AGENDA

Meeting: **Wiltshire Pension Fund Committee**

Place: **Kennet Room - County Hall, Bythesea Road, Trowbridge, BA14 8JN**

Date: **Thursday 2 March 2023**

Time: **10.00 am**

Please direct any enquiries on this Agenda to Kieran Elliott of Democratic Services, County Hall, Bythesea Road, Trowbridge, direct line 01225 718504 or email kieran.elliott@wiltshire.gov.uk

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

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Membership:

Voting Membership
Wiltshire Council Members:
Cllr Richard Britton (Chairman)
Cllr Pauline Church
Cllr George Jeans
Cllr Gordon King
Cllr Christopher Newbury

Substitute Members
Cllr Ernie Clark
Cllr Sarah Gibson
Cllr Gavin Grant
Cllr Carole King
Cllr Dr Nick Murry
Cllr Ian Thorn
Cllr Robert Yuill

Swindon Borough Council Members
Cllr Kevin Small
Cllr Vijay Manro

Substitute Members
Vacant

Employer Body Representatives
Tracy Adams
Claire Anthony

Non-voting Membership
Observers
Stuart Dark
Mike Pankiewicz

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Public Participation

Please see the agenda list on following pages for details of deadlines for submission of questions and statements for this meeting.

For extended details on meeting procedure, submission and scope of questions and other matters, please consult Part 4 of the council's constitution.

The full constitution can be found at this link.

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For assistance on these and other matters please contact the officer named above for details

Items to be considered	Time

PART I

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

1 **Apologies** **10.00**

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

2 **Minutes of the Previous Meeting** *(Pages 7 - 14)*

To approve and sign as a true and correct record the minutes of the meeting held on 10 January 2023.

3 **Declarations of Interest**

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

4 **Chairman's Announcements**

To receive any announcements through the Chairman.

5 **Review of the Minutes of the Local Pension Board** *(Pages 15 - 26)*

To receive the minutes of the meeting of the Local Pension Board held on 01 February 2023.

To review the summary of the recommendations made by the Board.

6 **Public Participation**

The Council welcomes contributions from members of the public.

Statements
If you would like to make a statement at this meeting on any item on this agenda, please register to do so at least 10 minutes prior to the meeting. Up to 3 speakers are permitted to speak for up to 3 minutes each on any agenda item. Please contact the officer named on the front of the agenda for any further clarification.

Questions
To receive any questions from members of the public or members of the Council received in accordance with the constitution.

Those wishing to ask questions are required to give notice of any such questions in writing to the officer named on the front of this agenda no later than 5pm on 23 February 2023 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 27 February 2023. 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 Committee members prior to the meeting and made available at the meeting and on the Council's website.

7 **Hymans Cashflow Modelling** *(Pages 27 - 54)* **10.15**

To receive a report on cashflow modelling from the fund actuarial consultant.

8 **Responsible Investment Update** *(Pages 55 - 60)* **10.30**

The Investment and Accounting officer to present a report on the Fund quarterly responsible investment performance.

9 **Biodiversity** *(Pages 61 - 66)*

To provide the Committee with a briefing and discussion paper on biodiversity.

10 **Investment Strategy Statement** **10.45**

The draft Investment Strategy Statement, post Local Pension Board and employer consultation (to follow as a supplement), will be presented for final agreement.

11 **Date of Next Meeting**

The next ordinary meeting of the Committee will be held on 23 March 2023 for an administration focused meeting.

Other meetings are scheduled for 15 June, 13 July, 14 September, 5 October, 23 November, and 14 December.

12 **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.

13 **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 14 – 18 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 II

Item(s) during consideration of which it is recommended that the public should be excluded because of the likelihood that exempt information would be disclosed

14	**Minutes of the Previous Meeting** *(Pages 67 - 74)*	**11.00**
	To approve and sign the Part II minutes of the meeting held on 10 January 2023.	
15	**Quarterly Investment Update** *(Pages 75 - 108)*	**11.05**
	The Investment and Accounting officer to present a report on the Fund quarterly investment performance.	
16	**Brunel SRMs**	
	To receive a verbal update from Andy Brown, Deputy Chief Executive and Treasurer to the Fund.	
17	**Manager Presentation - Brunel Pensions Partnership**	**11.45**
	To receive a presentation.	
18	**Manager Presentation - Ninety One 12.20**	**12.30**
	To receive a presentation.	

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Wiltshire Council

Wiltshire Pension Fund Committee

PART I MINUTES OF THE WILTSHIRE PENSION FUND COMMITTEE MEETING HELD ON 10 JANUARY 2023 AT KENNET ROOM - COUNTY HALL, BYTHESEA ROAD, TROWBRIDGE, BA14 8JN.

Present:
Cllr Richard Britton (Chairman), Cllr Steve Heyes (Vice-Chairman), Cllr George Jeans, Cllr Gordon King, Cllr Kevin Small, Mike Pankiewicz, Tracy Adams, Claire Anthony and Cllr Robert Yuill (Substitute)

Also Present:
Anthony Fletcher (Adviser) and Mark Spilsbury (Local Pension Board Chairman)

1 Apologies

Apologies were received from Councillor Pauline Church, who was substituted by Councillor Robert Yuill.

Councillor Gordon King gave apologies that he would arrive late to the meeting. He arrived at 1035.

2 Minutes of the Previous Meeting

The public minutes of the meeting held on 17 November 2022 were presented for consideration, and it was,

Resolved:

To approve and sign the minutes as a true and correct record.

3 Declarations of Interest

There were no declarations.

4 Chairman's Announcements

There were no announcements.

5 Review of Actions

The Committee received the recommendations from the Local Pension Board, which would be considered under the relevant agenda items.

The Committee reviewed the list of ongoing actions, and sought additional details relating to ongoing work with Mercers committing the final tranche of affordable housing portfolio capital.

6 **Public Participation**

No questions or statements were submitted.

7 **Headlines and Monitoring Report**

Jennifer Devine, Head of Wiltshire Pension Fund, presented the Headlines and Monitoring report. The report included consideration of the risk register, key performance indicators, and other updates to enable the Committee to monitor relevant aspects of the Fund. Andy Brown, the Treasurer to the Fund, and Corporate Director, Resources, and Deputy Chief Executive, was also in attendance.

The Committee discussed the report in detail. Queries were raised regarding reporting from AON, who had been commissioned by the Fund to provide advice regarding the McCloud judgement as explained in the report and pensions dashboards, and preparatory changes that would need to be made as a result. It was explained that the Fund officers' response to the Aon reports was included in the papers, and that progress reports should come into the Fund quarterly.

There was discussion of key performance indicators and seeking assurance action plans were in place to address the red rated risks. It was confirmed risk PEN011 as detailed in the report had mapped into a new risk on overall resourcing, and would remain amber rated at present. An update was received on the new risk register reporting arrangements, including migration of previous risks into the new formatting, focusing where possible on strategic risks, and changes of staffing within the Fund.

Scheduled and proposed audits were highlighted, with the Committee requesting an audit on key financial controls begin earlier than September 2023 if possible. There was also an update on transition arrangements to the new payroll system, the date of which was being reviewed and which could impact on the timing of some of the planned audits. In respect of the ongoing pensioner payroll reconciliation project, Hymans had been appointed to work through the backlog of cases, aiming to complete the work in September 2023.

At the conclusion of discussion, it was,

Resolved:

1) **To approve the changes to the Risk Register recommended by officers and the Board**

2) **To approve the commissioning of proposed audits for the scheme year 2023/24.**

8 **Training Update**

Liam Robson, Senior Investment and Accounting Officer, provided a training session on MiFID (Markets in Financial Instruments Directive) II. This was a

European Directive which came into force in 2018, aiming to strengthen investor protection and improve the functioning of financial markets by making them more efficient and transparent. It introduced new reporting requirements and updated guidance had been issued.

The Committee received the presentation, noting work undertaken by Fund officers including self-declarations to meet the required standards of governance and reporting.

9 **Business Plan 2022-2023**

Jennifer Devine, Head of Wiltshire Pension Fund, presented a report updating members on progress on delivering objectives of the Business Plan. Full details were provided in the report, with many of the actions almost completed or already achieved. However, there had been delays in relation to action three, being as close to 100% as possible of legal requirements and developing an improvement plan for achieving key performance indicator targets.

The Committee raised queries on how the risk level was assessed for each item, with some being about figures meeting targets and others being more of a judgement assessment. Further details were sought regarding those employers who had not yet been onboarded to the new iConnect system, action 10 in the report. There were four large employers (or payroll providers) to onboard, and then most of the remaining employers were small scale.

At the conclusion of discussion, it was,

Resolved:

To note the update on Business Plan actions.

10 **Cost of Living Review**

A report was received from Jennifer Devine, Head of Wiltshire Pension Fund, presenting findings of a review into the impact of the ongoing cost of living situation on the Fund.

It was stated that the review was undertaken in part to determine the extent that the pressures of the financial situation were influencing cashflow, and consequent demand for liquidity. The paper included with the report also examined impacts on funding level, administration, and investment performance.

The Committee discussed the report and its conclusions, in that though there were competing pressures from high inflation, low wage growth and a tough financial situation, the Fund was able to weather those challenges, although there was concern around resourcing and cashflow. There was a discussion regarding impacts on and regarding the annual allowance, the amount pensions savings can increase by in a year without incurring a tax liability, impacts arising from home or flexible working and productivity, and the associated impacts on resourcing the administration of the Fund.

At the conclusion of discussion, it was,

<u>Resolved:</u>

To note the review and the impacts on the Fund.

11 <u>Key Financial Controls</u>

Christopher Moore, Senior Investment and Accounting Officer, presented a report detailing significant issues in relation to the Fund's key financial controls. Andy Brown, Treasurer to the Fund and Wiltshire Council Corporate Director, Resources, and Deputy Chief Executive, was also in attendance.

An update was provided on the sign off of the full Wiltshire Council Accounts for 2019/20 and 2020/21. As the Pension Fund accounts formed part of those accounts, their sign off had also been delayed as a result of the full Council accounts being delayed, not as a result of any concerns relating to the Fund accounts. It was stated it was anticipated delegated authority would be provided to sign off the 2019/20 accounts shortly, and the council was working with the external auditors Deloitte to resolve issues, with a view to approving the 2020/21 accounts in 2023, although there was a national issue causing delays with the 2021/22 accounts.

The Committee discussed the report and updates, questioning officers on the process of examining public body accounts, impacts from national valuation issues, and how many years back auditors were required or advised to look at when examining issues. It was stated that there would be a new audit provider for the council and Fund for 2023/24.

There were also updates on the ongoing pension payroll reconciliation project to resolve outstanding issues arising from discrepancies between Fund payroll systems. This was being reviewed monthly. There was discussion of the recharge for corporate services provided by the council to the Fund, with it being stated a new methodology was being put in place for 2023/24. The Committee was informed that some charges were expected to increase, though some would reduce.

Other matters raised included an update on the operating budget of the Fund, running costs relating to Brunel to cover pension liabilities.

At the conclusion of discussion, it was,

<u>Resolved:</u>

To note the update on key financial controls.

12 **Data Retention Policy**

Richard Bullen, Fund Governance and Performance Manager, presented a report on a proposed revised approach to the Fund’s Data Retention Strategy. The proposals were considered and endorsed by the Local Pension Board on 27 October 2022.

The Committee was updated on the process for review and changes proposed as set out in the report. Details were sought on differences with Wiltshire Council data retention policies, with data retained for longer periods given the nature of pensions administration. Queries were raised on the systems for monitoring and reviewing information to identify when they should be deleted.

At the conclusion of discussion, it was,

Resolved:

To approve the changes to the Data Retention Policy.

A break was taken from 1150-1155.

13 **Cessation Policy Methodology**

Richard Bullen, Fund Governance and Performance Manager, presented a report on a proposed revision to the Fund Cessation Policy, regarding when an employer leaves the Fund. At its meeting on 17 November 2022 the Committee had resolved a revised methodology, with the new approach to apply from 1 April 2023, but with the final details to be considered at this meeting for final approval.

Since publication of the report advice had been received from Mercers, the Fund’s investment adviser, who were supportive of the proposed strategy in relation to a success corridor, with cessation deficits or surpluses only due if the final cessation funding position was outside that corridor. Mercer had provided advice that the Fund should continue to invest all assets in the main investment strategy, and monitor the situation with the orphaned liabilities pool on a regular basis.

At the conclusion of discussion, it was,

Resolved:

To approve the revised cessation methodology approach and a likelihood of success corridor of 90%-95% as described within the report.

14 **Pension Payroll Database Reconciliation**

A report was received from Jennifer Devine, Head of Wiltshire Pension Fund. It was noted information relating to the reconciliation had been considered and discussed under Minute Items 7 and 11.

There being no further comments, it was then,

Resolved:

To note the update.

15 **Forward Work Plan**

It was,

Resolved:

To note the Forward Work Plan.

16 **Date of Next Meeting**

The dates of upcoming meetings were confirmed as 2 March 2023 and 23 March 2023.

17 **Urgent Items**

There were no urgent items.

18 **Exclusion of the Public**

It was,

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 Minute Numbers 19 - 22 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 1 & 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.

19 **Minutes of the Previous Meeting**

The private minutes of the meeting held on 17 November 2022 were presented for consideration, and it was,

Resolved:

To approve and sign the minutes as a true and correct record.

20 **Cyber Resilience Update**

A report was received to update the Committee on responses to questions raised following consideration of a review of cyber security and resilience in respect of the Fund and council. Details had been sought as to whether the council's approach was compliant with pension regulator guidance, and it was confirmed that this would be the case. It had also been asked whether there was a duty for the Fund to press the council further to introduce any additional cyber security protections. It was stated there was no such unstated additional duty on the part of the Fund.

The Committee discussed the latest update, noting the response at the meeting from Andy Brown, Corporate Director, Resources, and Deputy Chief Executive, on some limitations on additional actions by budgetary constraints, but noting the action being taken to protect the council and Fund as part of the overall IT infrastructure, including around legacy systems.

The Committee considered that it had responded positively to a report from auditors around potential cyber security concerns, and had acted prudently to review any risks and pass any recommendations to the council. It was agreed that there should be a concluding report, circulation of council responses to the Local Pension Board, and an annual assessment from officers to ensure the situation remained satisfactory, with reporting to be provided to the Committee on an exception's basis.

At the conclusion of discussion, it was,

Resolved:

1) **To note the update on Cyber Resilience and prepare a final report.**

2) **To delegate to the Head of Wiltshire Pension Fund through her team to undertake at least an annual assessment relating to cyber security and resilience.**

21 Departmental Restructure

Jennifer Devine, Head of Wiltshire Pension Fund, provided a verbal update regarding a restructure of the Fund's officer support and administration to improve effectiveness and efficiency of the service.

The Committee raised questions about the operation of new or amended roles, resourcing levels and recruitment, and other matters including overall administration and staffing costs.

At the conclusion of discussion, it was then,

Resolved:

To note the update.

22 **Brunel Governance Update**

Jennifer Devine, Head of Wiltshire Pension Fund, provided a verbal update regarding governance issues relating to the Brunel Pensions Partnership.

Details were provided on the budget and resourcing proposal from Brunel, which would be considered by its Oversight Board at the end of January 2023 before being considered by shareholders including Wiltshire, along with other updates relating to Brunel operations and potential asset allocations.

At the conclusion of discussion, it was,

Resolved:

1) **That the Committee supported the Treasurer to the Fund/Corporate Director, Resources, as Shareholder representative, in raising concerns around the proposed Brunel Pension Partnership budget.**

2) **That the Committee supported the officers' approach to implementation of the strategic allocation to renewable infrastructure and climate solutions.**

(Duration of meeting: 10.00 am - 1.00 pm)

The Officer who has produced these minutes is Kieran Elliott of Democratic Services, direct line 01225 718504, e-mail kieran.elliott@wiltshire.gov.uk

Press enquiries to Communications, direct line 01225 713114 or email communications@wiltshire.gov.uk

Wiltshire Council

Local Pension Board

MINUTES OF THE LOCAL PENSION BOARD MEETING HELD ON 1 FEBRUARY 2023 AT KENNET ROOM - COUNTY HALL, BYTHESEA ROAD, TROWBRIDGE, BA14 8JN.

Present:

Mark Spilsbury (Chairman), Marlene Corbey (Vice-Chairman), Paul Smith, Laura Fisher, Asifa Ashraf and Mike Pankiewicz

Also Present:

Cllr Richard Britton, Christopher Moore, Richard Bullen, Ellen Ghey, Cameron Osborn, Jennifer Devine, Denise Robinson and Liam Robson

166 **Apologies and Membership**

Apologies were received from Juliet Weimar.

The Chairman informed Members that Asifa Ashraf would shortly be leaving Wiltshire Council and as such would be unable to continue as an Employee Board Member. The Chairman thanked Asifa on behalf of the Board for her attendance and time invested into attending and participating in training and meetings over the course of her term.

167 **Minutes and Action Tracking**

The Part I (public) minutes of the previous meeting held on 27 October 2022 were considered. After which, it was:

Resolved

The Board approved and signed the Part I (public) minutes of the previous meeting held on 27 October 2022 as a true and correct record, and the Board's action log was noted.

168 **Declarations of Interest**

There were no declarations of interest.

169 **Chairman's Announcements**

There were no Chairman's announcements.

170 **Public Participation**

There were no statements or questions submitted.

171 **Minutes and Key Decisions of the Wiltshire Pension Fund Committee**

The Part I (public) minutes from the last ordinary meetings of the Wiltshire Pension Fund Committee (WPFC) meetings held on 17 November 2022 and 10 January 2023 were considered. Following which, it was:

Resolved

The Board noted the Part I (public) minutes from the last ordinary meetings of the Wiltshire Pension Fund Committee held on 17 November 2022 and 10 January 2023.

172 **Scheme, Legal, Regulatory and Fund Update**

Jennifer Devine, Head of Wiltshire Pension Fund, updated the Board on the various Scheme, Legal, Regulatory and Fund updates.

Additional information was provided regarding actions in respect of the McCloud decision and the Pensions dashboard data. It was stated that good progress had been made against recommended actions.

There being no further comments, it was then:

Resolved

The Board noted the report.

173 **Risk Register Update**

Richard Bullen, Fund Governance and Performance Manager, updated the Board in relation to the changes made to the Fund’s Risk Register.

It was explained that a new Risk Register was introduced in November 2022 with officers subsequently undertaking an exercise whereby they compared the old register to the new one to ensure that all risks had been migrated across and the new document was fully embedded and established. Furthermore, the previous incarnation focussed on inherent risk whereas the new document focussed on residual risks once mitigations had been applied, and as such, the ratings in many respects would appear reduced. The register was noted as being updated monthly by officers and then reviewed internally to ensure consistency, and once approved brought forward to Committee and Board meetings.

Recent changes were highlighted with the review undertaken in January 2023 increasing the level of case work and data management risks experienced in December 2022. However, officers emphasised that they were not overly concerned with the issues presented as they felt they would be minimised with time. Officers felt that the new design would support Board Members in making recommendations to the Committee through the observation of trends and themes.

The Board discussed the report and update and made comments on the graphics displaying the risks in the report. It was explained that the risk assessments depended on the weighting of the issues, for example a major administration risk that could significantly impact the operation of the Fund would be weighted more highly in comparison to others rated as less critical. It was further noted that officers would circulate information to Members after the meeting with regard to the effects of the Altair system on valuation reporting.

The Chairman welcomed the new design on behalf of the Board and commended officers on their work.

Resolved

The Board noted the attached Risk Register and recommended to the Committee that the risk assessments being made by the CROC Group were appropriate.

174 **Local Pension Board Budget 2023/24**

Chris Moore, Pension Fund Accounting and Investment Officer, briefly presented a proposed Local Pension Board Budget for 2023/24 for the consideration of the Board.

It was explained that officers were forecasting a small underspend with a slightly smaller proposed budget than the budget for 2022/23, however it was noted that the rising rates in inflation were accounted for.

Queries were raised in regard to training spends with Members seeking reassurance that all training opportunities were being passed on to Board and Committee Members. Officers confirmed that they were having discussions around signing Denise Robinson, Employer Engagement and Training Officer, onto the mailing lists for key providers such as Hymans Robertson so that she would have sight of all upcoming webinars and conferences and could then circulate to Members when appropriate.

Following which, it was:

Resolved

1) **The Board agreed the draft Local Pension Board and recommended to the Wiltshire Pension Fund Committee that this is included in the Fund's Administration Budget for 2023/24.**

2) **The Board agreed to monitor their budget on a quarterly basis as Local Pension Board budget monitoring will form part of the quarterly budget report which is reviewed by the Wiltshire Pension Fund Committee.**

175 **Training Item**

Richard Bullen, Fund Governance and Performance Manager, introduced a report setting out a draft training programme for Board and Committee Members for the Scheme Year 2023/24 based on the Hymans Robertson National Knowledge Assessment (NKA) questionnaire completed by Members during 2022.

Officers commended all Board Members for completing the questionnaire. It was noted that there were a few Committee Members who had not completed the questionnaire, causing a slight disparity between the two groups' answers, however officers referred to the possible reasons outlined in the paper. Namely, the Board was more established, and the Committee had undergone a lot of Membership changes and thus many Members had experienced a big learning curve and weren't as experienced. However, officers emphasised that the results were just a snapshot in time. Key items gleaned from the report from Hymans Robertson were detailed, such as the order of training with 8 respondents out of 14 seeking further training on accounting and audit standards. Topical administration subjects were also noted. Officers noted that they were considering organising a training session clarifying roles and responsibilities of the Administering Authority, various advisers, officers and Members.

The attached training plan itself was raised and it was stated that it was not yet finalised and further changes could be made if required. The plan would be delivered in a variety of methods including online training, conferences, tPR toolkit and training sessions during meetings. It was confirmed that training was not mandatory for Committee Members, but the Board were reassured that the issue of training generally was being recognised at a national level relating to the need for the Committee as a decision-making body to undertake training.

In response to queries it was confirmed that training resources had been made available for Board and Committee Members online. During discussion it was agreed that it was not practical for all Board and Committee Members to attend the entirety of a meeting of the other body, for instance to attend a specific training item. It was suggested that training could take place at the beginning of or prior to a formal meeting, with hybrid capability, to enable all Members to attend the training only.

The Chairman further asked if there was scope for more detailed administration training which he felt could be more beneficial which officers agreed could be produced.

Following which, it was:

Resolved

The Board endorsed the implementation of the new Members training strategy covering the scheme year 2023/24, and the training plan for the Board, with the inclusion of additional training on Pensions Administration.

176 **Effectiveness Review**

Richard Bullen, Fund Governance and Performance Manager, presented the report which outlined the recommendations identified by Hymans Robertson in their "Member Effectiveness Review" report 2022 and updated Members on the Fund's implementation of the Pension Regulator's (tPR) anticipated new single code of practice and its effective system of governance (ESoG) requirement.

The Chairman began by thanking all Board Members who responded to the questionnaire and acknowledged that there was scope for improvements. He expressed some disappointment in the wording used in the Hymans Robertson report, which he felt presented a more negative position than was the case. He additionally sought further clarification as to the reasoning behind some of the recommendations not all of which may have been justified by the presented responses.

Officers responded to the points raised and highlighted that in the interim since the previous report in 2018, many processes and areas had been introduced or refreshed and were well received and embedded within the operation of the Fund. It was proposed to seek further clarification to better understand the recommendations. Noting the update on training, it was considered that additional training for Members may not be realistic.

Officers informed Members that they were intending to present tPR actions log, however they had attended the National Governance Conference prior to the meeting which notified attendees that a new guidance document was due for publication and many changes were anticipated. As such, officers felt that it would be ineffective to communicate information that may change, therefore they were awaiting the new guidance which would be reviewed and then brought back to the Board.

The Chairman welcomed the feedback from officers and stressed that any actions taken from the recommendations should be proportionate and realistic. Following which, it was:

Resolved

The Board recommended the actions outlined in the Member Effectiveness Report 2022 be implemented by officers but, given that many relate to areas where only a small number of Members have expressed a need for additional training and/or training, the Board requested that the issues are addressed in a proportional manner,

including the signposting of relevant information already available on SharePoint.

177 **Administration Quarterly Update**

Jennifer Devine, Head of Wiltshire Pension Fund, briefly presented the report to Board Members.

Members were informed that Andy Cunningham, Pension Administration Lead, would be leaving the Fund at the end of February 2023 and officers were in the process of recruiting a replacement. A plan was being developed for future improvements for the Fund which officers were targeting to be included in next years Business Plan. There was discussion of internal work to streamline administration processes to improve achievement of targets, as well as reorganisations of service areas to increase effectiveness.

The Chairman welcomed the openness on the difficulties which had been faced, and stated he was confident that the actions taken would lead to an improvement in achieving targets. Clarification was sought on raised risk ratings regarding underperformance due to staff shortages in December 2022. It was explained that the beginning of the month had been going well but the shortages had impacted on backlog work towards the end of the month.

In response to queries, officers confirmed that the Board would have sight of the improvement plan at their next meeting after consideration by the Committee in March 2023.

It was then:

Resolved

The Board noted the update.

178 **Key Financial Controls**

Chris Moore, Pension Fund Accounting and Investment Officer, presented the report to Members.

The Annual Report & Accounts for 2019/20 and 2020/21 were noted as being closer to being signed off with all work on the Fund’s side being completed and the delay due to audit work with the Council accounts. However, as so much time had passed since 2019/20, officers were required to prepare a ‘subsequent events note’ to be included in accordance with accounting regulations. Payroll reconciliations were then raised with officers noting that the discrepancies between the two systems were continuing to be resolved. It was confirmed that officers had selected an investment manager to implement the SALAMI (Strategic Allocation to Liquid Asset Matching Investments) portfolio and strategy which would ultimately allow the Fund to maintain a smaller cash balance aiding in managing cashflow. Lastly, officers noted that an updated Service Level Agreement charge from the Wiltshire Council Finance Team had been received after Fund officers sought details from the Council on their proposed methodology. Officers were awaiting the finalisation of a formal legal document that would outline the agreement.

In response to a question, officers clarified that the national pensions Liability Driven Investment (LDI) issue had led to a delay on the audit and was not as a result of the Fund itself, but instead due to the gilts crisis which forced the auditors to quickly undergo urgent reviews on other Funds, thus delaying auditing work being completed for the Fund.

It was then:

Resolved

The Board agreed to use the report to monitor progress against resolving the issues which have been identified, and the progress being made to develop accounting and control improvements.

179 **Draft Investment Strategy Statement**

Liam Robson, Pension Fund Accounting and Investment Officer, updated the Board in relation to changes to the Fund's Investment Strategy Statement (ISS).

It was explained that the Strategic Asset Allocation (SAA) of the Fund was reviewed in November 2022 with minor amendments being recommended, predominantly around changes to investment classification and category rationalisation. Officers noted that the modelling predicted a slight increase in expected overall returns but would have a slight impact on risk. Furthermore, the ISS had been redrafted in consideration of expected higher inflation periods, and a new policy document had been developed covering Environmental, Social and Governance (ESG) factors. It was explained that further amendments to the ISS may be made as a result of expected upcoming consultations and as such the strategy would be kept under review. Employers would be consulted in the next few weeks with officers hoping for the updated document to be brought to the March 2023 meeting of the Pension Fund Committee for final sign off.

In response to a question, officers explained that Mercer had provided advice as the Fund's Investment Consultant which had helped draft a detailed paper alongside a presentation for the November 2022 meeting of the Committee. Committee Members were noted as having received training on the SAA in early 2022 which aided them in asking many questions to Mercer, ensuring a thorough process had been undertaken. Officers acknowledged that a mistake had been made in the paper on Page 122 which stated that the current and long-term SAA were displayed but it was only the long-term SAA. Reference was then made to the approach to pooling investments and Members requested that the governance structure of Brunel be revisited in a future training session.

The Board also briefly discussed the recent news in regard to the Royal Borough of Kensington and Chelsea (RBKC) stating that they were considering exiting their membership of the London CIV Local Government Pension Scheme pool. It was noted that the RBKC had not yet transferred any assets within their pool, which was not the case with Wiltshire and Brunel, with a commitment to making the relationship work.

Resolved

The Board noted the attached draft Investment Strategy Statement and agreed to provide any comments to the Wiltshire Pension Fund Committee (via officers) by Thursday 23 February 2023.

180 **Investment Governance Update**

Liam Robson, Pension Fund Accounting and Investment Officer, provided a verbal update for the Board on the Fund's TCFD (Taskforce for Climate-Related Disclosures) response and confirmation of the Fund's compliance with the CMA (Competition and Market Authority).

It was explained that the TCFD consultation was opened in September 2022 and officers had produced a response which was under consideration. Officers highlighted that many of the proposals were already being fulfilled by the Fund. However, it was expected that following the consultation and subsequent review, certain provisions would be put in place to make the proposals mandatory and what the Fund was already doing voluntarily would align with the rest of the LGPS by December 2023.

With regard to the CMA Order, it was explained that the Order covered the whole pensions space and mandatorily required pension funds to produce a compliance statement every January to confirm that funds were complying with requirements around fiduciary management and objective setting. Reference was then made to MiFID II and it was explained that it was a compliance piece of work related to the Committee with a refresher training session delivered in their November 2022 meeting, with one response pending on self-certification by Committee Members.

It was then:

Resolved

The Board noted the update.

181 **Audit Update**

Richard Bullen, Fund Governance and Performance Manager, updated the Board on the Fund's audit plan for 2023/24 approved by the Committee at their meeting on 10 January 2023.

It was noted that SWAP had undertaken a KFC (Key Financial Controls) audit in March 2022 in which a rating of "no assurance" was given, however this had been raised following the November 2022 audit to a rating of "limited assurance”. Officers noted that a significant programme of work had been undertaken over the summer of 2022 as a result and whilst further improvements were needed, officers were pleased with the increased rating. It was recorded that the key areas preventing further assurance were the aggregation processing and backlogs, pension payroll reconciliation project, new i-Connect enrolments, and the management of undecided leavers. Officers reiterated that these were large, slow-moving projects that were taking a lot of time and effort to complete. It was confirmed that none of the concerns raised in the audit were unknown to officers who were working hard to rectify any/all issues and that the actions log would be provided for Board Members at their next scheduled meeting.

The Brunel Cost Savings Audit was then raised, and officers noted that ClearGlass had been appointed as the auditor in November 2022, with field work still being undertaken. Members were assured that a report summarising the findings would be brought to the Board when completed.

Members highlighted that a few of the target dates felt close and sought reassurance that officers were on track to meet those targets. In response, officers confirmed that discussions would be taking place in the coming weeks among various managers and contractors. With regard to the Annual Report & Accounts, officers noted that they had been advised that there were concerns that the scheme year 2021/22 accounts may not be signed off by December 2023 due to the delays still being experienced, but they confirmed that all work had been completed. They further reassured Members that if a Fund does not meet their publication deadline for the Annual Report & Accounts due to an auditing delay, then they can be published with an explanation as to why they were yet to be audited, thus mitigating any legal repercussions and abiding by regulations.

In response to a query, officers noted that no employers responded to the consultation that had been circulated with regard to the introduction of imposing additional charges to employers that don’t sign up to i-Connect. However, officers were working on further communications to provide more detail for employers through their Employer Engagement Services Team.

It was then:

Resolved

1) **The Board noted the Committee’s approval of the audits commissioned on 10 January 2023.**

2) **The Board endorsed the recommendations made by SWAP in their 2022/23 audit report and that officers should prepare an actions log based on those recommendations.**

182 **Cost of Living Review**

Chris Moore, Pension Fund Accounting and Investment Officer, introduced on the findings of a review into the impact of the cost-of-living crisis on the Fund.

Following from the results of the report, the Committee had commissioned Hymans Robertson to analyse the cash flow data for the SAA with a report summarising the results to be delivered at a future meeting of the Committee. The Fund and Committee welcomed the chance to review all areas of the Fund with the consideration of cost-of-living factors. The Chairman commended the report and noted how well received it had been by the Committee and looked forward to future updates.

Resolved

The Board noted the work done and the impacts on the Fund.

183 **Urgent Items**

There were no urgent items.

184 **Date of Next Meetings and Forward Work Plan**

The next ordinary meeting of the Local Pension Board would be held on 24 May 2023.

Future meetings are scheduled for 10 August 2023 and 1 November 2023.

The Board additionally considered the Scheme Year Forward Work Plan.

Resolved

The Board noted the Scheme Year Forward Plan.

185 **Exclusion of the Public**

The Board considered the recommendation to exclude the public. After which, it was:

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 21-23 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.

186 **Minutes and Key Decisions of the Wiltshire Pension Fund Committee**

The Part II (private) minutes from the last ordinary meetings of the Wiltshire Pension Fund Committee (WPFC) meetings held on 17 November 2022 and 10 January 2023 were considered. Following which, it was:

Resolved

The Board noted the Part II (private) minutes from the last ordinary meetings of the Wiltshire Pension Fund Committee held on 17 November 2022 and 10 January 2023.

187 **Cyber Security Update**

A verbal update was provided on the report on Cyber Security received at the last meeting of the Committee. It had been confirmed that as a result of Aon being commissioned to consider the risks associated with cyber security and that there was no unstated additional duty on the part of the Fund regarding pressing of the Council to introduce any supplementary cyber security protections, the Committee had fulfilled its due diligence expected by the Regulator. Furthermore, it had been agreed that any future cyber security work would be delegated to officers and reviewed annually, with any reporting provided to the Committee and Board on an exception basis.

188 **Departmental Restructure**

It was explained that a staffing restructure was being undertaken to better position the Fund to deliver an improved service for the future. Many changes were explained to Members with updates provided on vacancies at both lower and senior levels and how specific changes would impact on the operation on the Fund. Further discussions were had in regard to contracting recruitment agencies and ensuring that any vacancies were filled with people who possessed the right skills for the role.

(Duration of meeting: 10.00 - 11.45 am)

The Officer who has produced these minutes is Kieran Elliott of Democratic Services, direct line 01225 718504, e-mail kieran.elliott@wiltshire.gov.uk

Press enquiries to Communications, direct line 01225 713114 or email communications@wiltshire.gov.uk

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Wiltshire Council

Wiltshire Pension Fund Committee

2 March 2023

CASHFLOW PROJECTIONS

Purpose of the Report

1. The purpose of this report is to highlight the key outcomes of modelling work undertaken by Hymans Robertson to review the cashflow position of the fund.

2. A detailed report prepared by Hymans Robertson (Appendix 1) is also included in the papers.

Key Considerations for the Committee / Risk Assessment / Financial Implications

3. At the December Committee meeting it was agreed that Hymans Robertson would be commissioned to undertake detailed scenario analysis of the funds cashflow. This is to assess the risk of the fund becoming cashflow negative due to the impact of high inflation increasing cash outflows. Proactively assessing the cashflow position of the fund and adjusting the strategic asset allocation accordingly can prevent the fund from becoming a forced seller of assets.

4. Indicative modelling by officers had indicated the fund could become cashflow negative in 2027. The detailed modelling work by Hymans Robertson shows the fund is likely to be cashflow negative by 2030 allowing for an expected pension increase of 10.1% in April 2023 and inflation in line with the valuation assumptions thereafter. If higher inflation persists then the date of cashflow negative being reached comes earlier. The most significant risk to the fund is a stagflation scenario where inflation remains persistently high.

5. The detailed report attached sets out further detail of scenarios that have been tested for higher inflation and the methodology used to complete this modelling.

6. On the basis of this report officers recommend that no immediate action is required and the fund should ensure it considers cashflow at the next strategic asset allocation review in 2026.

Environmental Impacts of the Proposals

7. There are no known implications at this time.

Safeguarding Considerations/Public Health Implications/Equalities Impact

8. There are no known implications at this time.

Proposals

9. The Committee is asked to note that no immediate action is required to amend the investment strategy to address any short term cashflow needs.

Report Author: Jennifer Devine (Head of Wiltshire Pension Fund) and Chris Moore (Pension Fund Accounting and Investment Officer)

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

Appendices:
Appendix 1 – Hymans Robertson Cashflow report

Wiltshire Pension Fund

Cashflow projections

Steven Scott FFA

16 January 2023
For and on behalf of Hymans Robertson LLP

Use the menu bar above to navigate to each section.

Contents

In this report:

Executive summary

This paper is addressed to Wiltshire Council as the Administering Authority to the Wiltshire Pension Fund ("the Fund"). The paper considers different future projections of the Fund's cashflows under a range of different scenarios. The analysis and projections will help the Fund better understand its current and potential future cashflow position and is part of its management of risk in this area.

From the analysis and projections set out in this paper, the following conclusions can be drawn:

- In the absence of investment income, the Fund is likely to be cashflow negative by 2030 allowing for an expected pension increase of 10.1% in April 2023 and inflation thereafter that is in line with the valuation assumption.
- The cashflow position of the Fund is sensitive to future levels of inflation. If higher inflation continues to persist into 2023 and 2024, the Fund may become cashflow negative in the next couple of years. This is exhibited in our recession scenario. This highlights the importance of reviewing the cashflow position on a regular basis in a high inflation environment.
- In the longer-term, the most significant risk to the fund (in respect of its cashflow position) is a stagflation scenario, where inflation remains elevated for a longer period of time. Under this scenario, the Fund is cashflow negative in the next couple of years, with the gap increasing to a material level in the longer-term.
- No allowance has been made in the analysis for investment income. The sensitivity analysis highlights the importance of investment income in meeting any future cashflow shortfall.

Background and inputs

What is cashflow negativity and does it matter?

Every month, the Fund receives income via contributions and pays out benefits to members. Historically, the benefits have been paid out of the contribution income with any excess being invested. This is how the Fund's asset value has built up over time (along with investment returns).

Over time a pension fund will mature and the level of benefit payments will start to exceed contribution income. At this point, a pension fund is considered "cashflow negative".

Being cashflow negative itself is not unexpected for a pension fund; the assets that have been accrued are for the purpose of paying benefits. However, if the transition to being cashflow negative is not monitored and managed effectively, it can pose a liquidity risk and the Fund may become a forced seller of assets.

At the 2022 valuation, the focus on cashflow is greater given the likely significant increase in benefits at April 2023 due to rising inflation.

Knowing when the Fund is likely to become cash flow negative is helpful as it can have implications for both the funding and investment strategy:

- Having cash available to meet the Fund's primary objective of paying member benefits
- The ability to maintain stable contributions over time and withstand volatility from investment markets
- Understanding the level of cash balance that needs to be retained while avoiding a drag on investment returns
- Avoiding the risk of being a forced seller of assets at inopportune times
- Making the most efficient use of income generated by Fund assets
- Implementing optimum rebalancing and cash management policies

This paper explores the Fund's cashflow position under a variety of different scenarios to inform the approach to cashflow management

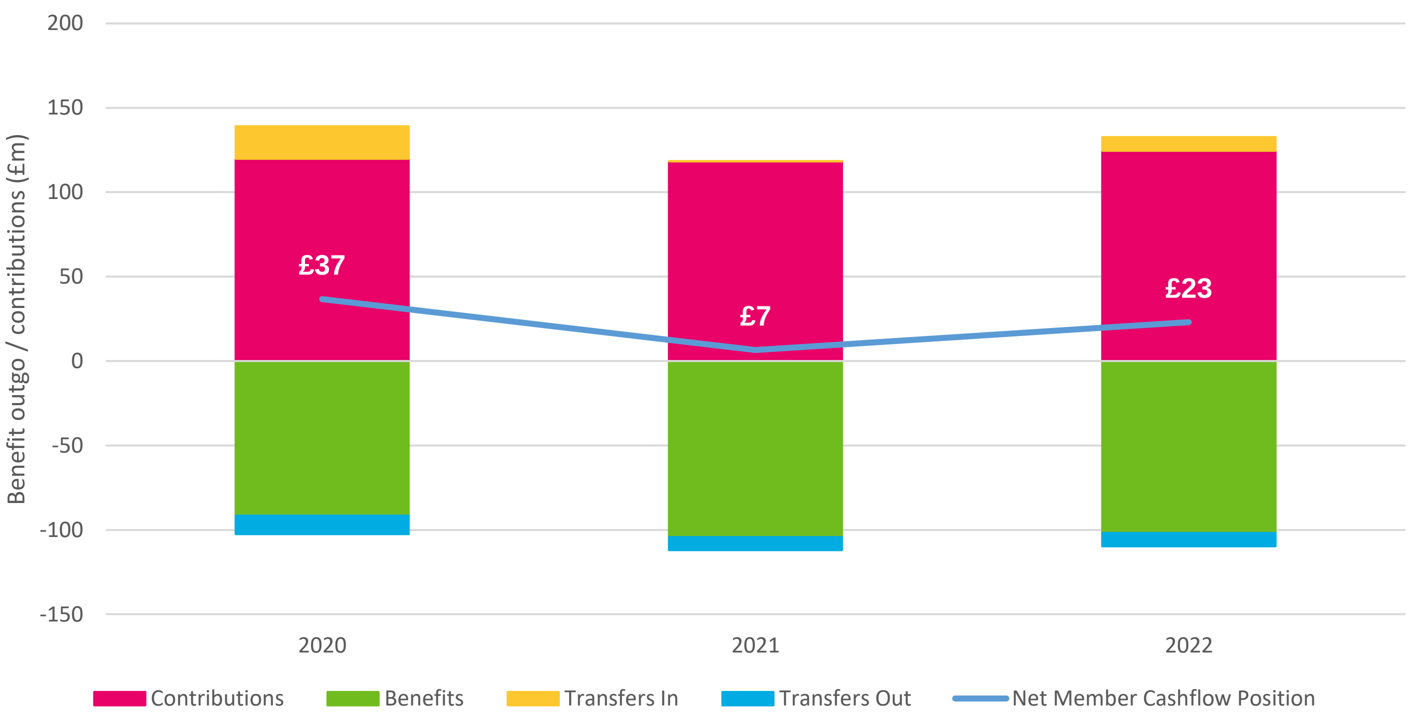
Recent cashflow position

Using the annual report and accounts for years ending 2020, 2021 and 2022, we have analysed the recent cashflow position for the Fund.

The chart shows the absolute value of contribution income and benefit outgo (bars) and the net cashflow position (line and figures).

During this period, the Fund remained cashflow positive, ie income exceeded outgo.

Transfers in and out of the fund can significantly affect the cashflow position. In 2021/22, there were c.£8m of transfers into the Fund which helped increase the net cashflow position, these were then offset by c.£8m of transfers out in the same period.



The cashflow position has remained positive in recent years.
The current net cashflow position is around £23m (contributions exceeding benefits).

What are the cashflows of the Fund

In this paper we consider the main cashflows in and out of the Fund over the next 20 years.

The Fund's primary sources of income are:

- Contributions from employers in the Fund
- Contributions from employee members in the Fund
- Income streams generated from the Fund's investments

Contributions paid are estimated based on:

- The 2022 valuation payroll
- The 2022/23 contribution rates currently in payment (equivalent to an average of 25.3% of pay).
- The aggregate of all proposed employer contribution rates payable from 1 April 2023 to 31 March 2026. Thereafter the contribution rate has been assumed to remain stable up to year 20.

The Fund's outflows are the benefits payable to the members and their dependants. These include:

- Retirement lump sums paid to active and deferred members on retirement
- Retirement pensions paid to pensioners and their dependents
- Death in service benefits and ill health benefits.

Transfers in and out of the Fund by individual members are not usually a significant source of income or outflow and typically balance out over time.

The projected cashflows are sensitive to a number of assumptions. The most significant are:

- Level of future benefit increases (all LGPS benefits are index-linked and increase in line with Consumer Price Index (CPI) inflation)
- Level of current and future payroll (determines the amount of contributions received)

We have prepared future cashflow projections under a range of different inflation and payroll scenarios to inform decision making. This helps the fund understand the sensitivity of its cashflow position to these sources of uncertainty and make appropriate management plans.

Data, assumptions and methodology

Membership data

We have used the membership data provided for the 2022 valuation of the Fund.

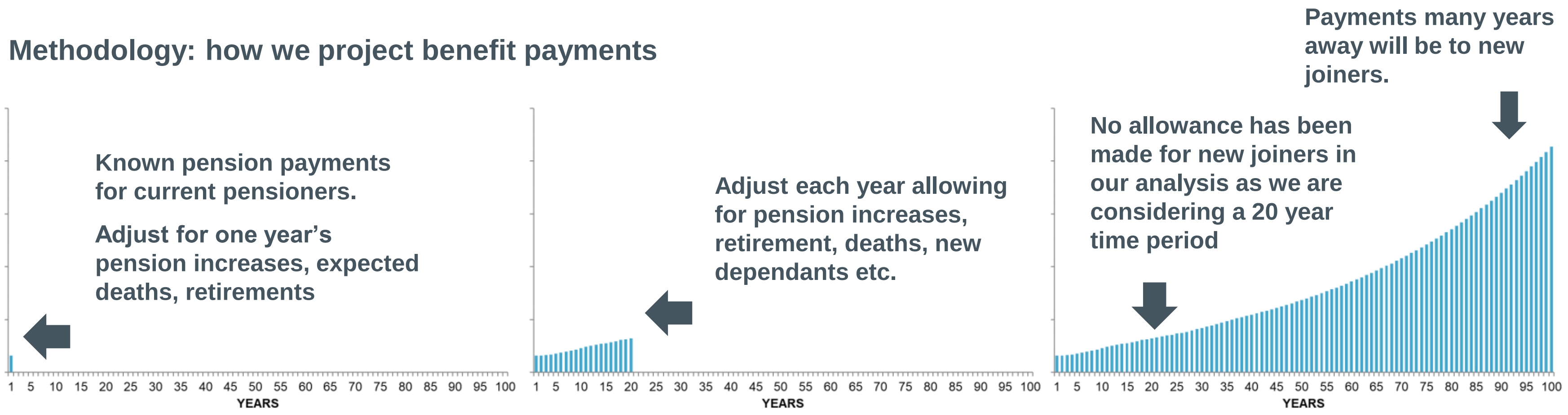
Assumptions

The demographic and financial assumptions are in line with those adopted for the 2022 valuation of the Fund unless stated otherwise.

Further information on the membership data and assumptions is detailed in the 2022 valuation initial results report dated August 2022.

Allowance for benefit outgo in respect of benefits yet to be accrued by current active members is included in the projection, however, given the relative short timeframe considered, no allowance has been made for benefit outgo in respect of accrual by members yet to join the scheme.

Methodology: how we project benefit payments



Methodology: projecting contribution income

- Payroll is assumed to increase in line with the valuation assumption of 3.2% pa
- Employer contributions are assumed to be in line with the pattern set out on page 7
- Employee contributions are based on the weighted average for the Fund at the 2022 valuation (6.3% of pay).

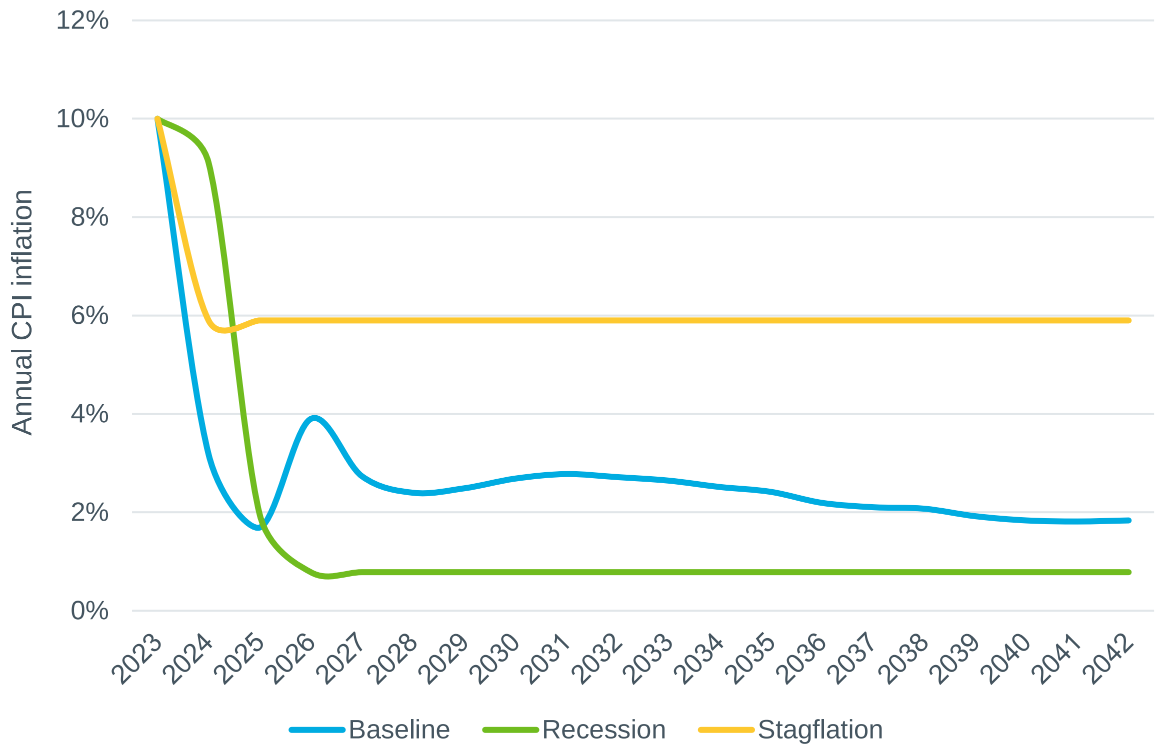
Scenarios explored

Future CPI inflation

Given the sensitivity of future benefit payments to inflation, we have considered three potential scenarios for future inflation. All scenarios assume a 10% increase in benefits in April 2023:

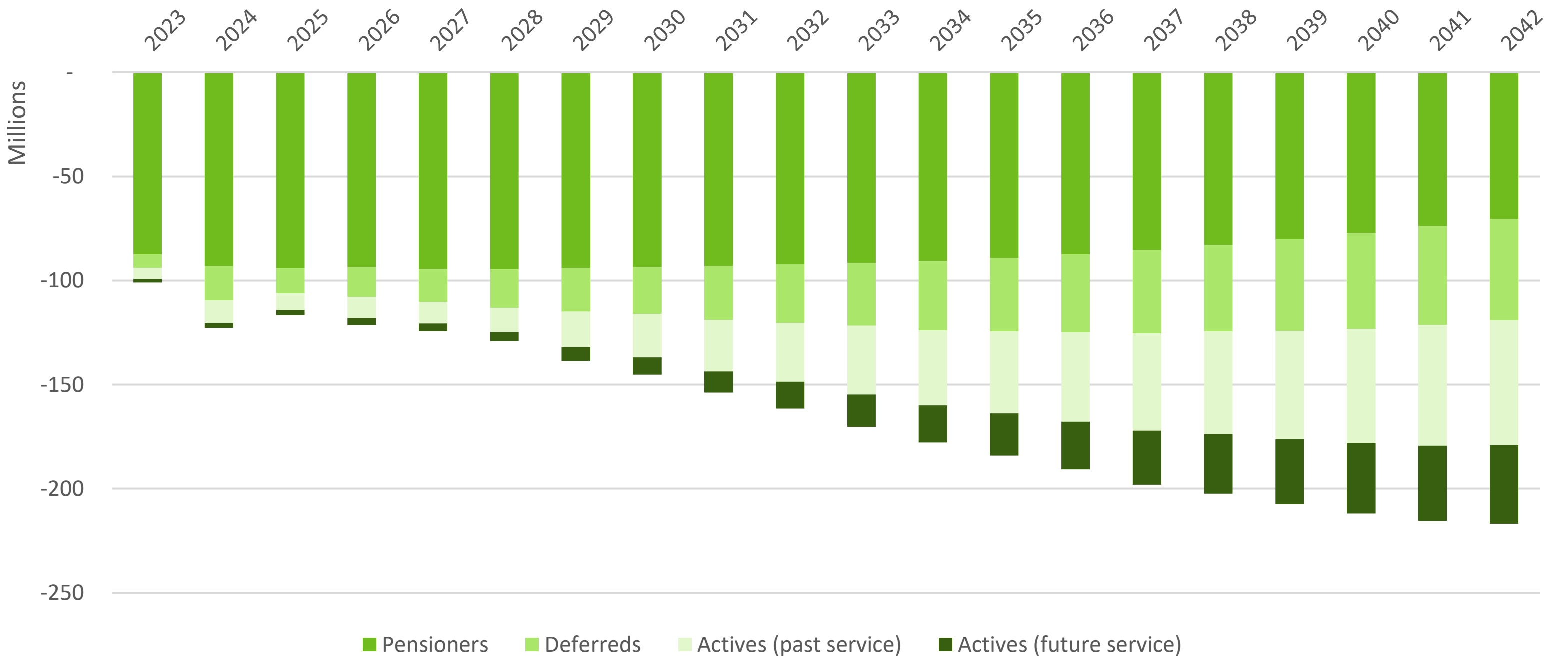
- Scenario 1 (the blue line): this **baseline** scenario represents the median CPI assumption within the Hymans Robertson economic scenario service (ESS) model as at 31 March 2022 (this is the assumption used for the 2022 valuation). This is a combination of short-term market expectations and longer-term expectation that the rate will tend to the Bank of England's 2% target.
- Scenario 2 (the green line): this represents a **recession** scenario, occurring largely due to excess supply over demand as a result of higher energy and food prices. This results in higher inflation in the next 2-3 years but then lower long-term inflation.
- Scenario 3 (the yellow line): this represents a **stagflation** scenario where inflation remains high due to higher energy and food prices.
- Scenario 4 (10% immediate membership reduction) and Scenario 5 (employer exits) both are modelled using the baseline inflation scenario (the blue line).

In each scenario we have modelled the payroll assumption at 3.2% pa



Inflation scenarios

Projected benefit outflows (baseline scenario)



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Notes

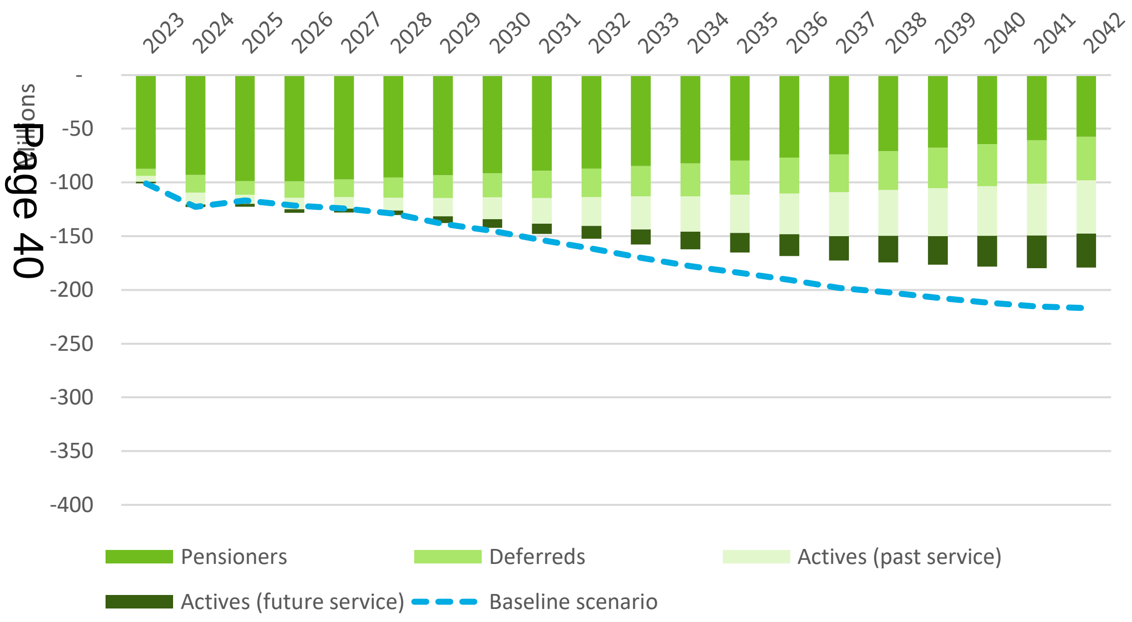
The stepped increase in benefit outflow in 2024 (year 2) is as a consequence of the model assumption that all active members already past their assumed retirement age will retire +1 year after the valuation date. In reality these outflows would be spread across a longer period.

The years along the x-axis refer to the year-end i.e. 2023 means the 2022/23 financial year (from 1 April 2022 to 31 March 2023).

The Fund currently pays around £101m in benefit payments. This is expected to double by 2038.

Projected benefit outflows (alternative inflation scenarios)

Recession



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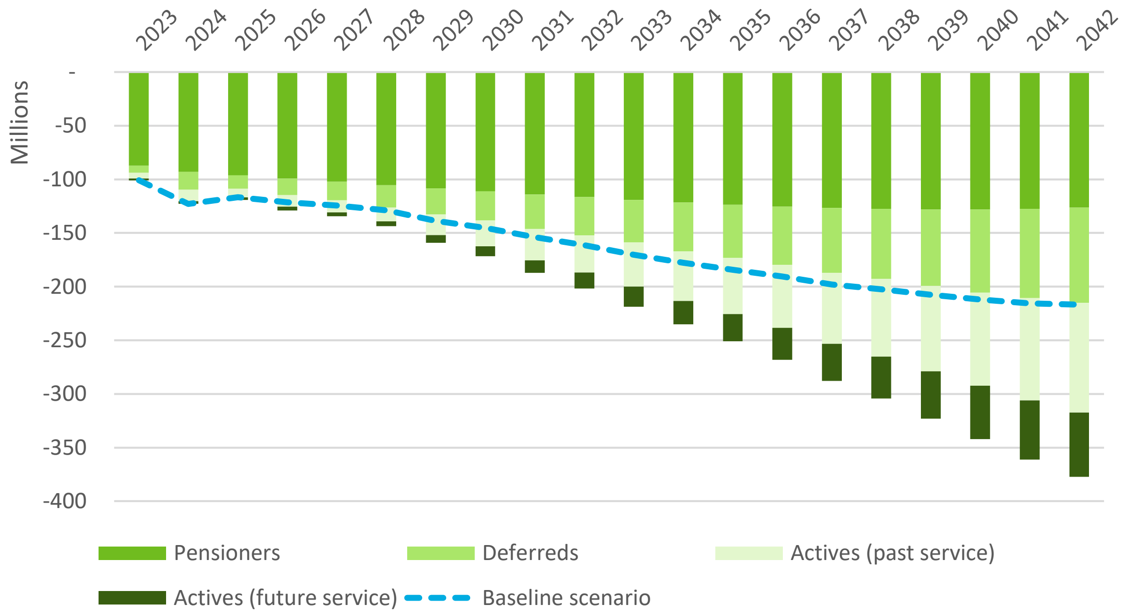
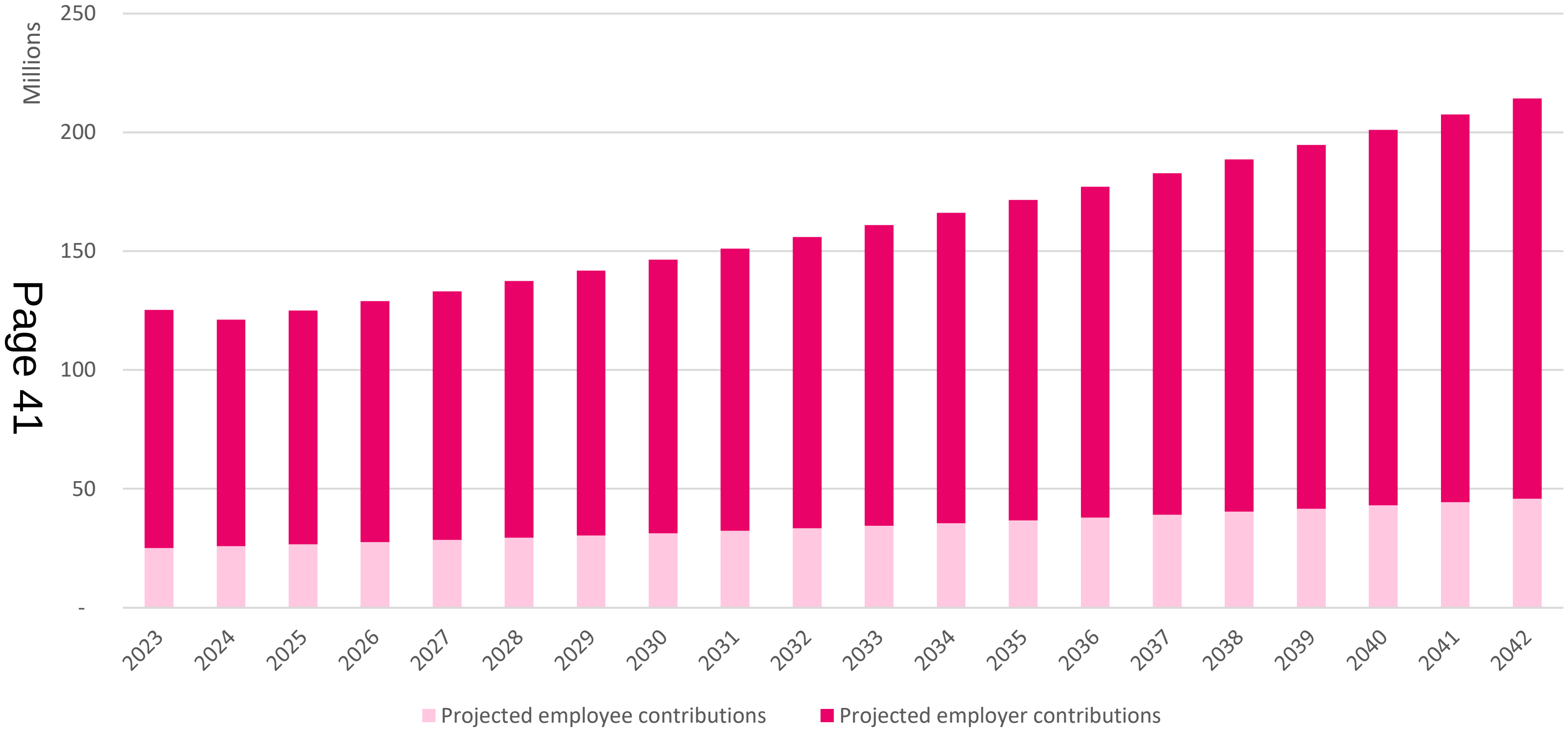
Stagflation



Scenario analysis helps understand the impact inflation may have on future benefit payments – difference of c£198m in annual benefit payments by 2042 between “Recession” and “Stagflation” scenarios

HYMANS ROBERTSON

Projected contribution income (all inflation scenarios)



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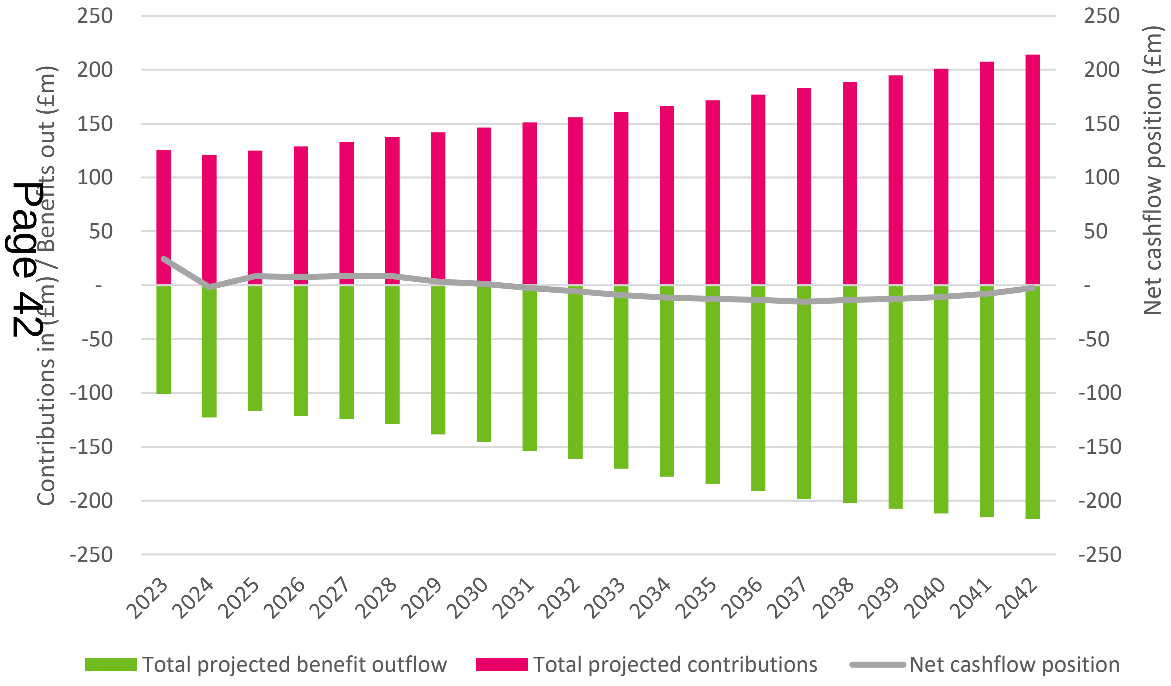
Notes
New entrants are implicitly allowed for in the income cashflow by assuming the payroll grows with the salary growth assumption.

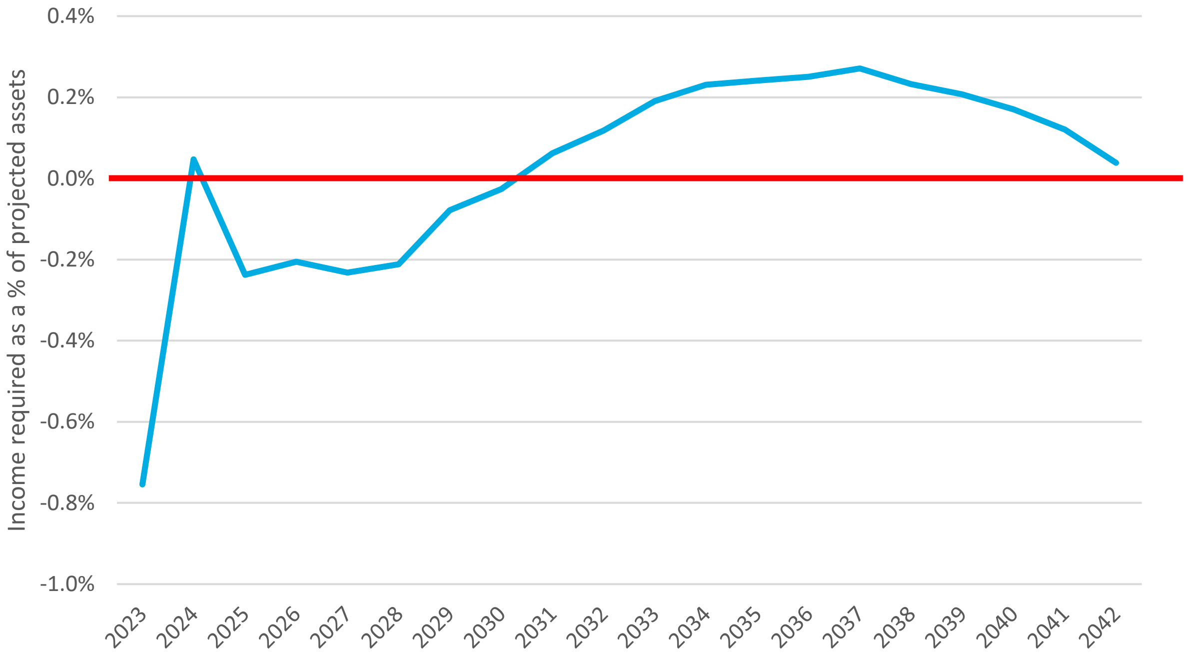
The years along the x-axis refer to the year-end i.e. 2023 means the 2022/23 financial year (from 1 April 2022 to 31 March 2023).

Payroll is assumed to increase at 3.2% pa (in line with the formal valuation)

HYMANS ROBERTSON

Whole fund net cashflow (baseline scenario)





Benefit outflow is estimated to exceed contribution income by 2031 (we have disregarded 2024 as it is a result of the retirement age assumption – in reality these retirements may be spread over the next 2-3 years). However, the shortfall from contributions would not require a significant level of income from assets (less than 0.3% of asset value)

Assets are assumed to increase at 4.1% pa

Whole fund net cashflow (recession scenario)

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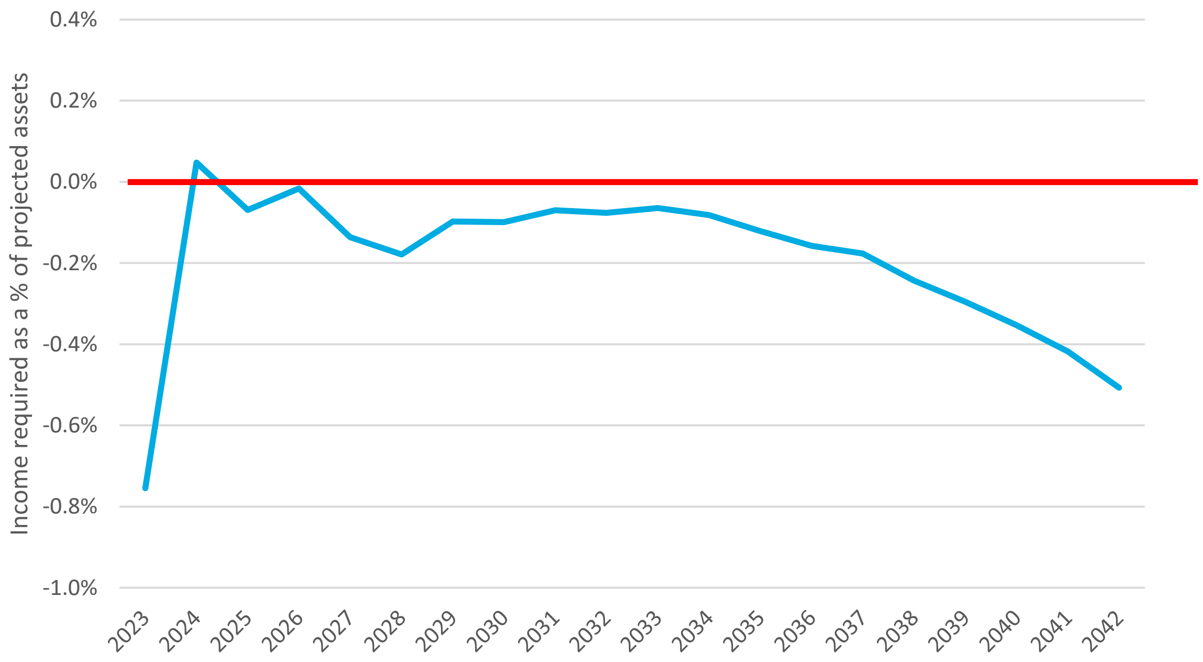
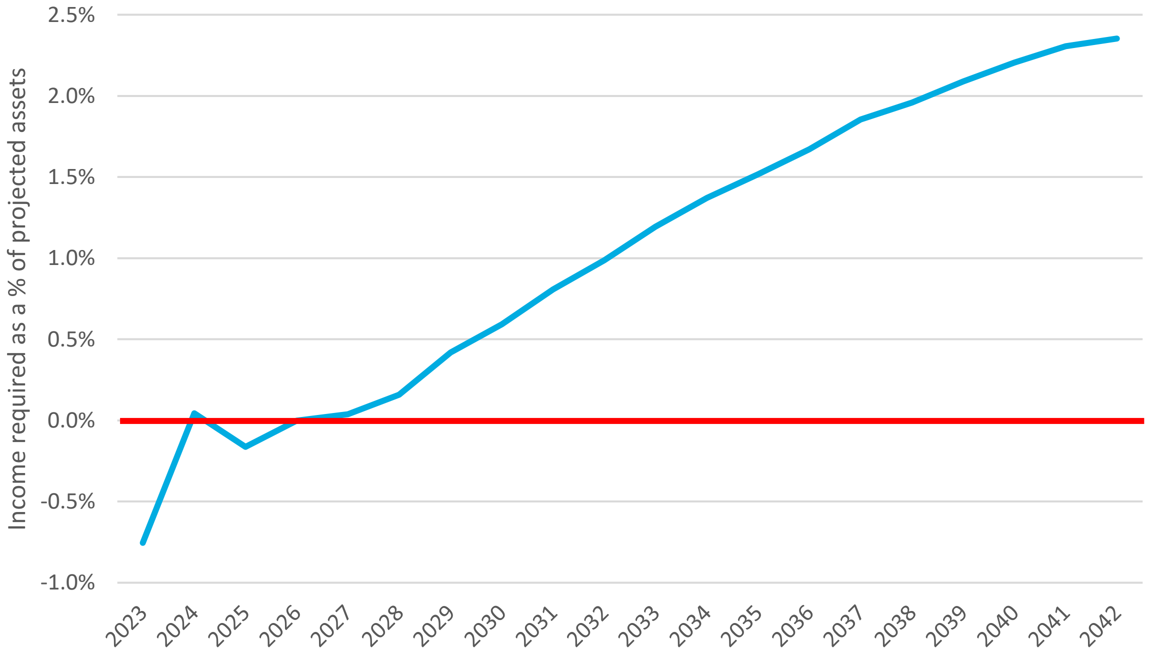


This scenario has higher inflation persisting in the short-term. If this occurs, then the Fund is expected to remain cashflow positive for majority of the period. In the longer term, the lower inflation results in lower benefit payments and an improvement in the cashflow position.

Assets are assumed to increase at 4.1% pa

Whole fund net cashflow (stagflation scenario)

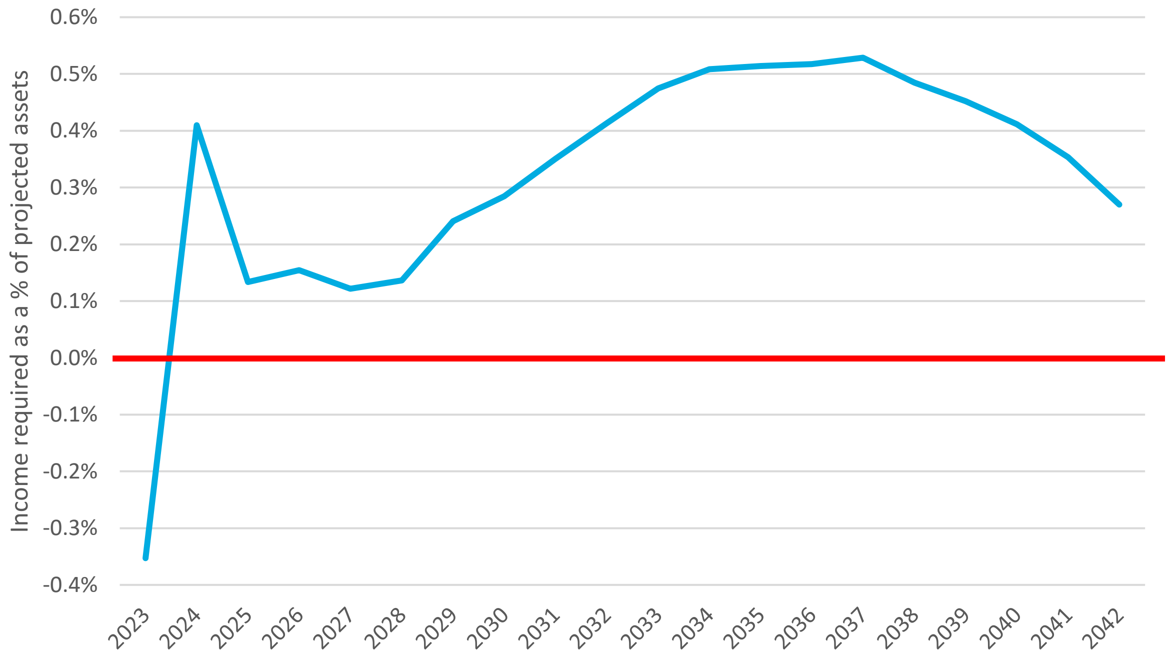


A stagflation scenario would result in cashflow negativity in the next couple of years, with a substantial gap opening up (assuming pay increases of 3.2%) in the longer term. This would need to be managed by a higher level of income from the Fund’s assets.

Assets are assumed to increase at 4.1% pa

10% membership reduction scenario

Whole fund net cashflow (10% membership reduction scenario)

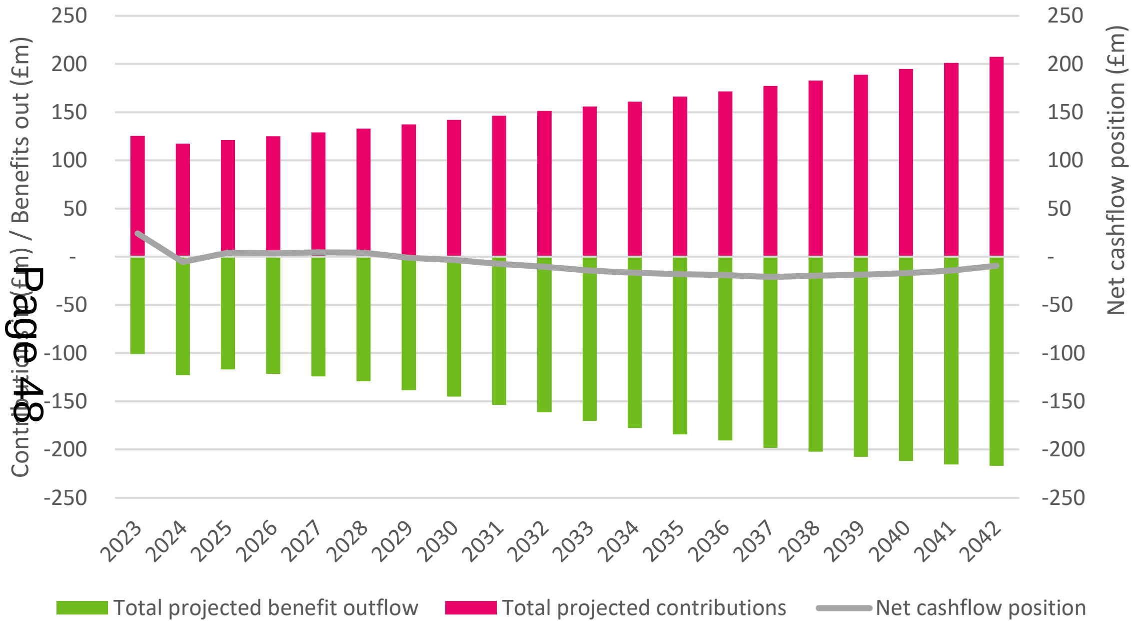


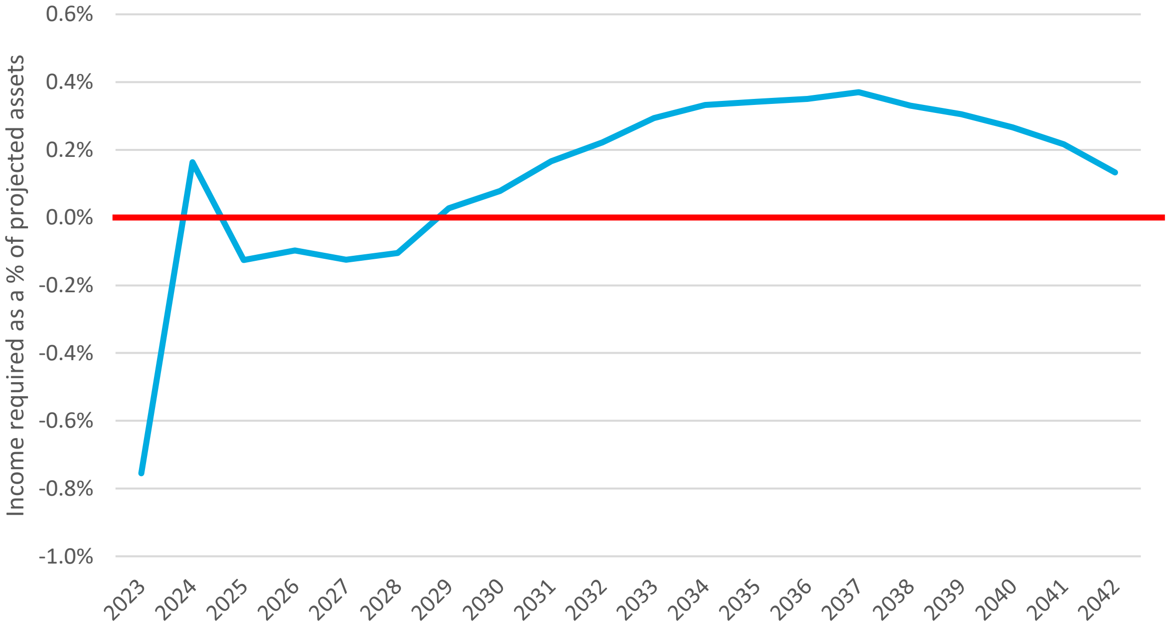
The reduction in payroll / increase in pensioners has an immediate impact on cashflows bringing forward the point of cashflow negativity substantially. The income yield required increases materially. This assumes our median scenario. If this were coupled with stagflation, the extent of cashflow negativity would become extensive over very the short term and grow over time.

Assets are assumed to increase at 4.1% pa

Employer exit scenario

Whole fund net cashflow (Employer Exits)



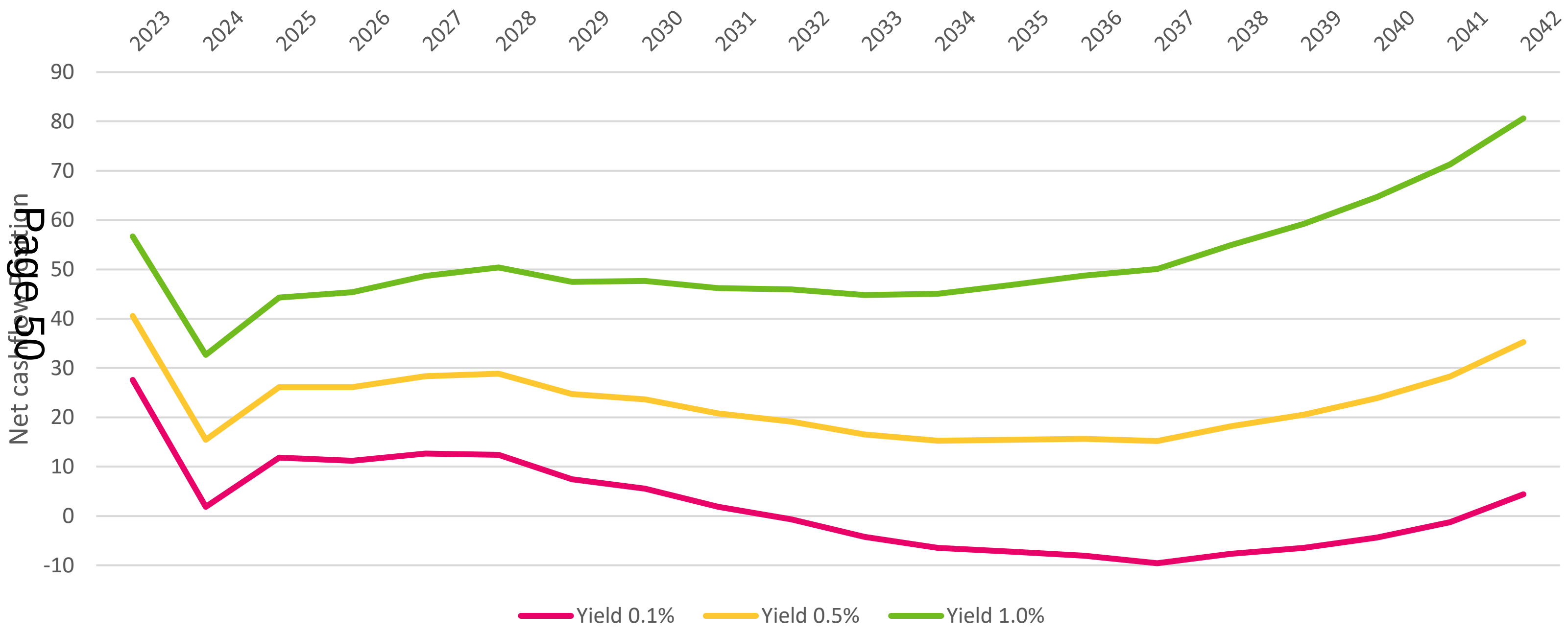


We modelled the impact of employers immediately leaving the fund on the median baseline inflation scenario. As expected, the impact of employer exits reduces contribution income and therefore increases the strain on future cashflows . However the larger Council employers in the Fund make up the majority of contributions hence the overall cashflow position remains similar to the baseline scenario. We have allowed for the exits of Aster Pool, CIPFA, Selwood Housing and Westlea Housing via a reduction in contribution income. We however have not allowed for the potential payment of exit debts/credits within the investigation period.

Assets are assumed to increase at 4.1% pa

Sensitivity of net cashflow

Sensitivity of net cashflow to investment income yield



Notes

This highlights the sensitivity of the cashflow position to the investment income yield. For example, a yield of 0.1% p.a. results in a negative cashflow position for several years within the 20 year period under investigation.

However, a yield of 0.3% or above, results in a cashflow positive position for the whole of the 20-year projection period.

(Results shown for baseline scenario only).

This highlights the key role the Fund's investments play in ensuring there is enough liquidity within the overall strategy (funding and investment) to meet benefit payments.

Assets are assumed to increase at 4.1% pa

Next steps

Next steps

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1. Monitor membership changes and their impact on the cashflow position
2. Consider any factors (e.g. inflation) that may affect the cashflow position
3. Consider the investment strategy in light of any future possible negative cashflow position
4. Consider evolving or developing new cashflow management and/or rebalancing policies with your investment advisor

Reliances and limitations

APPENDIX 1

Reliances and limitations

This paper is addressed to Wiltshire Council as Administering Authority to the Wiltshire Pension Fund. It has been prepared in our capacity as actuaries to the Fund and is solely for the purpose of projecting the expected cashflows of the Fund over a 20 year time horizon. It has not been prepared for any other purpose and should not be used for any other purpose.

The cashflow projections are based on a specific set of deterministic assumptions, which are highly unlikely to be borne out exactly. We therefore do not claim that the future will exactly match the figures in this paper. The results should be used to give an indicative idea of the Fund's medium term cashflow requirements only.

Any party must accept full responsibility for establishing that the cashflows are appropriate for the purpose to which they want to put them and any decisions that are taken based on their analysis. We cannot be held responsible for any losses sustained as a result of third parties relying on the cashflows provided, or if the cashflows are used for any inappropriate purpose

The extent of the deviations from the assumptions underpinning the cashflow projections depends on uncertain economic events as well as other factors that are not known in advance such as members' decisions, variations in mortality rates, retirement rates and withdrawal rates, fluctuations and rates of salary increase, and the numbers and ages of future new entrants which cannot be accurately predicted. In addition, there could be changes in the regulatory environment and possible changes in retirement benefits. These other uncertainties are often not related to any particular investment and economic eventualities.

Three of the important uncertainties are the:
(a) Rate of pension increases, the vast majority of which increase at the annual increase in CPI inflation
(b) Extent to which members elect to exchange pension for cash at retirement
(c) Level of future payroll and contribution rates which will determine the amount of contributions paid into the Fund

The Administering Authority is the only user of this advice. Neither we nor Hymans Robertson LLP accept any liability to any party other than the Administering Authority unless we have expressly accepted such liability in writing.

This report may be shared with the Fund's investment advisor for information purposes only but may not be passed onto any other third party except as required by law or regulatory obligation, without prior written consent of Hymans Robertson LLP.

In circumstances where disclosure is permitted, the advice may only be released or otherwise disclosed in its entirety fully disclosing the basis upon which it has been produced (including any and all limitations, caveats or qualifications).

The following Technical Actuarial Standards are applicable in relation to this advice, and have been complied with where material and to a proportionate degree:

- TAS100
- TAS300.

Wiltshire Council

Wiltshire Pension Fund Committee

2 March 2023

RESPONSIBLE INVESTMENT UPDATE REPORT

Purpose of the Report

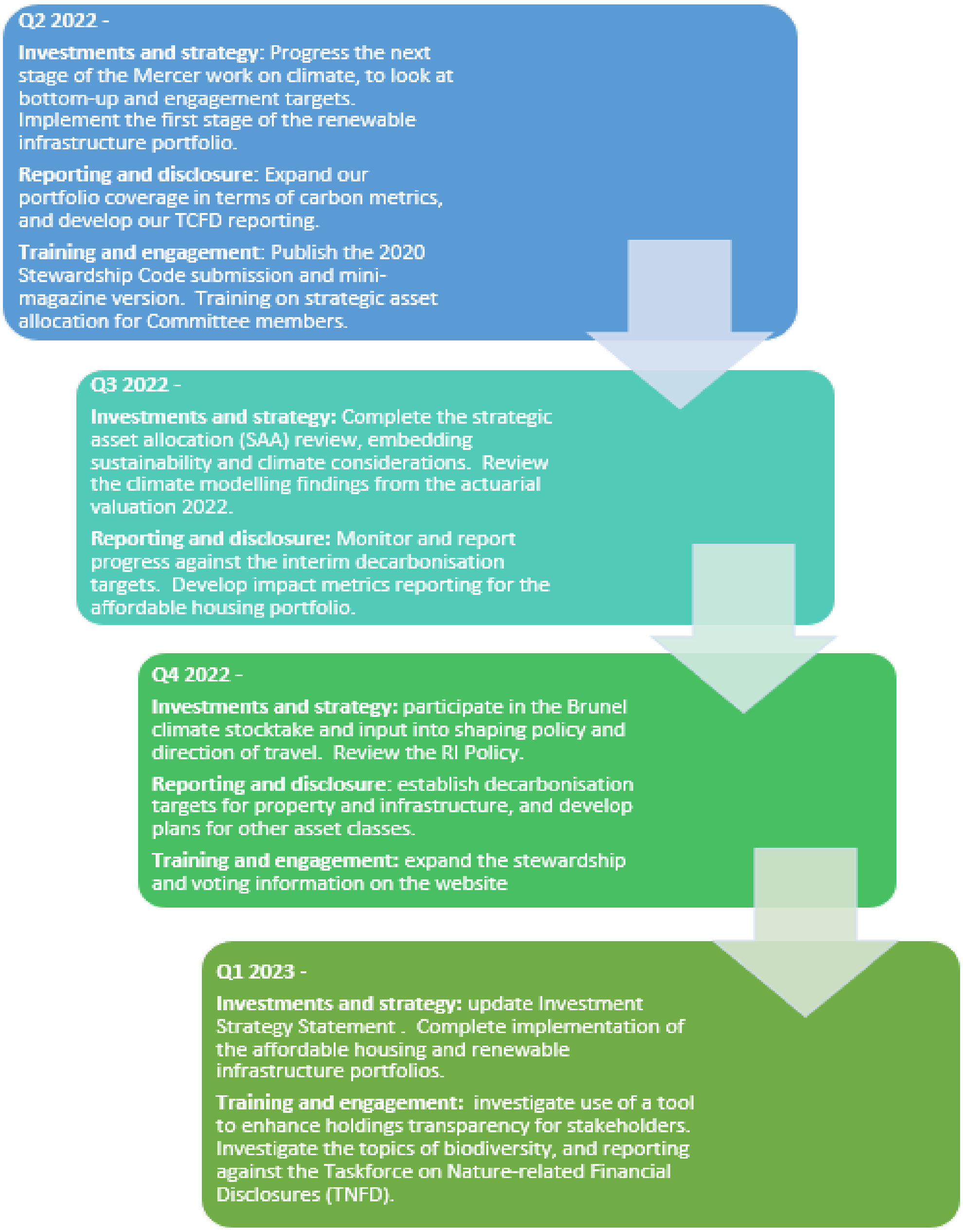
1. The purpose of this report is to update members on responsible investment issues.

Key Considerations for Committee

Progress against recent decisions and the actions in the Responsible Investment Plan 2022/23

2. The road map from the Responsible Investment Plan 2022/23 is shown on the following page. Progress against actions for Q1 2023 is as follows:

Responsible Investment Road Map



Investments and strategy:

3. The Fund has made a specific allocation to renewable infrastructure and climate solutions of 7%. Implementation options are currently being explored and considered via the Brunel Investment Sub Group (ISG). These options include private markets and solar opportunities in particular.

4. Following approval of the Strategic Asset Allocation at the meeting of 17 November 2022, the Investment Strategy Statement was updated, taken to the Local Board meeting of 1 February 2023, and circulated to employers for consultation. The main change from an RI point of view was the removal of RI detail as this is now set out in a separate [but integral] policy document.

5. Collaborating with investment managers to ensure climate risk is appropriately addressed was listed as item 16 on the Fund's Business Plan 2022/23. Officers held a preliminary meeting with asset manager, Ninety One, in February 2022, and further strategy evolution workshops in July and October. This work involved looking at investment processes, scorecards, target setting and reporting; as an emerging market 'multi-asset' (EMMA) strategy, this meant considering these issues across equities and debt as well as alignment of sovereignties.

Reporting and disclosure:

6. A Stewardship Report 2022 against the Stewardship Code 2020 will be drafted to secure renewed signatory status from the Financial Reporting Council (FRC). The deadline for submission for renewals is now 30 May.

7. The Department for Levelling Up, Housing & Communities (DLUHC) consultation LGPS (England and Wales): Governance and reporting of climate change risks closed on 24 November 2022. A response is expected later this year, with regulations mandating first Climate Risk Report due by December 2024.

8. New reports for 2023 will include an Impact Report on affordable housing (Q2 2023) and enhanced voting and engagement reporting to include emerging market and listed infrastructure equities. This will be featured on the website and in the Stewardship Report due in April 2023.

Training and engagement:

9. Officers have investigated tools and options to enhance holdings transparency for stakeholders. For example, the Environment Agency Pension Fund use Tumelo, a platform designed for impactful stewardship, enabling pass-through voting and expression of wish for fund managers, institutions, and retail investors (defined contribution). For transparency only, the cost versus benefit case for typical LGPS funds (defined benefit) has not been fully tested, therefore this workstream will be kept under review, see **Appendix 1** "Holdings transparency for stakeholders".

10. As mentioned above, the topics of biodiversity, and reporting against the Taskforce on Nature-related Financial Disclosures (TNFD) have been investigated and are reported in a separate paper on the agenda.

11. Wiltshire Pension Fund was shortlisted for the Pensions for Purpose Paris Alignment "Best Climate Change Member Communication" and "Best Climate Change Policy Statement" Awards at the Event held on 1 February 2023. The Fund did not win either category on this occasion but was up against strong competition from Smart Pensions Master Trust and the Environment Agency.

12. Wiltshire Pension Fund was also featured in the Pension Management Institute (PMI) series, 'Purposeful Pensions'. A new multi-part documentary, created in collaboration with Zinc Media Group, that investigates how investing money with purpose can help growth, sustainability, and deliver retirement income.

13. Pension Fund Committee members attended a Brunel Climate Strategy webinar on 8 February 2023. The purpose of this webinar was for Brunel to update clients on progress ahead of publication.

Fossil Fuel Divestment – a consideration of the Fund's position

What is divestment?

14. Divestment = the intentional act of moving money and investments out of a company. This is most often spoken about with regard to fossil fuel investments, and there is significant pressure on LGPS funds to divest from all fossil fuel companies. This pressure comes both from scheme members, wider campaigns, and this is even an area where we were recently (justifiably) challenged by the Wiltshire Council carbon reduction team.

WPF's current position

15. WPF's position with regard to divesting from fossil fuels is that we do not require our investment managers to exclude any specific holdings from our investment portfolios. Nevertheless, often managers will avoid certain types of stock, for example those which violate the UN Global Compact, or controversial weapons. The Fund's current view is summed up in one of our investment beliefs: "Stewardship and engagement are generally more effective tools than divestment in encouraging changes that will help safeguard the Fund's investments. The Fund values the benefits of working with other investors to strengthen these activities and achieve better outcomes." Brunel adopt a similar approach, and their engagement escalation policy permits eventual selective divestment if companies are not making the necessary changes after attempts have been made to engage.

16. Arguments have been made on both sides. Some argue that it is better for investors such as WPF to remain invested as that is how we can drive change, and that if we are not invested then someone else will be, who may have worse intentions as an investor. Others argue that this is a fallacy, and that the strongest way to deliver change is to not be invested at all, and that if companies want our capital, they will make the required changes in order to become investable.

17. The Fund also holds the following investment belief: "In order to protect the Fund's investments into the future, the Fund supports a global warming scenario of well below 2°C, and states an ambition to achieve net-zero carbon emissions across all investment portfolios by 2050". The Fund still holds a small amount of investments in fossil fuel companies, which could be seen to be in conflict with this belief, and could even be interpreted as potentially supporting the very scenario we are trying to avoid, which would be financially detrimental to the Fund, and therefore incompatible with the fiduciary duty to our beneficiaries.

What is a fossil fuel company?

18. An important factor to consider here is "what is a fossil fuel company?". The definition can range from purely extractive industries, all the way through to distribution and retail of fossil fuels. Investing in some of these companies might not be at odds be the Fund's wider goals – for example, a utility company could work to change its supply to renewables, and future-proof its activities. Or a distribution company could adapt its business to be part of a low carbon future. It can be hard to see how extractive companies can be part of the solution – but even here, they could form part of a forward-looking portfolio, if they were being supported to wind down operations, and distribute assets to investors.

19. Through the Fund's allocation to the Paris-aligned passive portfolio, some companies are removed from the investable universe if they meet certain criteria. These are as follows:

- Companies with:
    - 1 % or more of revenues from exploration, mining, extraction, distribution or refining of hard coal & lignite
    - 10 % or more of revenues from the exploration, extraction, distribution or refining oil fuels
    - 50 % or more of revenues from the exploration, extraction, manufacturing or distribution of hydrocarbons, hydrogen and carbon monoxide mixtures present in gaseous state
- Electricity producers with carbon intensity of lifecycle GHG emissions greater than 100 gCO2e/kWh (50%+revenues)
- Any companies found or estimated by them or by external data providers to significantly harm one or more of the environmental objectives under the "Do No Significant Harm" definition
    - Currently this includes Pure play Coal and Pure play Tar sands companies

20. Going forward, the Fund will use these exclusion criteria from the Paris-aligned benchmark as its definition of "fossil fuel companies", and will monitor holdings on this basis. This will be reported annually, as part of the Climate Report (including reporting in line with the Task Force on Climate-related Financial Disclosures/TCFD).

What are the next steps?

21. This is a high profile topic, and it is therefore recommended that the Committee approve a statement on the Fund's position. This can be used to respond to queries from the press and public about this topic, and can be included as part of the next revision of the Responsible Investment Policy, in September 2023. It is worth pointing out that due to the nature of investment pooling, even if the Committee decided to immediately divest from all companies meeting the above definition of fossil fuel companies, this might not be possible to implement, due to the fact that the portfolios have to contain the same holdings for all client funds, and a consensus position would need to be sought.

22. That said, even though there may be a rationale for continuing to hold selected fossil fuel companies in the short term, it is hard to imagine a scenario where these would form part of our portfolio in the medium term. The Committee therefore could consider stating an aim to divest from all companies meeting the above definition by 2030, which would be communicated to Brunel and other investment managers. In the short term, the Committee may agree that officers continue to monitor the position, and ensure that for all such companies there is a convincing reason to retain the holding, which is not in direct conflict to the Fund's long term goals. This joint approach should help to protect the Fund against any financial loss from exposure to stranded assets.

Suggested draft statement, for discussion:

23. As a long term investor, WPF's goal is to protect the investments from climate change risk, and safeguard the financial future of the Fund. We support a global warming scenario of well below 2°C, and have an ambition to achieve net-zero carbon emissions across all investment portfolios by 2050. We do not see a long-term place for fossil fuel investments in our portfolios, and aim to be fully divested from these companies by 2030. In the short term we will continue to monitor our holdings in these companies, to ensure that any such investments are helping to finance real-World change. This approach aims to ensure that the Fund's risk of exposure to stranded assets is well managed, and that the Fund can benefit from the investment opportunities presented by the transition to a low carbon economy.

Environmental Impacts of the Proposals

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

Safeguarding Considerations/Public Health Implications/Equalities Impact

25. There are no known implications at this time.

Proposals

26. The Committee is asked to

- use this report as a basis for monitoring the progress that is being made towards implementing responsible investment policy;
- note the progress made against the Responsible Investment Plan 2022/23 actions and discuss whether any additional actions are needed at the current time.
- discuss Fossil Fuel Divestment and consider the draft statement as set out in this report.

Report Author: Liam Robson (Accounting and Investment Officer)

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

Appendix 1 – "Holdings transparency for stakeholders"

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Wiltshire Council

Wiltshire Council Pension Fund Committee

2 March 2023

Responsible Investment – Biodiversity

Summary

1. This paper acts as a briefing note on biodiversity and considers general themes of TFND, asset manager engagement and initiatives in the context of Wiltshire Pension Fund's Responsible Investment Plan.

Background

2. Biodiversity is an emerging RI theme, initial investigation into biodiversity and TFND were planned for Q1 2023. Officers have begun to consider options for exploring this theme and to bring recommendations to the Pension Fund Committee.

Introduction

3. The loss of biodiversity (variety of life on earth, plants and animals) through human activity, for example, deforestation, depleting fish stocks and overconsumption, all pose significant risk to ecosystems and sustainability.

4. Biodiversity and TNFD consider how businesses interact with the natural world, resources and ecosystems. Over the last few years, this has become an increasing concern, but it has not had as much coverage as climate change.

5. The Taskforce for Nature Related Financial Disclosures (TNFD) is comparable to the TCFD initiative in that its aims are to promote nature-related disclosure via a framework in the same way as climate related disclosures.

6. This paper aims to provide a briefing on these topics and proposes recommended next steps.

Biodiversity

7. There is growing awareness of the harmful aspects of industry on nature. Environmental impact and how this is linked to financial risk are perhaps less clear and developed as they are for climate. But there are clear consequences to not managing these issues, for example:

    - Reduced fish stocks – overfishing, pollution, and habitat destruction are all detrimental
    - Extinction of plant and animal species – destruction of ecosystems or lack of management may lead to unintended or unforeseen consequences
    - Deforestation – in addition to climate related factors, deforestation could exacerbate other risks to climate, increase the risk of flooding etc.

8. Economic growth depends on natural resources, therefore understanding and management of the above is clearly required for business models to remain sustainable over the long term.

9. The World Economic Forum (WEF) 2021 Global Risk Report identified biodiversity loss, ecosystem collapse and human-made environmental damage, as top risks. Biodiversity loss is highlighted as an existential global threat, negatively affecting sectors through an increase in the risk of severe droughts, the disappearance of pollinators, or the collapse of agricultural yields.

10. The agriculture, food and drink, and construction sectors are particularly exposed to these trends. Other sectors depend on nature through their supply chains.

11. At a local level, biodiversity loss from plastics polluting oceans and harming ecosystems has led to the ban on single use carrier bags and drinking straws. More recently, artificial grass (which in addition to biodiversity loss, releases microplastics and raises disposal issues) has prompted debate on prohibiting its extensive use in new developments.

12. Companies may be aware of these issues, but action taken may be limited to high level intentions or policy statements.

13. Data availability on nature related issues is at an even earlier stage compared with climate and is much more localised and difficult to define.

14. Brunel identified biodiversity as a new priority focus for its broader Responsible Investment mandate. The new focus theme is laid out in its 2022 Responsible Investment and Stewardship Outcomes Report, alongside longer-standing priority themes such as cyber risk, circular economy and climate change.

TNFD (Taskforce for Nature Related Financial Disclosures)

15. The Taskforce on Nature-related Financial Disclosures was initiated in 2020. Sharing many similarities and borrowing principles from the Taskforce on Climate-related Financial Disclosures, TCFD, it is an international body designed to create reporting guidelines and standards.

16. The TNFD framework will be structured around the same four pillars as TCFD: governance, strategy, risk management, and metrics and targets. Plans for developing the framework will follow a staged approach, with the aims of assessing natural capital stock and channels through which ecosystems contribute to the economy and financial system.

17. In November 2022, TNFD released a beta framework for market consultation, with a further version expected in March 2023 (beta versions being working documents, i.e. <v1.0). A release of the full framework (version v1.0) for market adoption is due in September 2023.

18. It is likely that adoption and information will flow progressively from asset managers to asset owners enabling organisations to align themselves as the framework develops.

19. TNFD has received support from G7 Finance Ministers and funding from governments including France, Germany and the United Kingdom.

Wiltshire Pension Fund Commitments

20. The Responsible Investment Plan agreed at the meeting of 5 April 2022 set out a roadmap, which under training and engagement for Q1 2023 included; “investigate the topics of biodiversity, and reporting against the Taskforce on Nature-related Financial Disclosures (TNFD)”.

21. As a signatory to the 2020 Code, exploring biodiversity would be considered stewardship activity defined 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”.

22. The Pension Fund Committee considered the United Nations Sustainable Development Goals (UN SDGs) through an investment lens and identified a strong investment case for supporting Climate [SDG 13 Climate Action] as a priority engagement activity for discussing investment opportunities and risk mitigation with investment managers.

23. Climate change and biodiversity are linked and interrelated. Re-forestation, nurturing soil and restoring ecosystems could help redress the carbon emission balance and advance the path to net zero. If climate change accelerates, natural habitats and ecosystems will decline more rapidly.

Brunel Pension Partnership

24. Brunel Pension Partnership are working with Federated Hermes EOS to begin exploring biodiversity in the ‘Global High Alpha Fund’, an actively managed equity fund. Whilst the decision to select the five underlying managers reflects Brunel’s confidence in their ability to integrate environmental, social and governance (ESG) considerations, it is expected that biodiversity related challenges may be greater compared with the ‘Sustainable Equities Fund’, for example, where sustainability is at the forefront.

25. Wiltshire Pension Fund is invested in the Global Alpha Fund and updates on this project will flow through the Responsible Investment Sub-Group.

Asset Management

26. Officers have opened conversations with Brunel and asset managers on biodiversity and asked questions on progress to date. Brunel have identified biodiversity as a priority, made pledges, incorporated policy into the Responsible Investment and Stewardship Outcomes report and published these on their website. Responses from asset managers referenced specific products targeted at addressing

biodiversity loss, but also included some more specific to Wiltshire Pension Fund holdings. As noted above, asset managers are preparing for a working release of TNFD. The Environment Act 2021 will be relevant for new developments to be held in the affordable housing portfolio. Under regulations expected in November 2023, a mandatory condition will be applied to every planning permission granted: a biodiversity net gain (BNG) of 10%. Conversations with the investment managers will continue.

Fiduciary Duty

27. As with climate change and TCFD, biodiversity is fraught with intricacies that are difficult to measure and manage. It is highly probable that market and societal sentiment will move more quickly than regulatory timelines. As an initial step, company boards, asset managers and owners will need to understand how nature-related risk will affect their organisation's business, operations, finance and investments.

28. Risks related to tackling nature-related risks could include legislation to limit use of insecticides which in turn could lead to higher operating costs for some businesses. Conversely, action taken that reduces risks of severe flooding could reduce underwriting costs that could otherwise become unviable.

29. As an emerging theme, opportunities for investment may increasingly be viewed through a 'biodiversity lens'. Companies and solutions that are innovative or implement new technology are more likely grow and succeed. Those that minimise environmental impact, solve ecological problems in farming or develop a more circular economy are likely to be more sustainable over the long term and yield better investment returns than those that do not.

Environmental Impacts of the Proposals

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

Safeguarding Considerations/Public Health Implications/Equalities Impact

31. There are no known implications at this time.

Proposals

32. The Pension Fund Committee is asked to consider and agree the following recommendations:
    - use this paper, and links to further reading below, as initial training material on this subject area
    - note the Brunel/Federated Hermes EOS Global Alpha Fund biodiversity analysis project
    - consider initiatives such as the Biodiversity Pledge, which has been signed by a small number of European Pension Funds
    - further engage with asset managers on their plans

Report Author: Liam Robson (Accounting and Investment Officer)

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

Further reading/sources:

Biodiversity - Brunel Pension Partnership
Signatories - Finance for Biodiversity Pledge
TNFD – Taskforce on Nature-related Financial Disclosures
Metrics & Targets » TNFD
Room151 Biodiversity Opportunity Risk and the LGPS

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