	Fund officers will work with Brunel and other member funds to define an approach to signing up to the 2020 Stewardship Code, and will report progress back to the Committee.
That officers will further explore commissioning Mercer to advise on a road map for the Fund to achieve net zero by 2050	If the draft revised ISS is approved, it will be necessary to commission some consultancy support for the practicalities in implementing the strategy, and therefore a quote for this is being obtained and will be included in the 2021/22 budget, which will go to the March 2021 Committee meeting for discussion and approval.

To instruct officers to prepare a paper on the Brunel sustainable equities portfolio, for consideration at the next Investment Sub-Committee and main Pension Fund Committee in March 2021	A paper with more information on the Brunel sustainable equities portfolio is included elsewhere on this agenda.
--	--

4. At the end of the Committee meeting on 14 January 2021, the chair invited members to email in their opinions on the following areas of discussion: the proposed changes to the ISS, impact investing, and options for engagement with the scheme membership. Five members sent in detailed responses, which are summarised below:
5. **Investment Strategy Statement changes:** There was support for the proposed changes from four respondents, with members citing the modelling work done, the opportunities available as part of a transition to a low carbon economy, the need to safeguard the Fund's long-term investment returns, and also ethical concerns. The member who was against the changes felt that the modelling by Mercer was not to be relied upon, that the proposed changes were imprudent, and also raised concerns about the legality of the changes, in the context of fiduciary duty. A couple of respondents highlighted the need to consult with employers and/or the wider membership on the revised ISS.
6. In response to the concern around legality, Wiltshire's legal services team are conducting a review and will report back to the March 2021 Committee. Members may also find some comfort in the information provided later in this report about the Government consultations on climate risk, which indicate that the work that the Fund is currently doing (climate change modelling, reporting carbon metrics etc) will shortly become a legal obligation. It may also be helpful to refer to the following link, which explains that consideration of financially material ESG (environmental, social and governance) issues (which would include climate change risk) is a vital part of fiduciary duty, and that to neglect this could put the Fund at risk of legal challenge: <https://www.unpri.org/fiduciary-duty/the-modern-interpretation-of-fiduciary-duty/6538.article>.
7. **Impact investing / investing and reporting in line with the UN Sustainable Development Goals:** There were a mix of responses, with broad support for this idea but with a clear need for more information, particularly around practicalities, or a steer from the Fund membership. A next step for this area could be a further training session. If members support the idea, officers could reach out to Karen Shackleton, from Pensions for Purpose, to arrange for members to hear an outside view and obtain some more information.
8. **Engagement with the scheme membership:** There was a lot of support for engaging with the scheme membership, and members highlighted the following considerations – firstly that the membership do not have high stakes in the investment strategy, as their benefits are guaranteed, and also that it would be important to educate members on the issues alongside any opinions sought. A couple of respondents felt that the focus should remain on informing members at the current time, via the annual report, webinars, and possibly interacting via some online surveys. Some options for member engagement are considered later in this report, along with a suggested plan.
9. A training session has been organised for 2-4pm on 10 March 2021, so that members can benefit from hearing some additional opinions and perspectives. Hymans, the Fund's actuaries, will present some modelling which they have carried out, which looks at the potential effects on the funding level. This will examine scenarios where policies are rapidly changed to respond to the threat of climate change, where nothing is done at all, and something in-between. Baillie Gifford will also be attending, to talk to members

about how climate change risk can be incorporated in an investment approach, and their thoughts on how to manage the risks and take advantage of the opportunities. As an investment manager with a long-term growth philosophy which is well aligned with the Pension Fund's own objectives, this should be a very interesting discussion. Members are encouraged to attend the training session.

UNISON/Shareaction Report

10. Unison have published a new report on responsible investment in the LGPS, comparing the 10 Funds in the Brunel Pension Partnership. The full report is attached as Appendix 2.
11. The report is based on a review and assessment of publicly available information, so it is not a perfect appraisal, but it is a good indicator. It looks as though the data may have been obtained from an older source, as for example, Wiltshire have not been awarded a point for having a low carbon allocation, as well as a few other points throughout. Although this means that the report itself may not be fully accurate, it is good news that Wiltshire is continuing to make progress.
12. Wiltshire scored "9" in 2020, which equates to a "B" (action being taken in at least one area). This is up from a score of "7" two years ago, so progress has been made. Unsurprisingly, the Environment Agency and Avon Pension Funds are leading the pack.
13. Regardless of how accurate the current report is, it is a useful tool for identifying areas of strength and weakness. One key area of strength is knowledge and skills, where Wiltshire's training programme earned the Fund the highest marks of all funds. Some areas for improvement could be ensuring that the policies and reporting are covering all the key points – something which is already being considered. Engaging with the scheme membership is another factor to consider – this is discussed in more detail later in this report.

DWP Consultation

14. The DWP recently launched a consultation on new draft regulations and statutory guidance for private sector pension schemes. Although this doesn't directly apply to the LGPS, MHCLG will very shortly be launching a consultation which does, which will be virtually identical. A link to the DWP consultation follows:
<https://www.gov.uk/government/consultations/taking-action-on-climate-risk-improving-governance-and-reporting-by-occupational-pension-schemes-response-and-consultation-on-regulations>
15. Assuming this all goes ahead and is brought into law, then the Pension Fund will soon be legally obligated to carry out a lot of the work which has already been started, for example committing to the TCFD requirements, assessing climate change risk through modelling, training and education for both Committee members and the scheme membership, improved disclosures and reporting etc.
16. When the MHCLG consultation is launched, officers will inform Committee members and will circulate a briefing note.

Scheme member engagement

17. There are several factors to consider in terms of how and why to engage with the scheme membership. Members' benefits are set out in law, so they are not impacted by the investment returns, but they may still have opinions on how the funds are invested. The topic of investments is quite technical, and responsible investment issues can be nuanced, so it will be important to educate members as well as asking for opinions.
18. There are a range of ways that members can be engaged with:
- **Informing** – something which the Fund already seeks to do via a section of the annual report which reports on climate change risk and actions. The Fund also published a press release about the transition to low carbon equities.
 - **Educating** – again something which the Fund has moved towards in the last year, by holding a dedicated responsible investment webinar as part of the annual member conference. There are other ways the Fund could expand the approach here – there are plans for a responsible investment page on the Fund's website, and the Fund could also consider newsletters, and repeating the webinar format next year etc.
 - **Consulting** – the Fund does not currently consult with the employers or wider membership, but this could be done for the updated ISS.
 - **Actively seeking views** – this could be done as a first step via a member survey. The Fund does not hold email addresses for most of the pensioner members, and mail shots can be very expensive, and may not generate much of a response. The active membership are far easier to reach – the Fund has email addresses for around 10,000 active members, and can also use the employer organisations to send round internal communications. The views of the scheme membership would not be used to drive the strategy, but the exercise would provide a useful piece of information to help Committee members consider the full picture, alongside professional advice. It would be also be an effective way to engage with the scheme membership on these issues.
19. The Environment Agency is the only fund in the Brunel pool so far to have carried out extensive member engagement activity, although others are currently looking at the options. The Environment Agency started with a 10-question online survey, which they have published the results for – the results are available on their webpage at the following link: <https://www.eapf.org.uk/news/public/2020/05/what-you-think-about-responsible-investment>. This exercise was done without external support, and Environment Agency officers report that they received an impressive 2,500 responses.
20. One of the questions in the survey asked if members would be interested in being part of a focus group. The Environment Agency then engaged some external support, to help from a market research perspective, to help facilitate several focus groups. This was a useful exercise although understandably much more resource-intensive than the initial survey.
21. If Wiltshire carried out a survey, this could be done via the existing subscription to Mail Chimp (i.e. no additional cost), which is a service that also provides data analytics on the survey results. This could be launched immediately, with results reported back to the March 2021 Committee meeting, to help inform discussions at this meeting. A proposed questionnaire is attached as Appendix 1.

22. Proposed responsible investment membership engagement plan for Wiltshire Pension Fund:

- Continue to develop and expand upon the information published in the annual report;
- Develop and launch a responsible investment webpage, to contain data (for example the voting records), relevant policies, resources, news and updates;
- Deliver a webinar on responsible investment issues at the member conference in the autumn to inform members about the responsible investment framework, policies and actions;
- Consult with employer organisations on the revised draft ISS, by circulating the agreed draft to heads of finance at all employers after the March 2021 Committee meeting, and inviting feedback with a deadline of 4 weeks. The ISS will then be amended and approved (with the caveat that if amendments are significant, the ISS will be brought back to Committee again for a final review before being approved);
- Launch a short online scheme member survey. This will be sent to all members for whom email addresses are held, as well as publicising the survey through internal comms at the major employer organisations. Results will be published online and in the 2020/21 annual report, and reported to Committee.

23. If this membership engagement plan is endorsed, it should be included in the amended draft ISS.

Voting Records

24. The following extract from the ISS sets out the Fund's policy with regard to voting:

- The fund believes that voting is integral part of the responsible investment and stewardship process.
- For assets that have transitioned to Brunel, the Committee has delegated the exercise of voting rights to Brunel on the basis that voting power will be exercised with the objective of preserving and enhancing long-term shareholder value. As part of owning publicly listed companies, Brunel, on behalf of its clients, will have the opportunity to vote at company meetings (AGM/ EGMs). Brunel aims to vote 100% of all available votes. To provide guidance to its managers, Brunel has a single voting policy for all assets managed by Brunel in segregated accounts. Hermes EOS has been appointed to support Brunel as its engagement and voting service provider. Brunel will publish its voting policy and provide online voting records at least annually.

25. The ISS also states that the Fund will publish its voting records on the website. To date this has not been done. The intention is to remedy this shortly – the Fund is currently redesigning the website, and the new website will be launching later this spring. As part of this, there will be a dedicated responsible investment page, which will include lots of information including the voting records. For information, the Fund's voting and engagement reports for Q4 2020 from Brunel have been attached as Appendices 3 and 4. These contain summary information about the voting and engagement activities carried out on the Fund's behalf. For clarity – both these reports and the detailed records will be published online in due course.

Environmental Impacts of the Proposals

26. This report includes information on actions and policies which directly deal with addressing climate change risk.

Safeguarding Considerations/Public Health Implications/Equalities Impact

27. There are no known implications at this time.

Proposals

28. The Investment Sub Committee is asked to

- note the report and the progress that is being made towards implementing responsible investment related issues;
- instruct officers to approach Karen Shackleton to arrange for further training on impact investing;
- endorse the proposed approach to membership engagement and instruct officers to include this within the amended draft ISS;
- endorse the proposed approach to publishing voting records.

Report Author: Jennifer Devine (Head of Pension Fund Investments)

Unpublished documents relied upon in the production of this report: NONE

Appendices

Appendix 1 – Proposed responsible investment questionnaire for the scheme membership

Appendix 2 – UNISON/Shareaction report on responsible investment in the LGPS

Appendix 3 – Wiltshire voting report Q4 2020

Appendix 4 – Wiltshire engagement report Q4 2020

Appendix 1 – Proposed Responsible Investment Questionnaire for the Scheme Membership

1. Name (will be kept confidential – just needed to verify membership of the Fund):
2. Age: under 25, 25-34, 35-44, 45-54, 55-64, 65-74, 75+
3. Membership status: Active, Deferred, Pensioner
4. What level of interest do you have in how the Pension Fund invests the money held to pay the pensions? 1-10 (not interested at all – very interested)
5. What level of understanding do you have of responsible investment? good understanding, partial understanding, no understanding
6. How important do you think it is for the Fund to take account of ESG (environmental, social and governance) issues when making investment decisions? 1-10 (not important at all – very important)
7. Do you believe that ESG (environmental, social and governance) issues present a financial risk to the Pension Fund's investments? Yes, No, Maybe, Don't know
8. Do you believe that climate change in particular presents a financial risk to the Pension Fund's investments? Yes, No, Maybe, Don't know
9. Is it important to you for Wiltshire Pension Fund to invest in sustainable and/or low carbon assets? Yes, No, Maybe, Don't know
10. In your opinion, should the Wiltshire Pension Fund prioritise investment returns, ESG (environmental, social and governance) issues, or both? Prioritise investment returns first, prioritise ESG issues first, prioritise investment returns and ESG issues equally
11. How important is it to you that Wiltshire Pension Fund seeks to influence the behaviour of the wider financial community to bring about better environmental and social outcomes? 1-10 (not important at all – very important)
12. How important is it to you that Wiltshire Pension Fund seeks to influence the behaviour of the individual companies in which it invests, to bring about better environmental and social outcomes? 1-10 (not important at all – very important)
13. Have you seen the Wiltshire Pension Fund Annual Report 2019/20, and the section on climate risk? Yes, No, Don't know
14. Did you attend the responsible investment webinar at the annual member conference in November 2020? Yes, No, Don't know
15. Would you be interested in learning more about Wiltshire Pension Fund's approach to responsible investment? Yes, No, Don't know

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Climate and the Carbon Emergency -One Year On

Research and review of the LGPS pension
funds investment strategy statements in the
Brunel Pension Partnership Fund

September 2020



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UNISON is the UK's largest trade union, serving around 1.3 million members, and Europe's largest public service union. It represents full-time and part-time staff who provide public services employed in both the public and private sectors.

One Year On - Responsible Investment in the Brunel Pension Partnership Local Government Funds.

Published by the UNISON South West Regional LGPS Committee 2020.

Contact: Lisa Youlton., UNISON Regional Officer, l.youlton@unison.co.uk

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Introduction

This report was commissioned by the South West Regional LGPS committee of UNISON to take forward the findings of the research report “Responsible Investment in LGPS” published by UNISON in 2019.

The Local Government Pension Scheme (LGPS) investment funds in the Brunel Partnership in 2019 held assets of £34 billion which forms 12% of the overall LGPS fund of £280 billion. The funds in the Brunel Pension Partnership had 717,253 scheme members at the time of the survey

The survey looks in detail at the ten LGPS investment funds who are part of the Brunel Pension Partnership, to see if any changes have occurred in how Climate Change has been addressed in the investment funds controlled given the announcements of local Climate Change emergencies by Local Government.

How this money is invested and how such issues as climate change are addressed will have a material impact on the ability of the system to support pension payments into the future.

The opportunity was taken to extent the original 2018 survey looking in more detail at some of the issues raised by the original survey into Responsible Investment. In particular the areas of Governance and Strategy as well as Scheme member involvement and the training of Board and Committee members.

The Local Government Pension Scheme (LGPS)

The LGPS is a pension scheme operating in each jurisdiction of England, Wales, Northern Ireland and Scotland. This Report concentrates on the governance system of the ten funds within the Brunel Pension Partnership.

The LGPS has more than five million members – contributors, ‘deferred members’ and pensioners and is made of individual funds with assets estimated at £280bn. It has members in local government, education from primary to higher, police staff, the voluntary sector, environment agencies and private contractors.

The LGPS is a statutory public service scheme, so the scheme’s benefits and terms are set out in regulations passed through parliament. The scheme is administered through 88 pension funds, known as administration authorities, who are mainly councils.

UNISON’s role in the Local Government Pension Scheme (LGPS)

UNISON holds the vice chair position on the Scheme Advisory Board (SAB), which is comprised of six trade union and six employer representatives. The SAB serves as both a regulator of the Local Government Pension Scheme (LGPS) and acts as an advisor to the Secretary of State for Housing, Communities and Local Government.

UNISON has a trained and supported network of over 120 representatives who sit as members/observers on council pension committees, as quasi-trustees on the Environment Agency LGPS fund and on local pension boards. Over 700,000 members of UNISON are members of the LGPS and we have established a consultation and decision-making body which has integrated the work of the SAB into our democratic structures.

As a result of the formation of the Brunel Pension Partnership (BPP), a regional committee was established by the UNISON to give a voice to the scheme members of the various funds from those branches involved in the various LGPS scheme covered by BPP.

Survey Results - Responsible Investment in the Brunel LGPS funds

Responsible Investment

Responsible investment is an approach to investment that explicitly acknowledges the relevance to the investor of environmental, social and governance factors, and the long-term health and stability of the market as a whole. It recognises that the generation of long-term sustainable returns is dependent on stable, well-functioning and well-governed social, environmental and economic systems. (Source PRI/Cambridge Institute for Sustainability Leadership)

Environmental	Social	Governance
<ul style="list-style-type: none"> • climate change 	<ul style="list-style-type: none"> • human rights 	<ul style="list-style-type: none"> • bribery and corruption
<ul style="list-style-type: none"> • resource depletion 	<ul style="list-style-type: none"> • modern slavery 	<ul style="list-style-type: none"> • executive pay
<ul style="list-style-type: none"> • waste 	<ul style="list-style-type: none"> • child labour 	<ul style="list-style-type: none"> • board diversity and structure
<ul style="list-style-type: none"> • pollution 	<ul style="list-style-type: none"> • working conditions 	<ul style="list-style-type: none"> • political lobbying and donations
<ul style="list-style-type: none"> • deforestation 	<ul style="list-style-type: none"> • employee relations 	<ul style="list-style-type: none"> • tax strategy

In 2016, the government required the Local Government Pension Scheme (LGPS) funds to create Investment Strategy Statements (ISS) by April 2017 setting out their investment principles including those relating to Environmental, Social and Governance (ESG).

Subsequently, in 2018, UNISON commissioned ShareAction to carry out a review of the Investment Strategy Statements produced by the LGPS funds. This work was the first attempt by any organisation to critique them.

The 2018 report, set out the findings of the research into the 88 LGPS funds in England and Wales in order to measure the progress made so far in relation to Responsible investment. Recommendations were made to improve the process which it was believed will better reflect the aspirations of scheme members to tackle some of their key concerns, such as climate change.

Investors' obligation (in many jurisdictions deemed fiduciary duty) to act in the best interests of beneficiaries has been used by some investors as a reason not to incorporate ESG issues in investment decision making, due to the misconception that ESG factors are not financial factors.

However, work undertaken by the Principles for Reasonable Investment (PRI) (an investor initiative in partnership with UNEP Finance Initiative and UN Global Compact) has clarified that financially material ESG factors must be incorporated into investment decision making, including that:

- Investors should consider ESG factors, consistent with the time frame of the obligation.

- Investors should understand and incorporate the ESG preferences of their clients and/or beneficiaries.
- Investors should consider disclosing the process followed.

The Brunel Pension Partnership has signed up to these concepts as a body but this is not yet the case for the constituent pension funds.

The survey was undertaken by reviewing the ISS statements of the ten funds and ranking them by the criteria set out in appendix 1 of this report. Members of the UNISON SW LGPS committee undertook the review between April and August 2020. During this period, we reviewed the Investment Strategy Statements and associated documents from the LGPS funds in the Brunel Pension Partnership.

These documents are publicly available and were sourced throughout the internet. These statements were assessed qualitatively on 5 key areas:

Governance
 Strategy
 Risk Management
 Metrics and Targets
 Voting

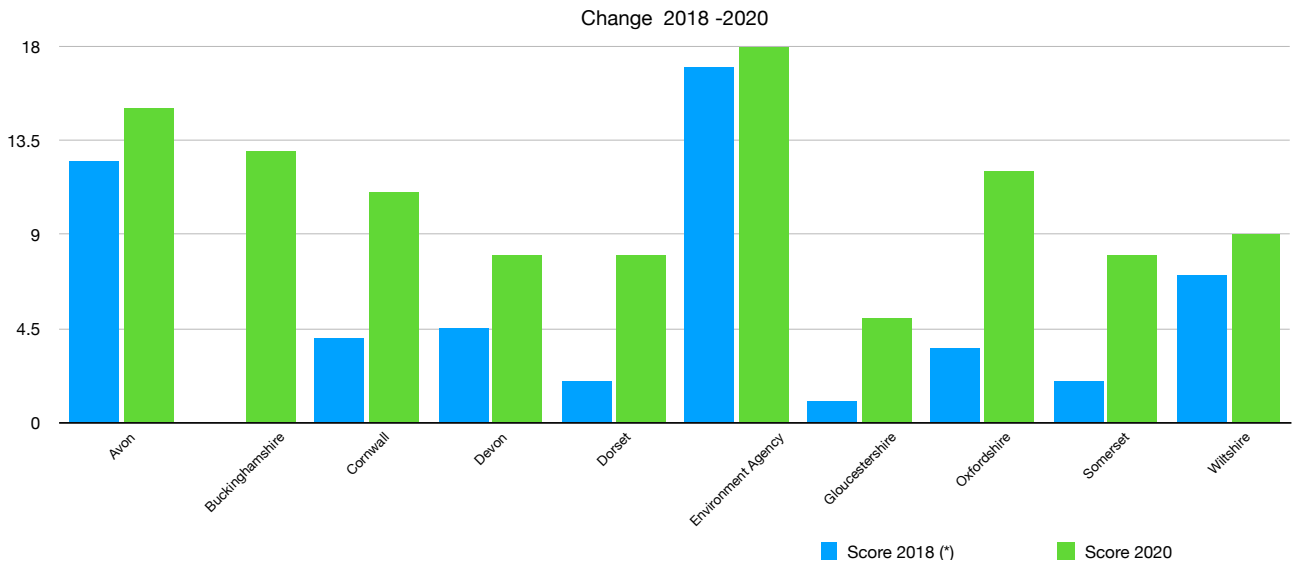
It should be noted that Pension Fund ISS and associated statements are often technical documents. This has meant that the analysis is qualitative and subject to the interpretation of the researcher.

In the UNISON/ Shareholder Action report (2019), the funds were placed in various category's according to the scores on the initial assessment. This scoring system has been kept for the SW UNISON survey 2020, so a direct comparison can be made to show progress in the funds.

Category	Factors	Score
A	Progressing across all areas	12-18
B	Action being taken in at least one area	9 -12
C	Starting to take action	5 -8
D	Limited disclosure	1- 4
E	No disclosure	0

Table 1 : Ranking categories 2019/2020

Changes in Rank



As can be seen from the graph above and table 2 below, all of the LGPS funds in the Brunel Pool have improved on their performance against the criteria since 2018, but at different speeds.

Some funds have improved significantly such as Buckinghamshire from what was a low start, while others have only improved gradually. As with the previous research, the Environment Agency and Avon are leading the way.

Authority	Score 2019 (*)		Score 2020	
Avon	12.5	Progressing across all areas	15	Progressing across all areas
Buckinghamshire	0	No disclosure	13	Progressing across all areas
Cornwall	4	Starting to take action	11	Action being taken in at least one area
Devon	4.5	Starting to take action	8	Starting to take action
Dorset	2	Limited disclosure	8	Starting to take action
Environment Agency	17	Progressing across all areas	18	Progressing across all areas
Gloucestershire	1	Limited disclosure	5	Starting to take action
Oxfordshire	3.5	Limited disclosure	12	Action being taken in at least one area
Somerset	2	Limited disclosure	8	Starting to take action
Wiltshire	7	Starting to take action	9	Action being taken in at least one area

Table 2: Comparison between funds 2019/2020

(* Source: Responsible Investment in LGPS, UNISON/Shareholder Action April 2019)

Overall Criteria Score

This information is based on the current survey as the previous survey did not contain the individual scores for each category. A future survey in 2021 will allow for direct comparison.

The survey questions are grouped in to five categories as shown in the graph below which summarises the individual scores for each fund. The categories are:

Governance	5 points
Strategy	4 points
Risk Management	4 points
Metrics and Targets	2 points
Voting	3 points

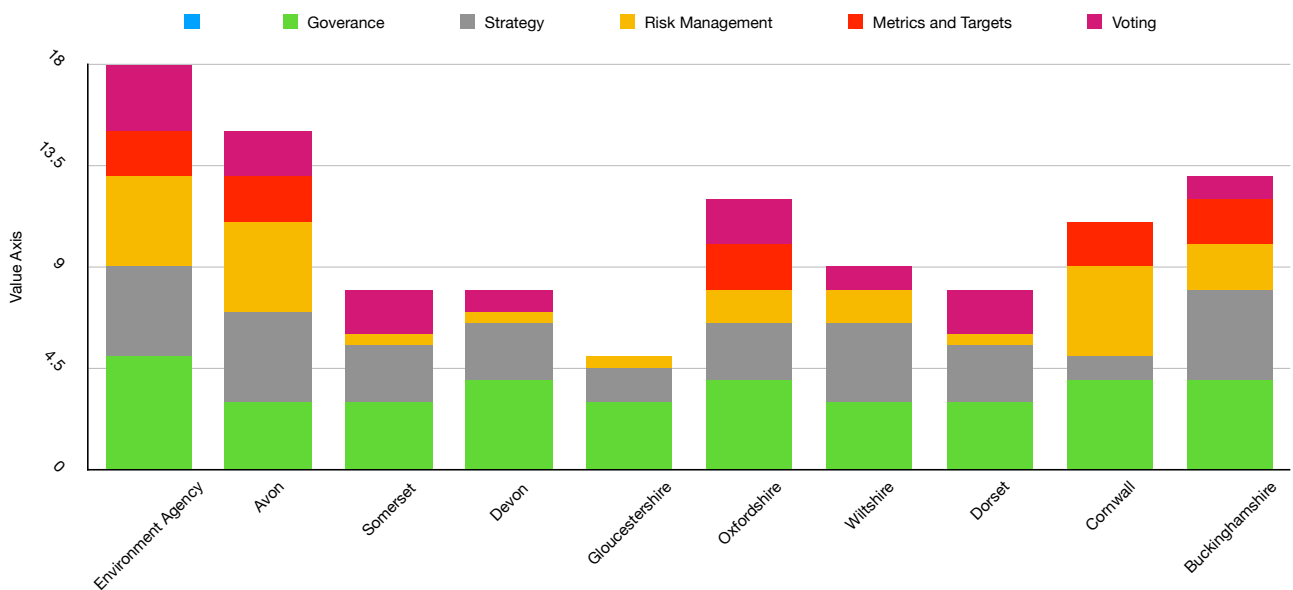


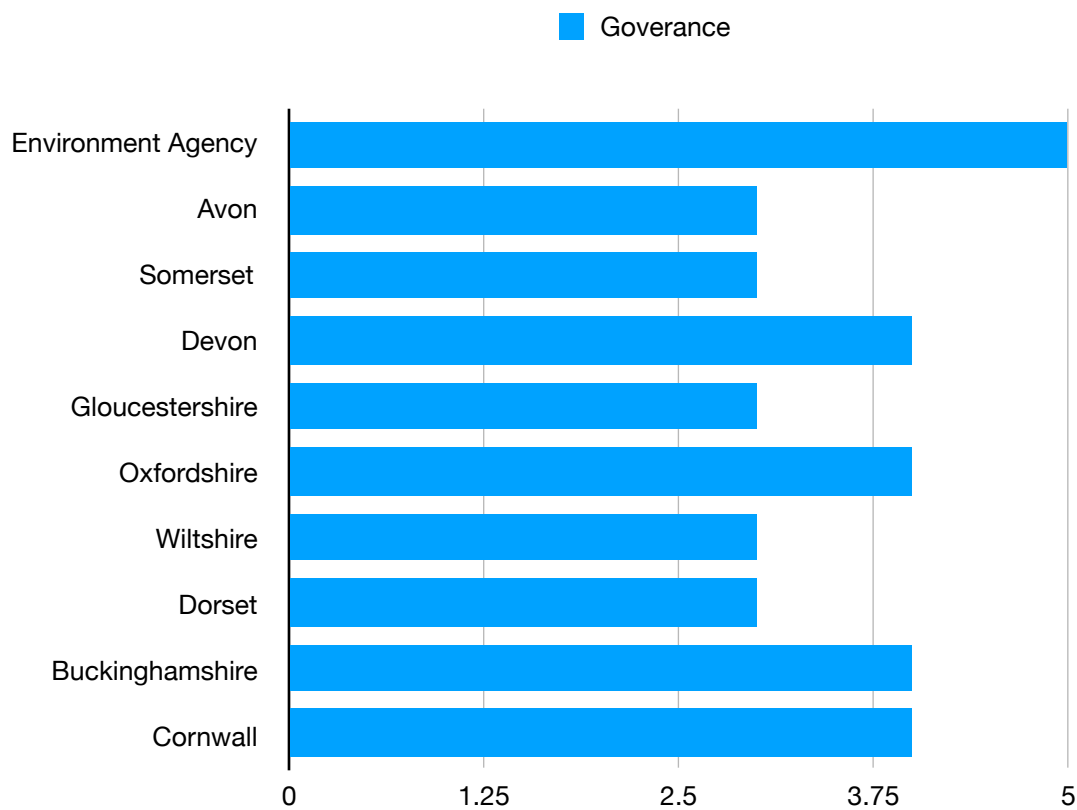
Table 3: Summary Scores across Categories

	Governance	Strategy	Risk Management	Metrics and Targets	Voting
Environment Agency	5	4	4	2	3
Avon	3	4	4	2	2
Somerset	3	2.5	0.5	0	2
Devon	4	2.5	0.5	0	1
Gloucestershire	3	1.5	0.5	0	0
Oxfordshire	4	2.5	1.5	2	2
Wiltshire	3	3.5	1.5	0	1
Dorset	3	2.5	0.5	0	2
Buckinghamshire	4	1	4	2	0
Cornwall	4	4	2	2	1

Governance

This category contains 5 criteria.

G1: Knowledge –Responsible investment training for trustees identified (1)
G2: Knowledge - Advice from Advisors/Pool on ESG and or Climate Change
G3: Climate risk stated as financial risk (1)
G4: Oversight of asset managers and/or pool on ESG (1)
G5: Understanding of the law commission’s financial vs non-financial factors



Law Commission Fiduciary Duty

The major omission in nine of the funds was that there was no direct indication that they understood the Law Commissions advice on what were financial and non-financial issues, in relation to their fiduciary duty when it came to the Environmental, Social and Governance (ESG) policy

Fiduciary Duty is a standard term used, but there is only one reference to ESG policies as a reason why they could not disinvest from Carbon

Following the Kay Report ¹in 2010, the Government in its response ² elected to avoid using the word “fiduciary”, instead set out the following principle for equity markets:

All participants in the equity investment chain should act:

- (a) in good faith;
- (b) in the best long-term interests of their clients or beneficiaries;
- (c) in line with generally prevailing standards of decent behaviour.

This means ensuring that the direct and indirect costs of services provided are reasonable and disclosed, and that conflicts of interest are avoided wherever possible, or else disclosed or otherwise managed to the satisfaction of the client or beneficiary

The Law Commission considered that the term was “*legal Polyfilla*”, *molding themselves around other structures to plug the gaps. They are not the whole structure*”

The Law Commission report ³ indicated that while the pursuit of a financial return should be the predominant concern of pension trustees, the law is sufficiently flexible to allow other, subordinate, concerns to be considered.

It concluded that the law, permits trustees to make investment decisions that are based on non-financial factors, provided that:

- they have good reason to think that scheme members share the concern; and
- there is no risk of significant financial detriment to the fund.

The reference to the concerns of scheme members is something we will return to later in the report.

¹ The Kay Review of UK Equity Markets and Long term decision making Final Report 2010

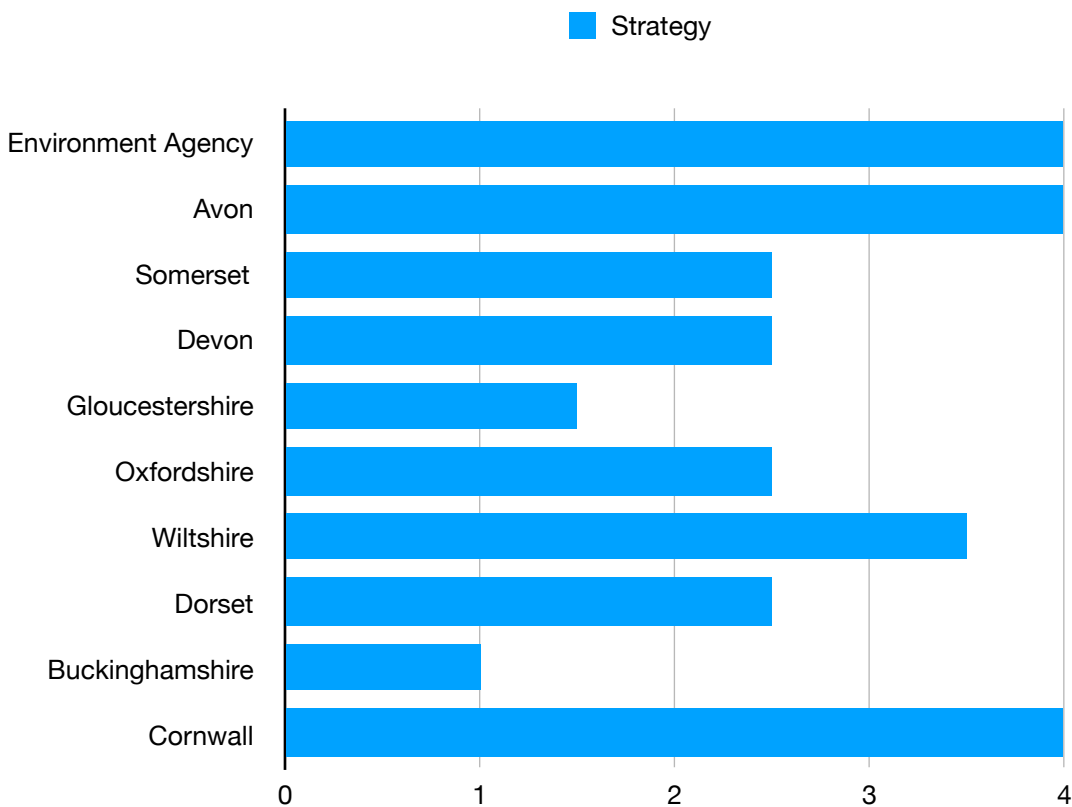
² Department for Business, Innovation and Skills, *Ensuring equity markets support long-term growth*: The Government Response to the Kay Review (November 2012) para 2.8.

³ <https://www.lawcom.gov.uk/project/fiduciary-duties-of-investment-intermediaries/>

Strategy

This category contained four criteria relating to Climate Risk Management and how this was managed and reflected in the investment decisions.

S1: Climate risk management - E.g. Scenario analysis, stranded assets (1)
S2: Collaborations - E.g. LAPFF, CDP, Climate Action 100+, IIGCC (1)
S3: Reference to voting decision or supporting resolutions (1)
S4: Reference to engagement with companies (0.5 point if engagement is through LAPFF)



Climate Risk Management

Despite the move by organisations including some of the administering authorities to declare Climate Emergencies on an individual basis, three of the funds failed to take this into consideration in the ISS.

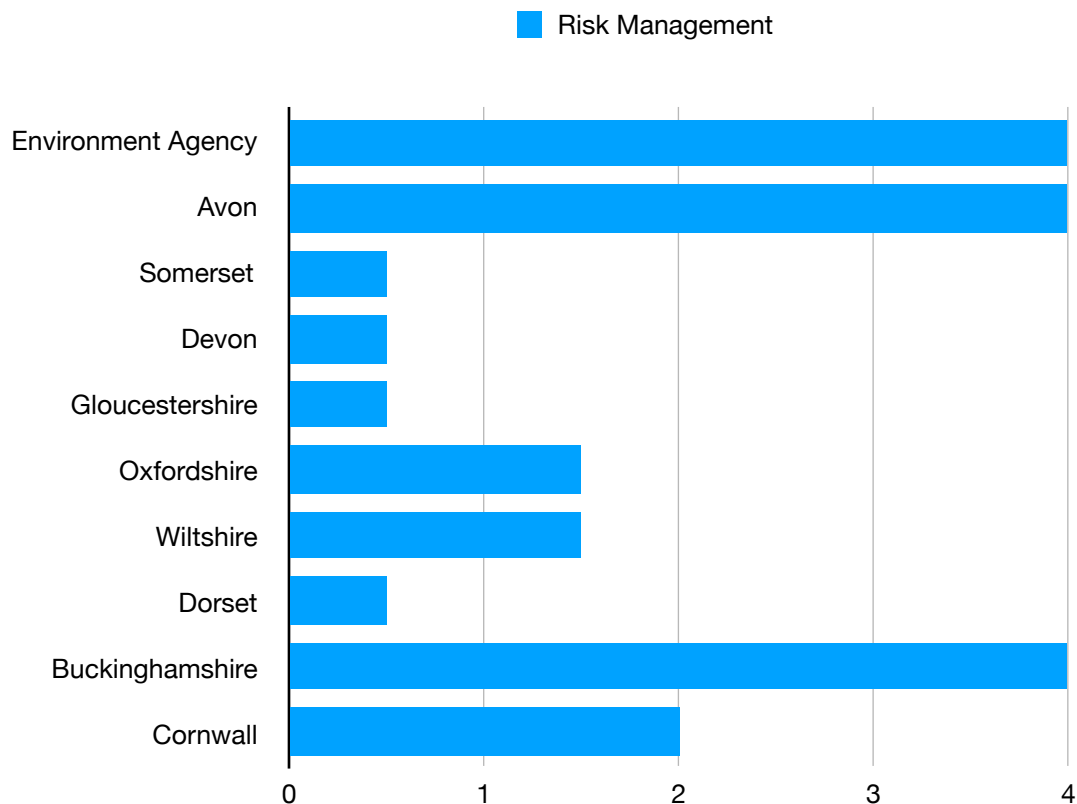
Engagement with Companies

As to engagement with companies, all but three funds left this to their investment managers or to LAPFF. Where it was left to investment managers there was little reference to them being required to take ESG matters into account when making investment decisions.

Risk Management

This category includes four criteria relating primarily to reducing the Carbon impact of the investment portfolio. This is directly related to the Strategy section above but focusses on one issue, that of Carbon.

R1: Integrating ESG (1/2 point if it is only an expectation of asset managers)
R2: Allocating low carbon (1)
R3: Reducing coal/tar sands holdings (1)
R4: Reducing oil/gas holdings (1)

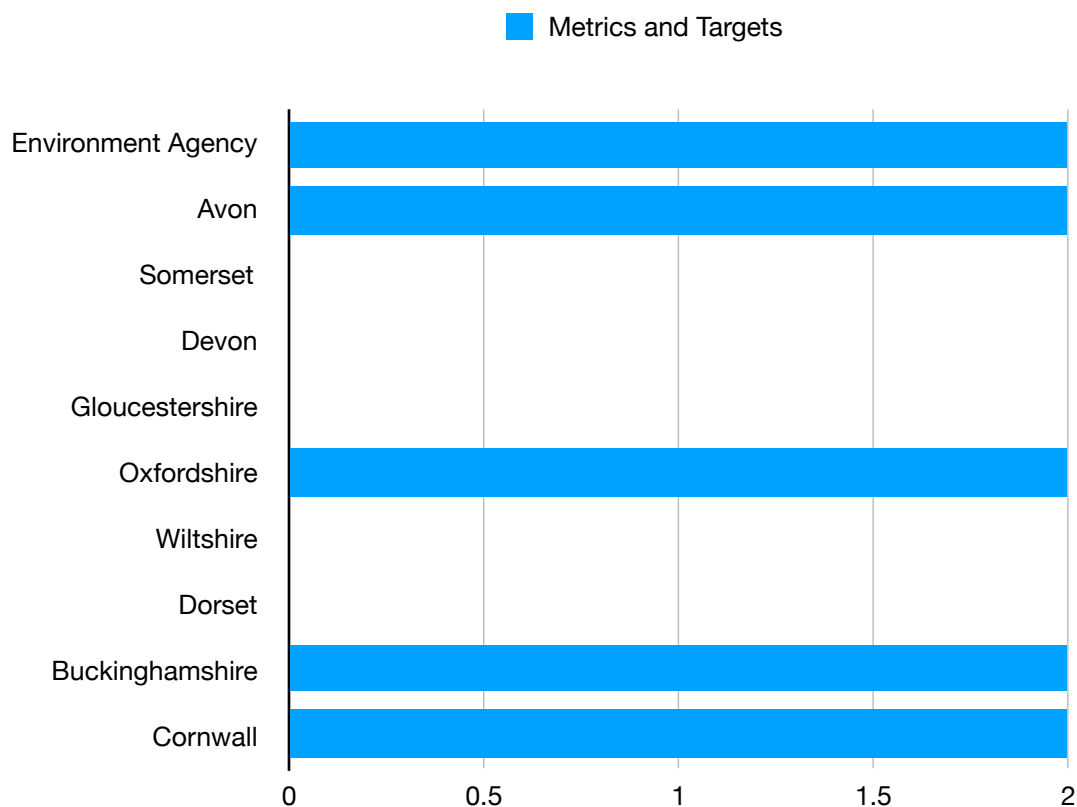


This was one of the most disappointing categories looked at, with four funds scoring only 0.5 compared to three who scored full points. This follows on from the previous section where despite the administering authorities declaring climate emergencies this is not being reflected in the decisions around the Pension fund allocation in the ISS.

Metrics and Targets

This category looks at the timescale for changing to a low Carbon investment strategy.

Low carbon asset allocation target (1)
Time frame for engagement and/or divestment (1)



Low carbon asset allocation target

Credit must be given to the other five funds who appear to have taken note of the need to disinvest from the Carbon economy. It may be the case that the other funds are currently considering adopting a carbon metric but this is not recorded in the ISS. When the ISS are published for the year 2020 this may become apparent.

Time frame for engagement and/or divestment

It appears that there is a lack of a timescale for five of the funds who managed not to score in either of the two criteria.

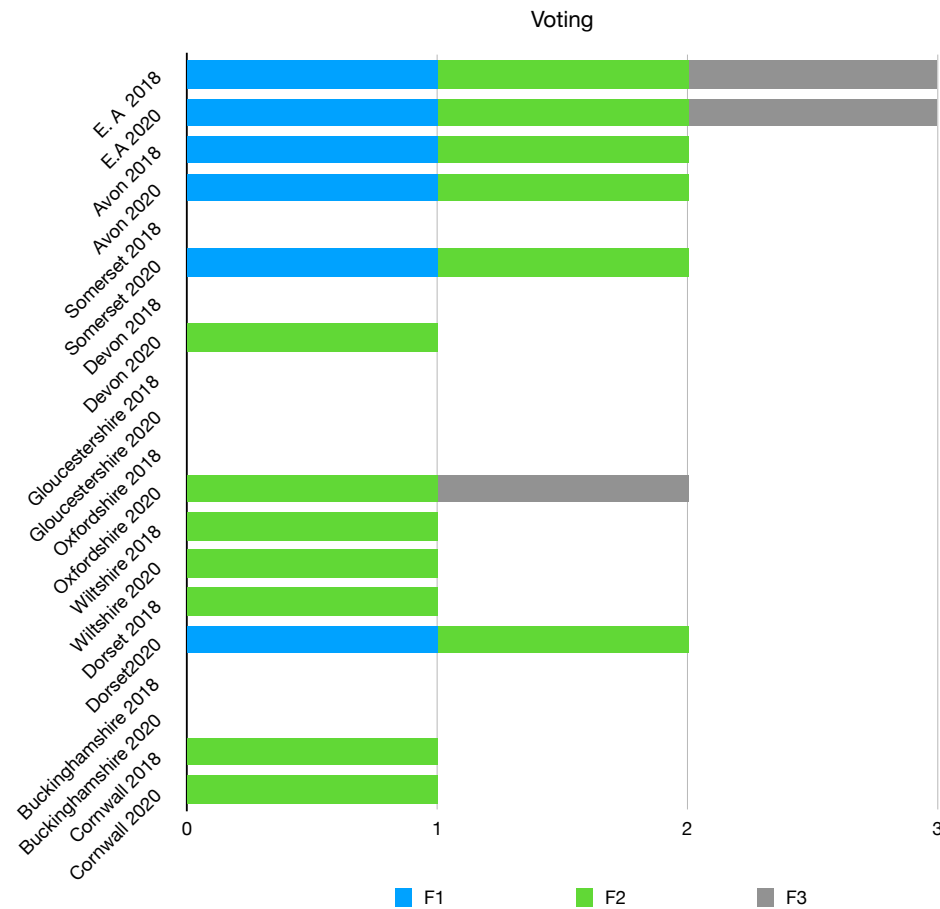
Voting

This section looks at how the fund manages its interests in voting at Company annual general meetings takes place. It also looks at if there is any consultation undertaken with Scheme members to ascertain their views on the issues raised.

Funds need to outline policies in relation to engagement with investee companies and the exercise of voting rights. It was recommended previously (UNISON/Shareaction2019) that a process of consultation for LGPS funds would protect them from accusations that they have made these decisions in their own interests and above those of scheme members.

From 2020 trustees of “relevant schemes” will have to produce an implementation report setting out how they acted on the principles set out in the Strategic Investment Plan (SIP) the previous year.

The Authority has published its own bespoke UK voting policy (1)
Voting records are published (1)
Direct Consultation with Scheme Members on issues including Carbon



Voting Policy

Without this policy development and active reporting, scheme members cannot see how their votes are being used. This is something that UNISON believes needs to change. Only four funds have published specific voting policies while the others appear to rely on their investment managers.

Voting Records

Proxy voting records are the only real evidence members have of how their property rights are being exercised on their behalf on issues such as runaway executive pay and accord with the Paris Agreement.

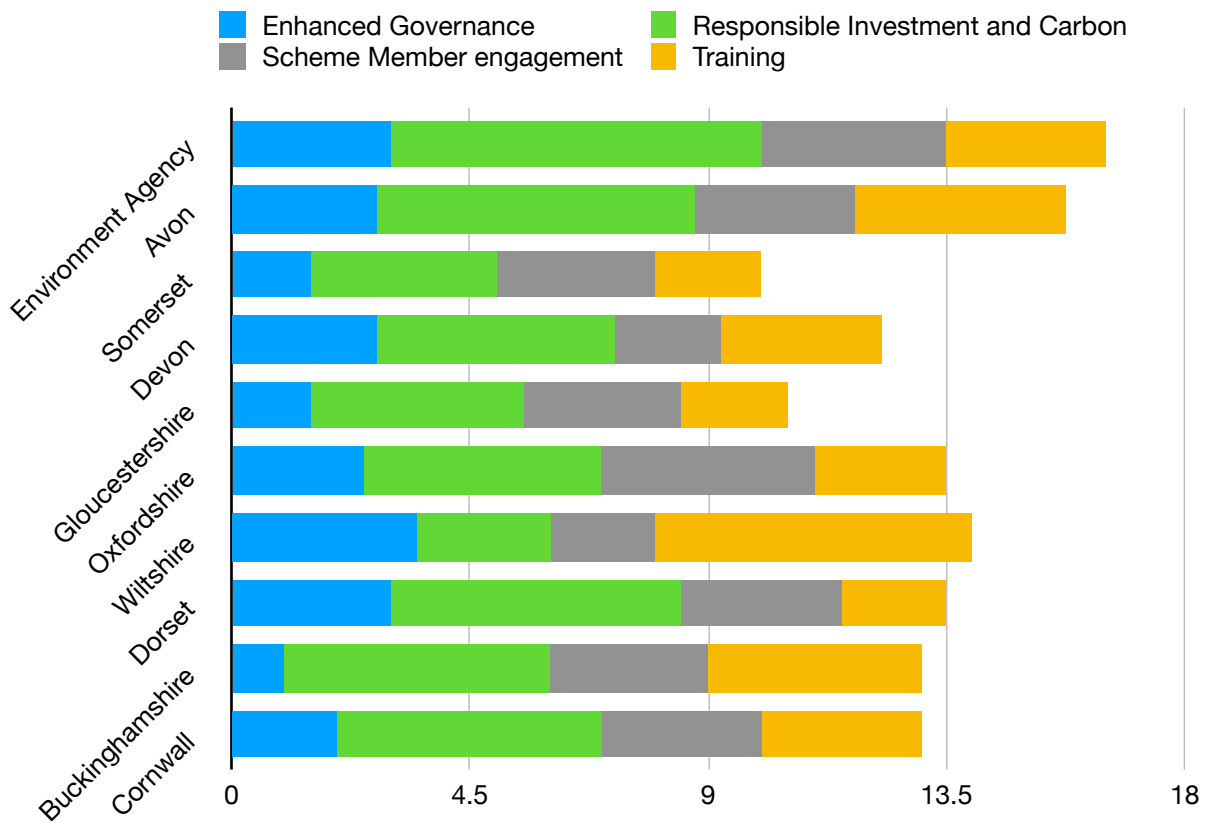
Direct Consultation with Scheme Members.

Only the Environment Agency and Oxfordshire have engaged directly with Scheme members on any issue , let alone Carbon outside of their Annual Consultative Meeting.

It would be hoped that the other funds will follow their lead and engage with their scheme members through both the Scheme member representatives on the Investment boards where they are present and more widely with the wider membership of the funds.

Survey Results – Enhanced Strategy and Governance.

As part of the survey, the opportunity was taken to extent it looking in more detail at some of the issues raised by the original survey into Responsible Investment in particular the areas of Governance and Strategy as well as Scheme member involvement and the training of Board and Committee members.



Enhanced Governance

This section looks at the governance of the funds as it relates to how they are structured and the timing of meetings. There were four points available in this category as the first two criteria were non-scoring. In relation to the first of the two non-scoring criteria.

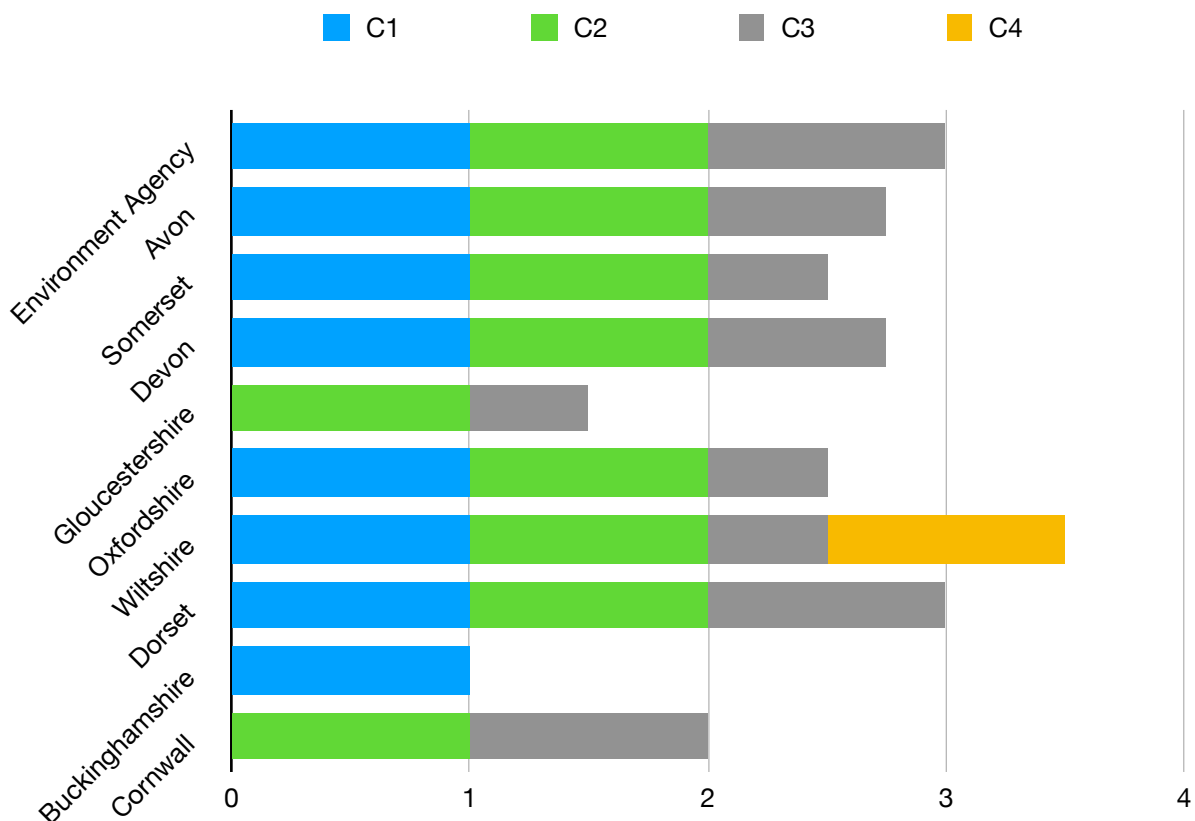
Separate Investment Panel from main committee (Not Scoring)
Independent Chair of Pension Board (Not Scoring)
C1 Number of Pension board meeting in sync with investment committee i.e. 4 a year
C2: Representation of Scheme members on Investment Committee
C3: Full Voting rights for all scheme member representatives on Investment Committee (0.5 for observers or 0.75 for a group vote)
C4: Committee members declaration that MiFID 2 compliant

Investment Panels

The Environment Agency, Wiltshire and Avon had separate investment panels, the remainder making the investment decisions at their main committee.

Chair of Pension Board

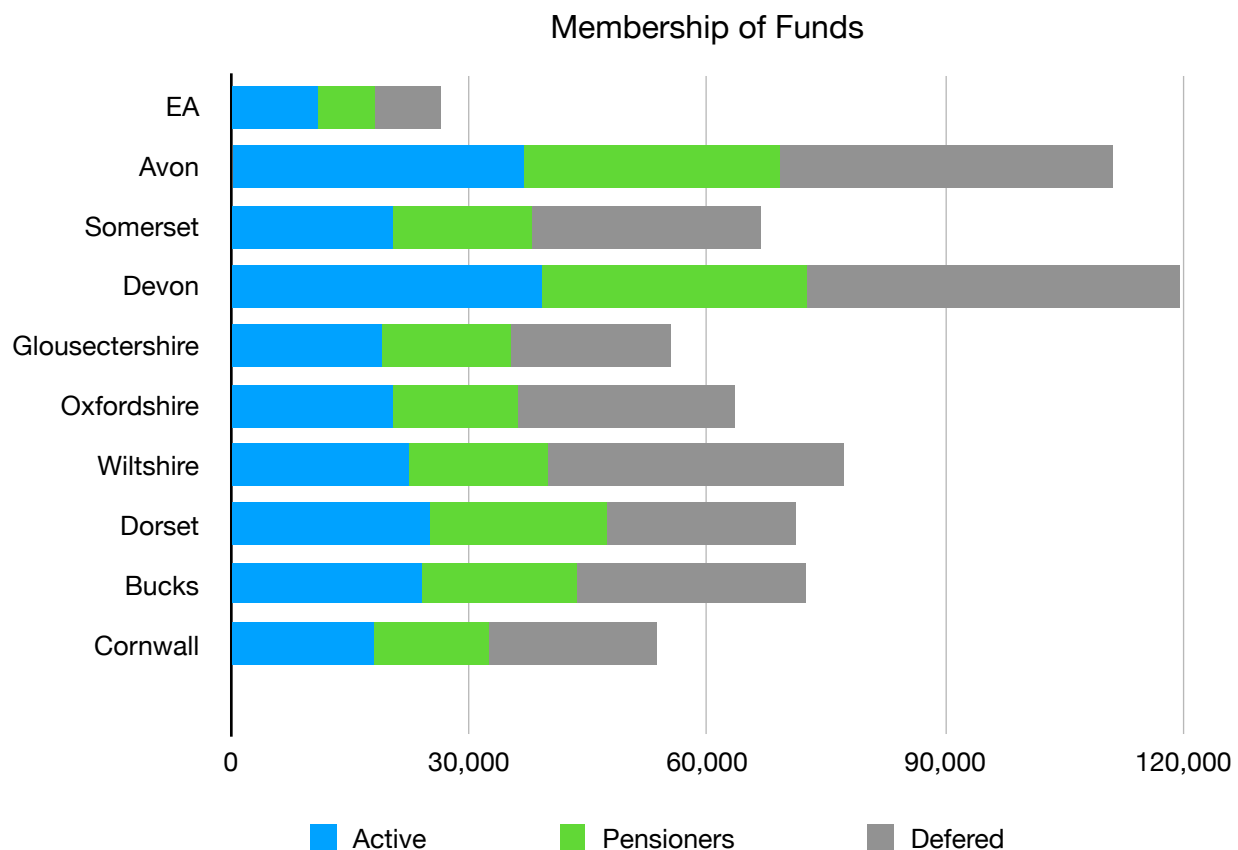
With regard to the Pension Board structure, five funds have an independent chair. These independent chairs are paid an allowance of up to £10,000. In some cases, they could be chair of more than one pension board.



Meeting Cycle

It is good practice as advised by both the LGPS Scheme Advisory Board and the Pension Regulator that the meetings of the Investment committee and the Pension Board are in sync, that is four meetings a year for each body. However, the survey has highlighted that two of the funds do not follow this guidance with the Pension Board meeting less regularly. These being Gloucestershire (2) and Cornwall (2).

Scheme Member representation.



The total scheme membership of the ten funds in the Brunel Pension Partnership is 717,253. Of these 236,616 are active contributing members, 194,580 are pensioners and 286,057 are deferred members. These scheme members are represented on the Brunel Oversight Board by two representatives who act as observers elected from the scheme member representatives in the 10 funds.

All of funds with the exception of Buckinghamshire, allowed representatives of the Scheme members to attend their committee either as observers with speaking rights or with voting rights. Where there are more than one Scheme Member representatives several funds have allocated one vote for the group.

This is in contrast to the other employer representatives, who are allowed individual votes on the committee

The Environment Agency is unique in the Local Government Pension Scheme due to its structure as an Agency rather than an elected body; having an equal number of Board members and Scheme members representatives who all have a vote.

Oxfordshire does not allow a scheme member to vote on its investment committee as employees of the council are barred from voting on its committees due to its constitution. This has however not stopped other authorities similarly constituted from allowing one or more scheme member representatives to vote

	Board members, Councillors	Other employers *non-voting	Scheme Members (Voting Rights)
Environment Agency	6	1	7 (7)
Avon	11	1*	3 (1)
Devon	6	4	3 (1)
Somerset	4	3	1
Gloucestershire	6	1	1 (-)
Oxfordshire	9	2	1
Buckinghamshire	7	2	0
Wiltshire	5	3	2 (-)
Cornwall	10	2	2 (2)
Dorset	5	3	1 (1)

MiFID2

It is a requirement of the MIFID 2 directive that if pension funds wish to carry out direct consultation with investment managers etc, that the funds must be compliant with the requirements; in respect of the knowledge and skills of those persons responsible for the investment decisions otherwise they will be treated as retail customers.

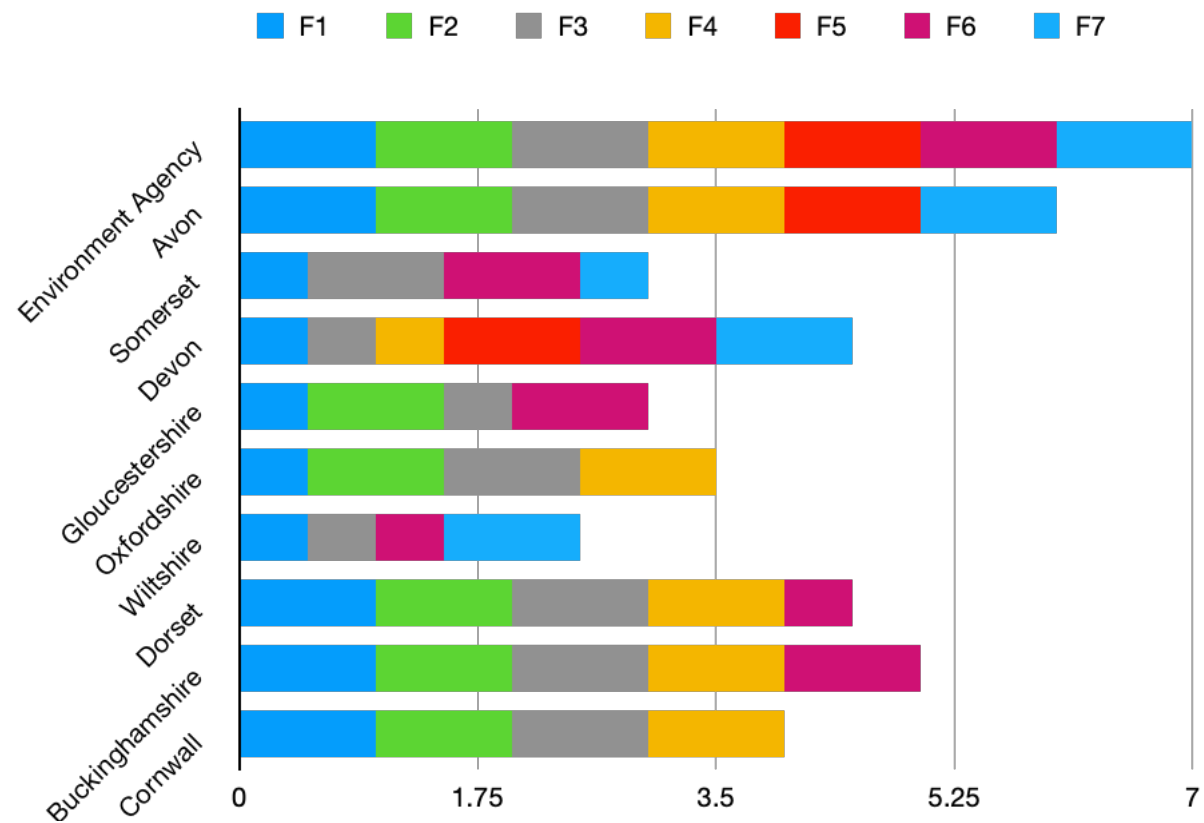
Only one fund, Wiltshire, has certified that it is compliant in this respect in that each member of the committee must sign a declaration that they have the requisite Knowledge and Skills. Other funds may have this status but this information is not published in their Investment strategy or Annual report and members are not required to sign an individual declaration.

Responsible Investment and Carbon

Following on from the original survey carried out by UNISON /ShareAction in 2018, the opportunity was taken to look further into the policies of the ten funds as to how their positions had developed since then.

The Brunel Pension Partnership is a leading investment vehicle in relation to Responsible investment and the question was raised as to if the individual funds which it represents are as forward in their thinking and actions. The survey looked at the following criteria:

F1: Published Responsible Investment policy (0.5 if no separate policy only reference in SEG). (1)
F2: Is the Brunel pools Responsible Investment policy directed to for further information?
F3: Voting and engagement delegated to funds external managers
F4: Adopts Brunel Climate Change Policy (0.5 if only supports)
F5: Published Annual Carbon Exposure monitor (1)
F6: Statement of Investment principles (Myners) (0.5 point if not fully compliant)
F7: Stewardship Code FRC Tier 1 Status (0.5 Tier 2)



Published Responsible Investment Policy

In recent years due to pressure from others the pension industry has began to publish more information and move towards Responsible Investment. The Brunel fund has been a leader in this pushing companies to take steps to improve their performance. The funds within the BPP are moving to catch up and beginning to focus on this.

Voting and Engagement

Some funds are more active than others in engaging in companies in which they invest such as the Environment Agency. The majority of funds have delegated this engagement to their managers or pools. Some of the funds are members of LAPPF which does engage with companies on behalf of the wider local government field.

Carbon Exposure

As is expected the Environment Agency Pension fund is leading the way, with Avon not far behind. However, the other funds clearly have some work to do in this respect. It may be the case as previously that they have adopted Annual Carbon Exposure monitors but these had not been published at the time of the survey. Any change will be picked up in subsequent surveys at which time the detail of the Carbon exposure will be reviewed.

Investment Principles

The Myners Report (2001) looked at institutional investment in the UK and established a best practice approach to investment decision making for pension funds. It put forward a code of practice setting out the standards of conduct and practice that is expected of trustee boards to meet in complying with their duties in legislation. The code assumes that trustee boards have a good level of knowledge of the legislation with which they are required to comply, so while often referring to legislative requirements, it does not seek to set out in detail all the requirements of the law.

Stewardship Code

Of the ten funds in the survey, four are recorded as Tier 1 and one as Tier 2 in complying with the 2012 FRC Stewardship Code. The other five funds do not appear in either tier on the FRC listing. The Brunel Pension Partnership do not appear on the list although other pools do.

Tier 1	Avon, Devon, Environment Agency and Wiltshire
Tier 2	Somerset
Not Listed	Gloucestershire, Buckinghamshire, Cornwall, Oxfordshire, Dorset

(Source FRC website August 2020)

The responsibility for monitoring company performance rests not only with fund managers but also Pension fund trustees and other asset-owners. They can do this either directly or indirectly through the mandates given to fund managers. Their actions can have a significant impact on the quality and quantity of engagement with UK companies.

The Financial Reporting Council (FRC) encourages all institutional investors to report if and how they have complied with the Code:

- Publishing a statement on their website of the extent to which they have complied with the Code,
- Notifying the FRC when they have done so and whenever the statement is updated.
- Providing a name in the statement of the individual who can be contacted for further information and by those interested in collective engagement.

The Code also allows service providers such as Brunel to disclose how they carry out the wishes of their clients with respect to each principle of the Code that is relevant to their activities.

Since December 2010, all UK-authorized Asset Managers were required under the FCA's Conduct of Business Rules to produce a statement of commitment to the UK Stewardship Code or explain why it is not appropriate to their business model.

The Code indicates that so as to protect and enhance the value that accrues to the ultimate beneficiary, institutional investors should:

1. publicly disclose their policy on how they will discharge their stewardship responsibilities.
2. have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.
3. monitor their investee companies.
4. establish clear guidelines on when and how they will escalate their stewardship activities.
5. be willing to act collectively with other investors where appropriate.
6. have a clear policy on voting and disclosure of voting activity.
7. report periodically on their stewardship and voting activities.

On the 1st January 2020 a new code, [The UK Stewardship Code 2020](#) took effect.

The new Code sets high expectations of those investing money on behalf of UK savers and pensioners. In particular, the new Code establishes a clear benchmark for stewardship as the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

There is a strong focus on the activities and outcomes of stewardship, not just policy statements. There are new expectations about how investment and stewardship is integrated, including environmental, social and governance (ESG) issues.

The Code asks investors to explain how they have exercised stewardship across asset classes. For example, for listed equity, fixed income, private equity, infrastructure investments, and in investments outside the UK.

The Code consists of twelve principles for asset managers and asset owners, and six principles for service providers. These are supported by reporting expectations which indicate the information that should be publicly reported in order to become a signatory.

Organisations wanting to become signatories to the Code will be required to produce an annual Stewardship Report explaining how they have applied the Code in the previous 12 months. The

FRC will evaluate the reports against their assessment framework, and those that meet the reporting expectations will be listed as signatories to the Code. To be included in the first list of signatories, organisations must have submitted a **final** report to the FRC by 31 March 2021.

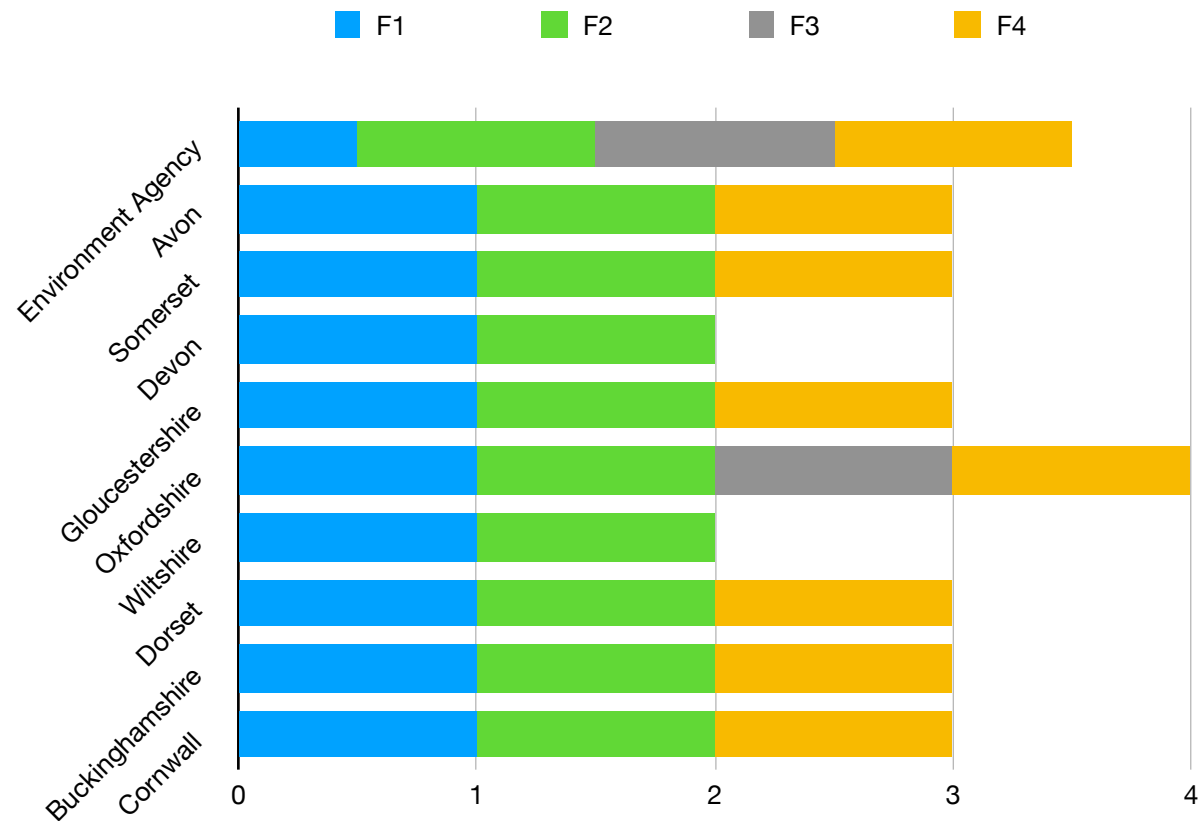
Survey Results – Consultation with Scheme Members

Consultation with Scheme Members

This looks at the issues around decision making process and the involvement of, and consultation with scheme members and other parties. The issue of representation was considered previously

The criteria examined were as below:

F1: Annual Consultative Meeting
F2: Website with dedicated access for scheme members
F3: Active discussions with Scheme members and third-party groups relating to climate change.
F4: Published scheme for appointment of scheme member reps to Pension Board



Annual Consultative meetings

All the funds have an annual consultative meeting at which all scheme members can attend to ask questions with the exception of the Environment Agency who hold a meeting for deferred/Retired members. Attendance at these is varied, both by Scheme members and the elected members of the respective investment committees.

Further work needs to be undertaken by the funds involved as to how they can improve attendance. The majority of these meetings tend to be held during the day at which time the

Active members are working. Not all employers allow their staff to attend such meetings in work time.

Given the latest issues around Corvid 19, it should be considered that such meetings move partially on line and during the evening to consider the attendance issue and the ability of scheme members to attend given that they may have to travel considerable distance to reach the meeting point.

Websites

All funds have a website but these vary in their usability and quality. Doing the survey, it was commented that some funds managed to hide the relevant information across their website and it was not all accessible from one point.

Climate Change consultations

The Environment Agency undertakes regular surveys of their scheme members on issues such as Climate Change so that this can be considered when making investment decisions. Only one other fund, Oxfordshire, has taken steps to actively discuss the investment principles with scheme members and outside bodies.

Appointment of Board Members

There are varying methods for electing Scheme member representatives to Pension Boards. Some have defined seats for the various unions, while others select their membership from applications and appoint members based upon their status, i.e. retired, deferred member and active scheme member.

Comments have been made that this disadvantages younger active scheme members as it assumes a prior knowledge of pensions. Diversity and gender equality have also been raised and these will be looked at in the future both at board level but also at investment member level.

Knowledge and skills

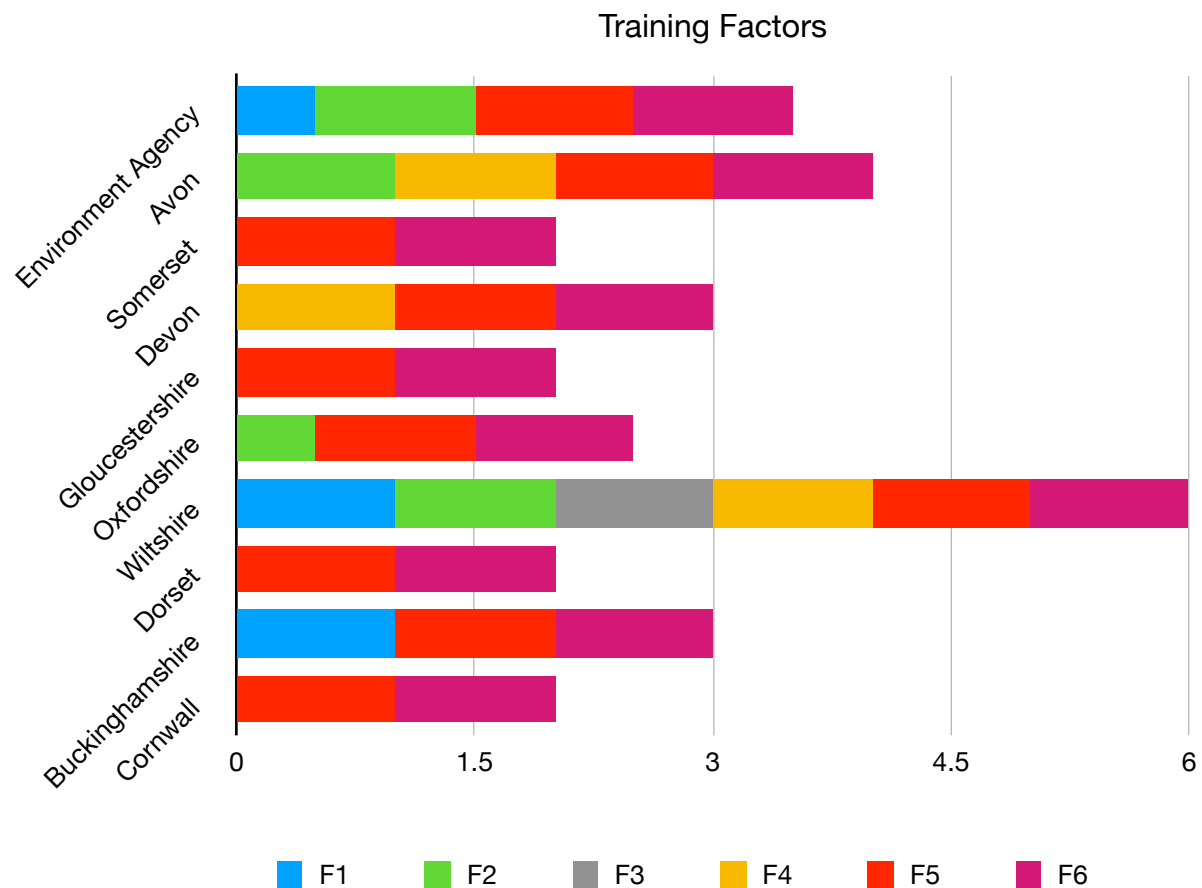
The recent Hymans Roberts report looked into the knowledge and skills of Pension Board and Investment committee members. It was based upon a survey of responses from individual members from 20 funds on how they considered their level of knowledge in relation both to the administration of the funds but also its investment decisions.

This report looks at what the training requirements are based upon the published Training Plan available on the website and the expected knowledge and skills required.

Several funds such as Cornwall (for their Board) and the EA (across committee and boards) have devised a training Matrix of varying complexity which allocates points for both each training activity be it completion of TPR modules, attendance at Conferences and Training Days.

F1: Committee and Board members Handbook
F2: Committee and Board members to attend LGPs fundamentals course
F3: Complete TPR toolkit within six months of membership of investment committee
F4: Complete TPR toolkit within six months of membership of Pension Board
F5: Attend Officer lead induction course
F6: Attend Ongoing Training

The need for training feeds back in to the Myners Principles and the requirements of the MiFID2 Directive that trustees and those making the decisions are appropriately trained.



In January 2010, CIPFA launched technical guidance for Elected Representatives on S101 pension committees in the public sector within a knowledge and skills framework. The framework covers six areas of knowledge identified as the core requirements:

- pensions legislative and governance context;
- pension accounting and auditing standards;
- financial services procurement and relationship development;
- investment performance and risk management;
- financial markets and products knowledge; and
- actuarial methods, standards and practice.

The Knowledge and Skills Framework sets the skills required for those responsible for pension scheme financial management and decision making under each of the above areas in relation to understanding and awareness of regulations, workings and risk in managing LGPS funds.

Unlike the Pension Board there is no legal requirement for members of the S101 committee to have a knowledge and understanding.

Committee and Board members Handbook

Two funds (Wiltshire and Buckinghamshire) have developed a specific Handbook for their members and pension boards. Others such as the Environment Agency have developed a specific web-based portal for associated documents. These are internet based thereby allowing for frequent updating in addition to training.

Committee and Board members to attend LGPs fundamentals course

Only four funds require their Investment committee members and their Pension Board to attend the LGPS Fundamentals course. Other funds only send the Chair of the Committee and the Pension Board but this is very fluid. There is no formal assessment of the knowledge gained at these courses unlike the TPR eLearning course.

Complete TPR toolkit within six months of membership of investment committee

The Pension Regulator's Code of Practice No 7 applies to trustees; investment committee members could be considered quasi trustees. This code requires that these trustees demonstrate a degree of knowledge to be able to carry out their responsibilities.

The TPR has developed a toolkit of online eLearning modules for Trustees so that they can keep abreast of developments in Pension administration and developments.

Only one fund requires its members of the investment committee to have undertaken the TPR e-learning. This is in addition to attending the LGPS fundamentals course. In doing this it allows for the members to demonstrate their knowledge as the eLearning course contains assessment questionnaires after each module.

Complete TPR toolkit within six months of membership of Pension Board

The Pension Regulator's Code of Practice No 14 indicates that Schemes should keep appropriate records of the learning activities of individual pension board members and the board as a whole. This will help Pension Board members to demonstrate that they have taken steps to comply with the legal requirements and how they have mitigated the risks associated with knowledge gaps.

The TPR has developed a toolkit of online eLearning modules for Pension Board members so that they can keep abreast of developments in Pension administration and developments.

Only three of the funds identify that this should be completed within six months of taking up membership of the pension board although others do encourage the pension board members to take this course.

The Cornish LGPS fund, allocates points for attendance at courses both physical and e-learning. The members are required to maintain a certain level over a two-year period. This does mean that members do have to undertake Continued Professional Development and retake certain modules to maintain their credits.

Attend Officer lead induction course

All funds provide induction opportunities for new members of their committees and boards

Attend Ongoing Training

All funds record attendance at Training events for members and Board Members. The detail of the subject matter attached to these records varies across the funds.

Some indicate the subjects covered on the training days, while others just record attendance but give no information as to what topics were covered.

Appendix 1 - Scoring checklist

Governance	Score/5
Knowledge –RI training for trustees (1)	
Knowledge - Advice from Advisors on ESG and or Climate Change	
Climate risk stated as financial risk (1)	
Oversight of asset managers and/or pool on ESG (1)	
Understanding of the law commission’s financial vs non-financial factors	
Strategy	Score /4
Climate risk management - E.g. Scenario analysis, carbon foot printing, stranded assets (1)	
Collaborations - E.g. LAPFF, CDP, Climate Action 100+, IIGCC (1)	
Reference to voting decision or supporting resolutions (1)	
Reference to engagement with companies (1/2 point if engagement is through LAPFF)	
Risk Management	Score /4
Integrating ESG (1/2 point if it is only an expectation of asset managers)	
Allocating low carbon (1)	
Reducing coal/tar sands holdings (1)	
Reducing oil/gas holdings (1)	
Metrics and Targets	Score 6
Low carbon asset allocation target (1)	
Time frame for engagement and/or divestment (1)	
Voting	Score /3
The Authority has published its own bespoke UK voting policy (1)	
Voting records are published (1)	
Bonus Point Scheme member engagement	
Is pools RI policy directed to for further information?	Yes /No



Wiltshire Pension Fund

EOS at Federated Hermes

Over the last quarter we made voting recommendations at **14** meetings (**118** resolutions). At **nine** meetings we recommended opposing one or more resolutions. We recommended voting with management by exception at **one** meeting. We supported management on all resolutions at the remaining **four** meetings.

Global

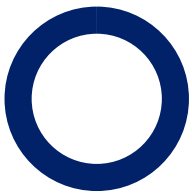
We made voting recommendations at **14** meetings (**118** resolutions) over the last quarter.



- Total meetings in favour **28.6%**
- Meetings against (or against AND abstain) **64.3%**
- Meetings with management by exception **7.1%**

Australia and New Zealand

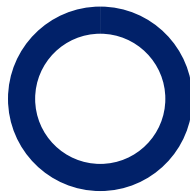
We made voting recommendations at **one** meeting (**ten** resolutions) over the last quarter.



- Meetings against (or against AND abstain) **100%**

Developed Asia

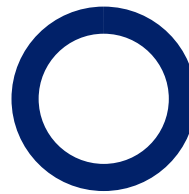
We made voting recommendations at **one** meeting (**four** resolutions) over the last quarter.



- Total meetings in favour **100%**

Emerging and Frontier Markets

We made voting recommendations at **one** meeting (**one** resolution) over the last quarter.



- Total meetings in favour **100%**

Europe

We made voting recommendations at **five** meetings (**22** resolutions) over the last quarter.



- Total meetings in favour **40%**
- Meetings against (or against AND abstain) **60%**

North America

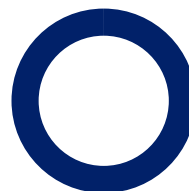
We made voting recommendations at **five** meetings (**66** resolutions) over the last quarter.



- Meetings against (or against AND abstain) **80%**
- Meetings with management by exception **20%**

United Kingdom

We made voting recommendations at **one** meeting (**15** resolutions) over the last quarter.



- Meetings against (or against AND abstain) **100%**

The issues on which we recommended voting against management or abstaining on resolutions are shown below.

Global

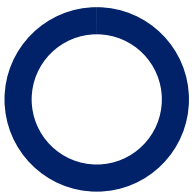
We recommended voting against or abstaining on **17** resolutions over the last quarter.



- Board structure **29.4%**
- Remuneration **29.4%**
- Shareholder resolution **23.5%**
- Other **17.6%**

Australia and New Zealand

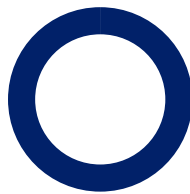
We recommended voting against or abstaining on **one** resolution over the last quarter.



- Remuneration **100%**

Europe

We recommended voting against or abstaining on **three** resolutions over the last quarter.



- Other **100%**

North America

We recommended voting against or abstaining on **ten** resolutions over the last quarter.



- Board structure **30%**
- Remuneration **30%**
- Shareholder resolution **40%**

United Kingdom

We recommended voting against or abstaining on **three** resolutions over the last quarter.



- Board structure **66.7%**
- Remuneration **33.3%**

Wiltshire Pension Fund

EOS at Federated Hermes

Engagement by region

Over the last quarter we engaged with **299** companies held in the Wiltshire Pension Fund portfolios on a range of **895** environmental, social and governance issues and objectives.

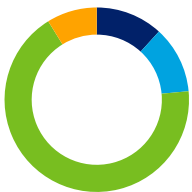
Global

We engaged with **299** companies over the last quarter.



Australia & New Zealand

We engaged with **22** companies over the last quarter.



Developed Asia

We engaged with **34** companies over the last quarter.



Emerging & Developing Markets

We engaged with **seven** companies over the last quarter.



Europe

We engaged with **76** companies over the last quarter.



North America

We engaged with **128** companies over the last quarter.



United Kingdom

We engaged with **32** companies over the last quarter.



Engagement by theme

Over the last quarter we engaged with 299 companies held in the Wiltshire Pension Fund portfolios on a range of 895 environmental, social and governance issues and objectives.

Environmental

Environmental topics featured in 27.4% of our engagements over the last quarter.



- Climate Change 79.2%
- Forestry and Land Use 2.4%
- Pollution and Waste Management 11.8%
- Supply Chain Management 4.1%
- Water 2.4%

Social and Ethical

Social and Ethical topics featured in 21.9% of our engagements over the last quarter.



- Bribery and Corruption 4.6%
- Conduct and Culture 20.4%
- Diversity 21.9%
- Human Capital Management 14.8%
- Human Rights 33.2%
- Labour Rights 4.6%
- Tax 0.5%

Governance

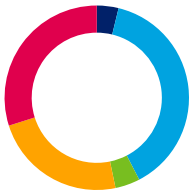
Governance topics featured in 30.2% of our engagements over the last quarter.



- Board Diversity, Skills and Experience 23.0%
- Board Independence 12.2%
- Executive Remuneration 45.6%
- Shareholder Protection and Rights 14.4%
- Succession Planning 4.8%

Strategy, Risk and Communication

Strategy, Risk and Communication topics featured in 20.6% of our engagements over the last quarter.



- Audit and Accounting 3.8%
- Business Strategy 38.6%
- Cyber Security 4.3%
- Integrated Reporting and Other Disclosure 23.4%
- Risk Management 29.9%

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