Wiltshire Council

AGENDA SUPPLEMENT (1)

Meeting: **Wiltshire Pension Fund Committee**

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

Date: **Thursday 2 March 2023**

Time: **10.00 am**

The Agenda for the above meeting was published on 22 February 2023. Additional documents are now available and are attached to this Agenda Supplement.

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.

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

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10 **Investment Strategy Statement** *(Pages 3 - 40)*

A report from the Head of Wiltshire Pension Fund is attached.

DATE OF PUBLICATION: 24 February 2023

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Wiltshire Council

Wiltshire Pension Fund Committee

2 March 2023

WILTSHIRE PENSION FUND INVESTMENT STRATEGY STATEMENT

Purpose of the Report

1. The purpose of this report is to agree the final version of the Fund's Investment Strategy Statement (ISS) (Appendix 1).
   In addition, to note the benchmark review completed by Mercer (Appendix 2).

Background

2. The Strategic Asset Allocation (SAA) of the Fund was reviewed in line with the triennial actuarial valuation in November 2022. The recommended changes following this review were relatively minor and represent an evolution of the strategy. Changes to investment classification and category rationalisation were the main amendments.

3. The ISS has been updated with the new SAA together with several other amendments. These changes can be summarised as follows:

   - The Strategic Asset Allocation and balance of investments have been updated
   - Contextual amendments have been made where references to 'recovering deficits' should now read 'maintaining the funding level'
   - Cashflow considerations and risk have been updated following the rise in inflation
   - The sections on environmental, social and governance factors (ESG) and voting have been removed as these are now covered in detail in a separate [but interlinked] policy document.

4. Officers presented this updated draft ISS to the Local Pension Board at the 02 February 2023 meeting. The ISS was also circulated to employers for consultation using email software which tracked an open rate of 42% (which compares favourably with an average of 33%) and an agenda item at the Employer Strategic Focus Group meeting on 23 February 2023. The final version is presented for agreement at the Pension Fund Committee meeting on 02 March 2023.

Key Considerations for the Committee

5. Under [7] of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 the administering authority must, after taking proper advice, formulate an investment strategy.

6. It is under (7) of the above Regulation that the authority has reviewed and revised its investment strategy and will publish this revised ISS. In revising the investment strategy, the Pension Fund Committee has received advice from its Investment Consultant, Mercer, and the ISS has been drafted in accordance with guidance issued from time to time by the Secretary of State.

7. As background, it is expected that the Department for Levelling Up, Housing and Communities (DLUHC) will consult on LGPS pooling and other investment issues in 2023. This may result in further amendment to the ISS depending upon the outcome.

8. In addition to recommending changes to the SAA, the Fund's investment consultant Mercer, have also conducted a benchmark review. Market benchmarks, or indices, are used to measure performance of mandates within the strategy and monitor progress against them.

Financial Implications

9. No direct implications.

Legal Implications

10. There are no known implications from the proposals.

Environmental Impacts of the Proposals

11. There is no known environmental impact of this report.

Safeguarding Considerations/Public Health Implications/Equalities Impact

12. There are no known implications currently.

Proposals

13. The Committee is asked to agree the attached final Investment Strategy Statement (ISS), (Appendix 1) for publication.
14. The Committee is asked to note the benchmark review (Appendix 2) completed by Mercer and the recommendation that no additional actions are proposed following the review. The benchmarks used are generally considered reasonable and appropriate.

JENNIFER DEVINE
Head of Wiltshire Pension Fund

Report Author: Liam Robson, Pension Fund Accounting and Investments Officer

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

Appendix 1 Investment Strategy Statement (ISS)
Appendix 2 Mercer benchmark review

Wiltshire
Pension Fund

INVESTMENT STRATEGY STATEMENT

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1. INTRODUCTION AND BACKGROUND

OUTLINE OF LOCAL GOVERNMENT PENSION SCHEME

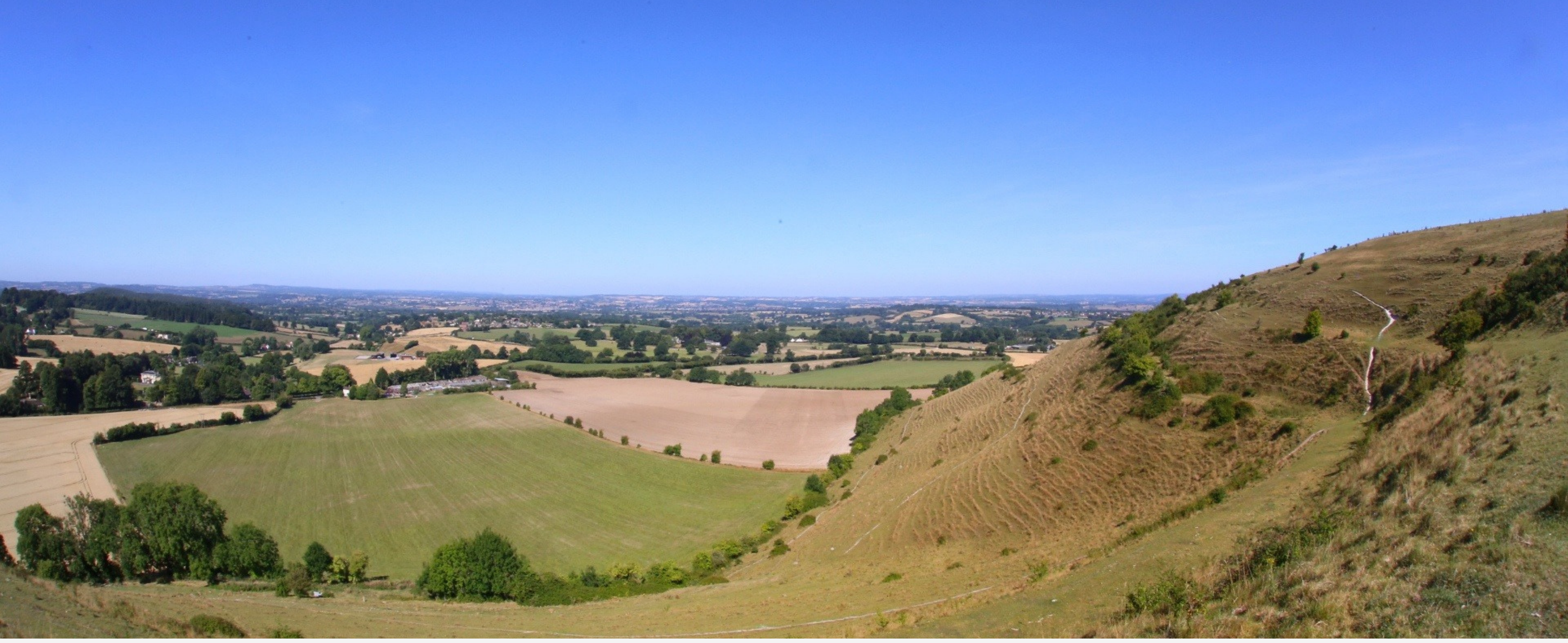
The Local Government Pension Scheme (LGPS) is available to all local authority employees and the staff of certain other public and associated bodies, apart from police and fire officers and teachers, who have their own specific schemes.

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.

The Fund also has a Responsible Investment Policy (RI Policy), which will be reviewed and updated annually. The RI Policy is an integral part of the ISS, and can be found here: *https://wiltshirepensionfund.org.uk/Policies-and-strategies-investments*

This statement will continue to be reviewed by the Wiltshire Pensions Committee at least triennially or more frequently should any significant change occur.

This Investment Strategy Statement was reviewed following an updated Strategic Asset Allocation agreed by the Pension Fund Committee at its 17 November 2022 meeting.

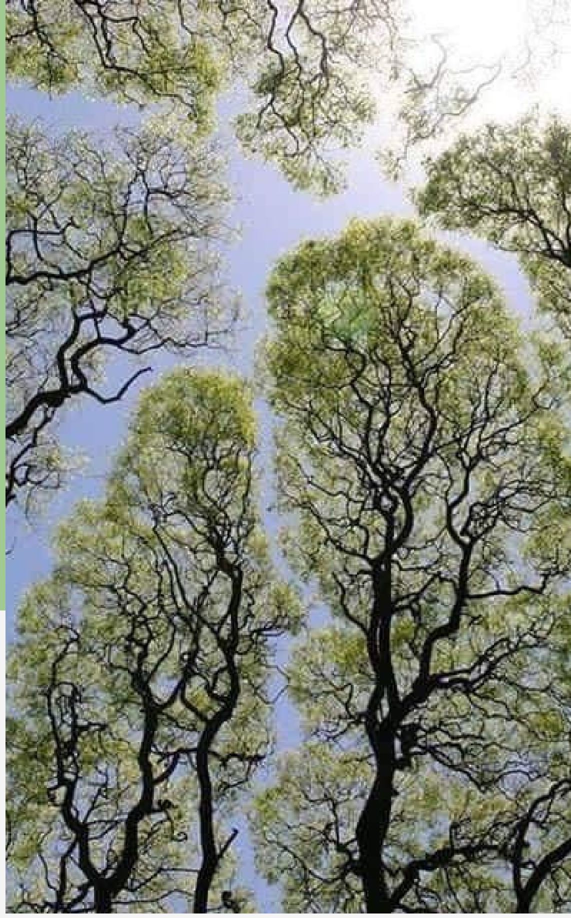
2. INVESTMENT OF MONEY IN A WIDE VARIETY OF INVESTMENTS

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.

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;

https://www.wiltshirepensionfund.org.uk/media/5113/funding-strategy-statement-final.pdfhttps://wiltshirepensionfund.org.uk/Policies-and-strategies

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.

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

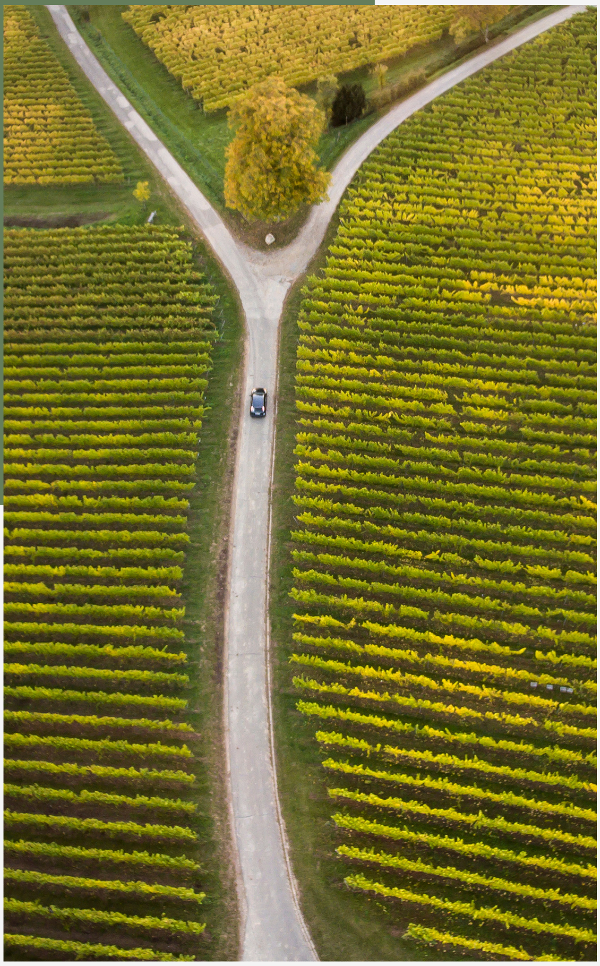
TYPES OF INVESTMENTS HELD

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.

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 its Investment Consultant (Mercer) and from the Head of Wiltshire Pension Fund 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.



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 current target portfolio, the Fund invests 24.0% on a passive (index tracking) basis and 76.0% on an active basis (to outperform the benchmark). In the long-term investment strategy the Fund's passive (index tracking) investment allocation is 19.5% and therefore 80.5% 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 2.0% per annum in excess of gilt yields. Based on the Actuarial valuation carried out by Hymans, this is currently estimated at 4.1% 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 well below 2°C, 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.

- We seek to invest in a way that, where possible, aligns the interests of the Fund with those of the contributing employers and the Fund membership.

- Investing with a positive social and environmental impact is an increasingly important issue for investors, and can be achieved alongside competitive market returns. Investing with impact can also help incorporate risk and return drivers which would otherwise not be considered. The Fund wishes to invest in a way that minimises negative impacts on society and the environment, and where possible, makes a positive contribution.

- 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.

SECURITIES LENDING

The Fund engages in securities lending through the Brunel portfolios, to increase returns.

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. At this time, following the review in November 2022, it is not felt necessary to change the investment strategy of the Fund any further.

As the Fund has a small surplus of assets against liabilities (102% funded at the 31 March 2022 Triennial Valuation), the Committee wishes to employ the appropriate amount of risk in order to maintain the funding level close to 100%.

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 stabilisation; and

The Committee took the decision, following the 2019 review, to de-risk the Fund's investment strategy, which involved 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 has taken some time to move towards the new long-term strategic asset allocation; therefore an interim asset allocation was used to benchmark progress towards the long-term asset allocation.

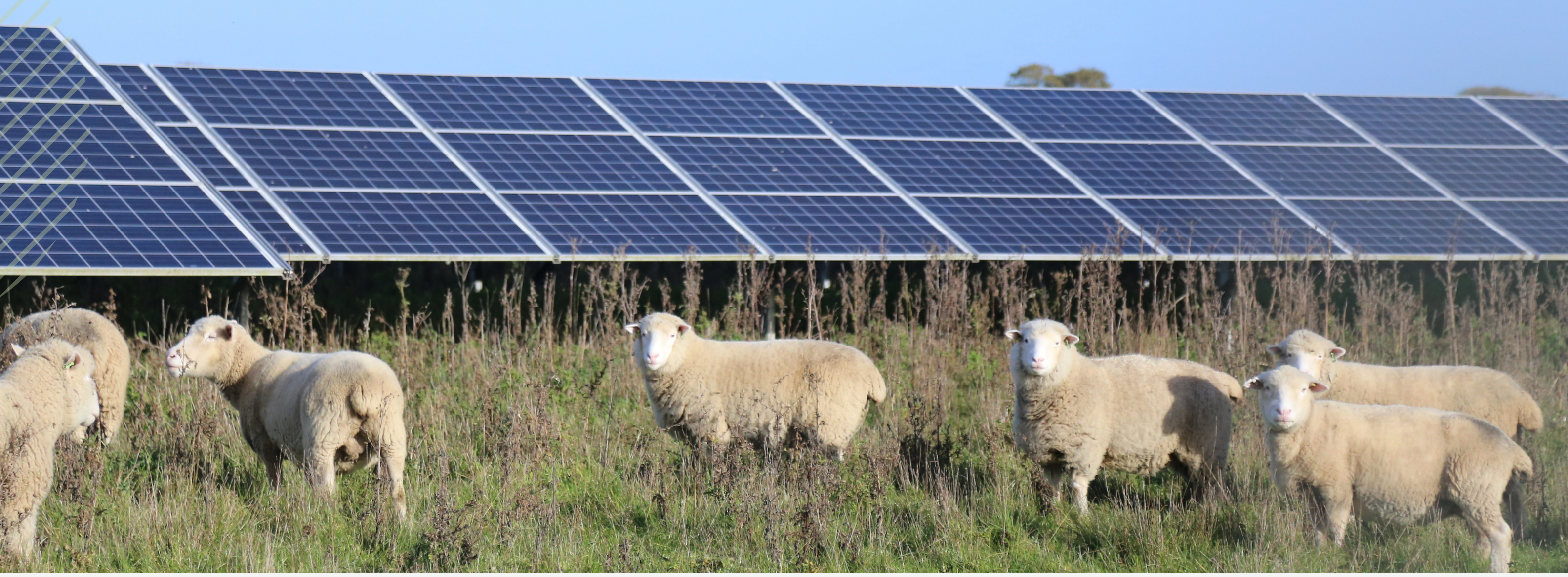
Where commitments to private market mandates have been made, the Fund seeks to attain exposure to these asset classes in the interim to their drawdown of commitments through the use of asset classes that have moderate to strong correlation (risk and return) to that of the private market asset class,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

The Fund's long-term target strategic asset allocation, along with an overview of the role each asset class plays is set out in the table adjacent.

Asset Class	Sub Asset Class/mandate	LONG TERM TARGET ALLOCATION	Role within strategy	MANAGER	BENCHMARK / TARGET P.A.
Listed Equity	Paris-aligned Equity (Passive)	12.5%	Long-term growth in excess of inflation expected. Reduce carbon footprint through low carbon mandates	Brunel Paris-aligned Developed Passive	FTSE Developed World PAB Index TR UKPD
	Global Equity (Active)	6.0%		Brunel Global High Alpha	MSCI World +2-3% p.a.
	Sustainable Global Equity (Active)	6.0%		Brunel Sustainable Equities	MSCI World +2-3% p.a.
Private Equity		7.5%		Brunel Private Equity	MSCI ACWI + 3%
Emerging Markets (Equity and Debt)		10.0%		Ninety One Emerging Market Multi-Asset	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.
Equities		**42.0%**			
Multi Asset Credit		7.5%	Diversified source of income and provides a degree of protection from interest rate changes. Some return above gilts expected.	Brunel Multi-Asset Credit	GBP SONIA + 4-5%
Private Debt		7.5%	Offer a wide range of long-term investment opportunities; return diversification; as well as returns from expected illiquidity premium.	Brunel Private Debt	GBP SONIA + 4%
Growth Fixed Income		**15.0%**			
Core Infrastructure	Private infrastructure	4.0%	Provides access to a diversified (but long term, illiquid) return source and a stream of inflation related income	Partners Group	8-12% p.a. net IRR
	Brunel Private infrastructure			Brunel Infrastructure	CPI + 4%
	Listed infrastructure			Magellan Select Infrastructure Fund	CPI + 5% p.a. over the business cycle
Renewable Infrastructure / Climate Solutions		7.0%	Returns primarily derived from income from operational assets, some degree of exposure to construction type risks. Positive environmental impact.	TBC	6-8% net IRR
Secured Income		8.0%	Offer a wide range of long-term investment opportunities; return diversification; as well as returns from expected illiquidity premium.	Brunel Secured Income	CPI + 2%
Impact Affordable Housing		5.0%	Inflation linked returns primarily derived from income with a small element of capital appreciation. Positive social impact and the potential for local (Wiltshire) investment	CBRE, Gresham House, Man Group	CPI + 2-4%
Core Property		8.0%	Diversification; income; some inflation sensitive exposure; illiquidity premium.	Brunel	Check, CBRE was IPD UK Quarterly Property Fund Index +0.4% p.a.
Real Assets		**32.0%**			
Index Linked Gilts	(Passive)	7.0%	Provide protection from changes in real yields both in terms of capital value and income.	Brunel >5 Year Passive Index Linked Gilts	FTSE-A UK index linked gilts over 5 years
Liquid Loans		4.0%	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.	Pinebridge Global Secured Credit Fund	80% S&P LLI / 20% S&P ELLI Index + 0.5-1.0% p.a.
Liquidity Sleeve (ETF) [SALAMI]		0.0%	New holding to provide liquidity buffer to support private market drawdowns; return neutral; allocation will vary in practice	BlackRock Investment Management	Strategic benchmark
Cash		-			
Low Risk		**11.0%**			
Total		**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.

*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 Committee formally monitors the investment performance of the managers against their individual performance targets and meets them on an annual basis. All Members of the Committee receive quarterly performance and asset allocation figures based on reports provided by the Fund'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.

Inflation, and in turn interest rates, began to rise rapidly during 2022 after a long period of stability. The impact of this on the Fund was reviewed and published as a Cost-of-living report.

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 slight increase in equity exposure against the current level, helping to maintain the return contribution 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.

In addition, the Fund has also implemented a portfolio that will utilise Exchange Traded Funds (ETF's) to broadly match the overall Fund Strategic Asset Allocation. The SALAMI portfolio (Strategic allocation to liquid asset matching investments) will provide liquidity to manage cashflow for private market investments and reduce cash drag (the need to hold uninvested cash).

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	GEU A	GEH A	EME UA	PE	MAC	EMD LC	EMD HC	PDs	PDj	UK P	LLP	IUE	LL	ILG O5
Global Equity Unhedged Active	1.00	0.92	0.66	0.79	0.51	0.38	0.27	0.27	0.33	0.30	0.32	0.65	0.10	0.22
Global Equity Hedged Active	0.92	1.00	0.73	0.86	0.58	0.40	0.38	0.31	0.38	0.35	0.36	0.72	0.12	0.21
EM Equity Unhedged Active	0.66	0.73	1.00	0.59	0.49	0.49	0.38	0.23	0.28	0.33	0.30	0.61	0.07	0.15
Private Equity	0.79	0.86	0.59	1.00	0.48	0.33	0.31	0.24	0.30	0.29	0.32	0.61	0.11	0.17
MAC Illiquid	0.51	0.58	0.49	0.48	1.00	0.63	0.62	0.71	0.80	0.49	0.48	0.58	0.09	0.16
EMD Local Currency	0.38	0.40	0.49	0.33	0.63	1.00	0.79	0.28	0.26	0.24	0.26	0.37	0.14	0.14
EMD Hard Currency	0.27	0.38	0.38	0.31	0.62	0.79	1.00	0.34	0.30	0.25	0.29	0.36	0.23	0.19
Private Debt senior	0.27	0.31	0.23	0.24	0.71	0.28	0.34	1.00	0.47	0.43	0.41	0.34	-0.04	0.06
Private Debt junior	0.33	0.38	0.28	0.30	0.80	0.26	0.30	0.47	1.00	0.42	0.39	0.39	-0.01	0.08
UK Property	0.30	0.35	0.33	0.29	0.49	0.24	0.25	0.43	0.42	1.00	0.79	0.47	0.02	0.09
Long Lease Property	0.32	0.36	0.30	0.32	0.48	0.26	0.29	0.41	0.39	0.79	1.00	0.46	0.22	0.40
Infra Unlisted Eq	0.65	0.72	0.61	0.61	0.58	0.37	0.36	0.34	0.39	0.47	0.46	1.00	0.14	0.24
Leveraged Loans	0.10	0.12	0.07	0.11	0.09	0.14	0.23	-0.04	-0.01	0.02	0.22	0.14	1.00	0.50
ILG Over5	0.22	0.21	0.15	0.17	0.16	0.14	0.19	0.06	0.08	0.09	0.40	0.24	0.50	1.00

Source: Mercer Asset Model of absolute return correlations as at 30 September 2022 (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 has become an increasingly important consideration in setting the investment strategy. Specifically this position was considered closely in light of inflation (CPI 10.1% September 2022), so that, mitigating actions, where necessary can be taken to manage cashflow accordingly and anticipated well ahead of time.

(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, as stated above, 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 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.

These risks are dealt with in detail in the Responsible Investment Policy, which is an integral part of this ISS.

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 it's 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 Committee's 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 IMPORTANCE 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 were still working to finalise a number of their portfolio offerings, with the expectation that this will continue to be ongoing as strategies evolve. An investment timetable can be found on Brunel's website which sets out Brunel's current expectations around fund launches. Until such time as transitions take place, and in the absence of equivalent offerings or ability to implement strategy, the Fund will continue to maintain the relationship with its current investment managers and oversee their investment performance.

Following completion of the transition plan, with the property mandate transferred in April 2022, the majority of the Wiltshire Pension Fund's assets (>70%) are 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 being set up by BPP Ltd.

Currently not all current and proposed portfolios 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.

6. POLICY FOR ESG, THE EXERCISE OF RIGHTS

(INCLUDING VOTING RIGHTS) ATTACHING TO INVESTMENTS AND STEWARDSHIP

The fund believes that ESG and voting are an integral part of responsible investment and this is detailed in the Fund's separate Responsible Investment Policy.

The Fund became a signatory to the Stewardship Code 2020 in 2022 and is actively exploring opportunities to enhance its own stewardship activities as well as those of the investment pool (Brunel).

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.

7. OTHER INVESTMENT POLICIES

RESPONSIBLE INVESTMENT POLICY

The Fund has a Responsible Investment Policy (RI Policy), which is an integral part of this ISS, and can be found; https://wiltshirepensionfund.org.uk/Policies-and-strategies-investments.

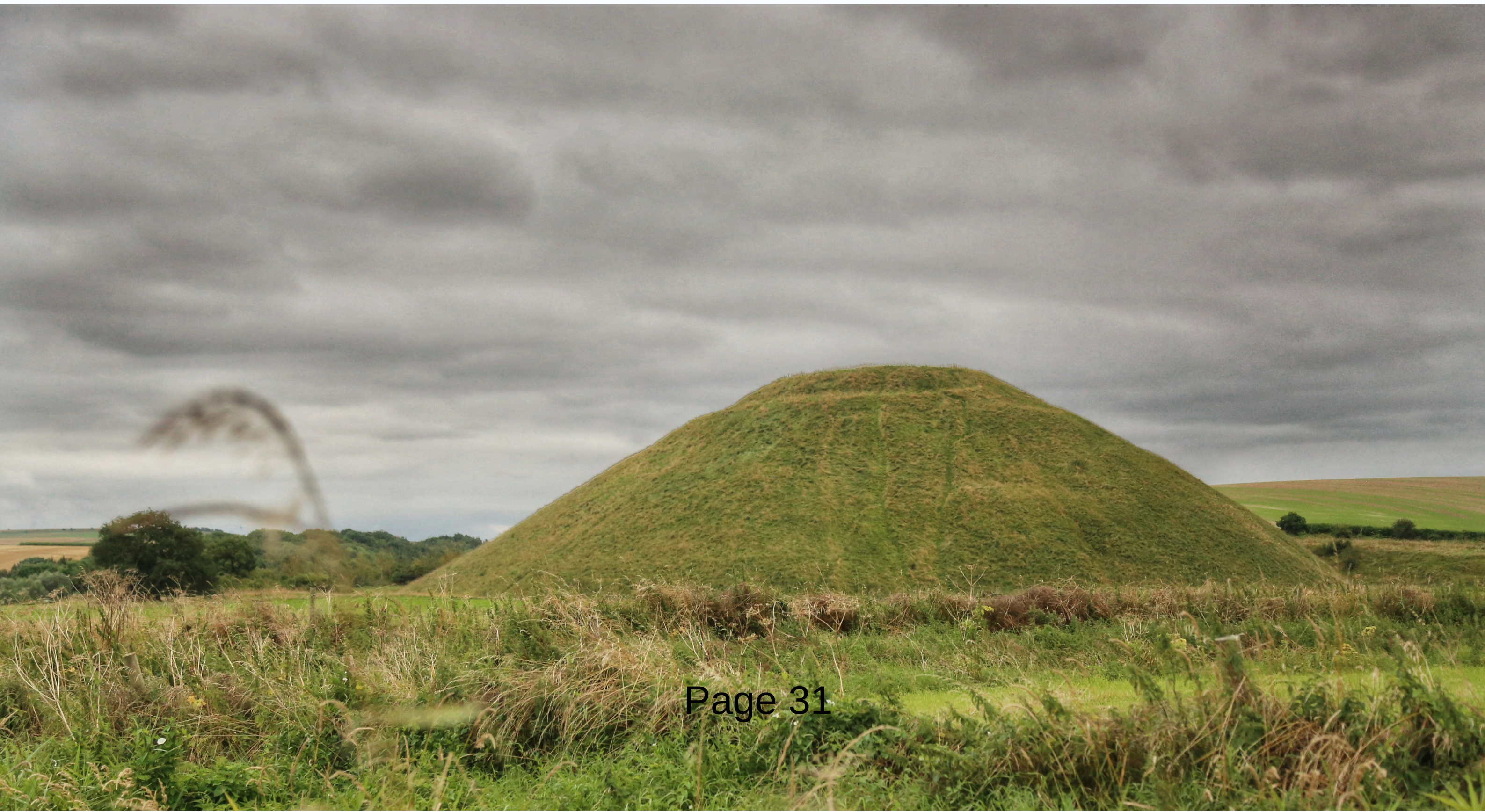
The RI Policy contains all the information on the Fund's approach to responsible investment issues, including climate change, stewardship and voting, in one convenient place. The RI Policy will be reviewed annually.

STEWARDSHIP CODE 2020

As a signatory to the Stewardship Code 2020, the Fund will report annually against the 12 principles. This involves highlighting activities and outcomes in areas that include Purpose and Governance, Investment Approach, Engagement and Exercising Rights and Responsibilities.

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 has been submitted to the CMA annually regarding compliance with setting 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.

In order to remain compliant and maintain professional investor status, Pension Fund Committee members and those involved in the decision making process must collectively maintain knowledge and understanding of financial markets and investment products.

As an elective Professional client, the Fund is responsible for keeping asset manager and advisory firms informed of any change deemed to be relevant to categorisation and the 'opt up' assessment made on or after January 2018.

Wiltshire
Pension Fund

INVESTMENT STRATEGY STATEMENT

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Benchmark Review

Wiltshire Pension Fund ("the Fund")

This paper is addressed to the Pension Fund Committee, and sets out the benchmarks currently used as comparators for the Fund's investments, as well as our comments on their appropriateness. We do not propose any additional action is taken as a result of this review as the benchmarks being used are generally reasonable in our view.

Asset Class	Fund	Strategic Allocation	Benchmark index	Performance target p.a.	Rationale for benchmark
Global Equity	Brunel Paris-aligned Developed (Passive)	12.5%	FTSE Developed Paris Aligned Hedged Index	-	The fund aims to match the performance of the benchmark.
	Brunel Sustainable Global Equity (Active)	6.0%	MSCI All Country World Index	+2%	The benchmark is a widely used index representing the global equity market (including emerging markets), and therefore Brunel's opportunity set.
	Brunel Global High Alpha (Active)	6.0%	MSCI World Index	+2-3%	The benchmark is a widely used index representing the global equity market (excluding emerging markets). Brunel do also invest in emerging markets on an opportunistic basis, which can add or detract from returns relative to the developed market benchmark.
Emerging Markets Equity and Debt	Ninety One Emerging Market Multi-Asset	10.0%	50% MSCI Emerging Markets Equity Index 25% JPM Emerging Market Bond Global Diversified Index 25% JPM Government Bond Emerging Markets Global Diversified Index	+2-4%	The split of the benchmark components between equity and debt broadly reflects the portfolio composition (although Ninety One can overweight equity or debt to an extent to add value). All three underlying benchmark components are widely used indices reflecting investable emerging market securities.

Asset Class	Fund	Strategic Allocation	Benchmark index	Performance target p.a.	Rationale for benchmark
Private Equity	Brunel Private Equity	7.5%	MSCI All Country World Index	+2-3%	Whilst the portfolio is made up of unlisted equities, and therefore is not directly comparable to the listed equity benchmark, it is common to use a listed equity index for performance tracking purposes given the challenges of benchmarking private equities (e.g. lack of direct comparators, idiosyncratic nature of portfolios, general role of private equity as a return booster relative to listed equity).
Total Equity		**42.0%**			
Multi-Asset Credit	Brunel Multi-Asset Credit	7.5%	SONIA +4% p.a.	-	"Cash plus" is a typical target/benchmark for portfolios that aim to generate an absolute return, as an indicator of the return achieved above a risk free rate. This approach does not show the extent to which the manager's performance is impacted by general credit market movements, but constructing market based benchmarks for MAC also has drawbacks.
Private Debt	Brunel Private Debt	7.5%	SONIA	+4%	"Cash +4%" is consistent with the mandate's return target, which broadly reflects the return available on the investments Brunel is targeting.
Total Growth Fixed Income		**15.0%**			
Core Infrastructure	Partners Group Infrastructure	**4.0%**	**n/a**	**8-10%**	Absolute return targets are common with private markets – the 8-10% is consistent with Partners' target Internal Rate of Return (IRR) across the underlying funds.

Asset Class	Fund	Strategic Allocation	Benchmark index	Performance target p.a.	Rationale for benchmark
	Magellan Listed Infrastructure		S&P Global Infrastructure NTR Index	-	The index is designed to track 75 companies, across the energy, transportation and utilities sectors from around the world to represent the listed infrastructure industry while maintaining liquidity and tradability. This is a widely used benchmark for listed infrastructure (where the approach and underlying investments differ to private markets infrastructure).
Renewable Infrastructure/ Climate Solutions	Brunel/Stepstone Infrastructure	7.0%	CPI +4% p.a.	-	"CPI +4%" is consistent with the mandate's return target, which broadly reflects the return available on the investments Brunel is targeting.
	TBC		CPI +4% p.a.	-	"CPI +4%" is expected to be the target return on the mandate (note this portfolio is not yet in place).
Secured Income	Brunel Secured Income	8.0%	CPI +2% p.a.	-	The fund invests in UK long lease property and private markets renewable infrastructure. There are no widely available market-based indices for these asset classes. CPI +2% reflects the overall target return for the fund.
Affordable Housing	Man Group Gresham House CBRE	5.0%	CPI	+2-4%	There are no widely available market-based indices for this asset class. CPI +2-4% reflects expectations of the return prospects from the asset class.
Core Property	Brunel Property (UK/international pooled property funds)	8.0%	UK: MSCI/AREF UK Quarterly Property Fund Index – All Property International: INREV Global Real Estate Fund Index	+0.5%	The UK index is a commonly used benchmark for property funds – it represents performance of a range of unlisted pooled property funds designed to broadly replicate the underlying property market. The Officers are currently considering the international property benchmark as part of the transition of the legacy CBRE assets to Brunel.
Total Real Assets		**32.0%**			

Asset Class	Fund	Strategic Allocation	Benchmark index	Performance target p.a.	Rationale for benchmark
Index-Linked Gilts	Brunel ILG >5 Years	7.0%	FTSE A UK Index Linked Gilts Over 5 Years Index	-	The mandate aims to match the performance of the benchmark.
Liquid Loans	Pinebridge Global Bank Loans	4.0%	80% S&P Leveraged Loans Index 20% S&P European Leveraged Loans Index GBP Total Return Hedged	+1%	The split of the benchmark components between the US and Europe reflects the portfolio composition. Both underlying benchmark components are widely used indices reflecting the leveraged loan market and are therefore reflective of the opportunity set available to Pinebridge.
Liquidity Sleeve	SALAMI (Strategic Allocation to Liquid Asset Matching Investments)	0.0*	Basket of underlying Exchange Traded Funds (ETFs)	-	The ETFs are designed to track the relevant underlying indices.
Total Low Risk Assets		**11.0%**			

***** *Strategic allocation is zero, but the portfolio will hold up to 2% of total Fund assets to allow the Fund to better manage cashflow requests for private market investments and reduce the impact of cash drag on investment performance.*

Important Notices

References to Mercer shall be construed to include Mercer LLC and/or its associated companies.

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Joshua Caughey
February 2023

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